

ČESKÁ NÁRODNÍ BANKA

**FINANCIAL STATEMENTS PREPARED UNDER
INTERNATIONAL ACCOUNTING STANDARDS**

YEAR ENDED 31 DECEMBER 1993

Price Waterhouse



3 June 1994

TO THE BANK COUNCIL OF ČESKÁ NÁRODNÍ BANKA

REPORT OF INDEPENDENT ACCOUNTANTS

- 1 We have audited the accompanying balance sheet of Česká Národní Banka as of 31 December 1993, the related income statement, cash flow statement and notes to the financial statements for the year then ended, which have been prepared in accordance with International Accounting Standards. The financial statements and the underlying accounting records are the responsibility of management. Our responsibility is to express an opinion on the financial statements based on our audit.
- 2 We conducted our audit in accordance with International Standards on Auditing. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Česká Národní Banka at 31 December 1993, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.
- 4 Without qualifying our opinion, we draw attention to note 11 to the financial statements. The accompanying balance sheet at 31 December 1993 reflects Kč 24,572 million due from the National Bank of Slovakia as a result of the division of the assets, liabilities and equity of the State Bank of Czechoslovakia on the creation of separate central banks for the Czech Republic and Slovakia. Recoverability of this amount is uncertain and is the subject of ongoing discussions between the respective parties.

Price Waterhouse

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YEAR ENDED 31 DECEMBER 1993

INCOME STATEMENT

	<u>Note</u>	<u>1993</u> Kč'million
Interest income	1	18,563
Interest expense	2	(10,432)
Net interest income		<u>8,131</u>
Fees and commission income	3	367
Fees and commission expense	4	(1,016)
Net foreign exchange losses	5	(1,821)
Net gains arising from dealing and available for sale securities	6	123
Income from investments	7	81
Other operating income	8	60
Net losses arising from tangible and intangible assets		(2)
		<u>5,923</u>
Operating expenses	9	(1,230)
Net transfers to provisions	16	(3,455)
Profit before contribution to State budget		<u>1,238</u>
Contribution to State budget	10	(45)
Retained profit	26	<u><u>1,193</u></u>

The notes on pages 4 to 25 form an integral part of these financial statements.

ČESKÁ NÁRODNÍ BANKA

FINANCIAL STATEMENTS

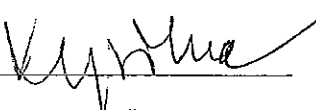
YEAR ENDED 31 DECEMBER 1993


BALANCE SHEET

	Note	31 Dec 1993 Kč'million	1 Jan 1993 Kč'million
Assets			
Cash on hand		287	240
Due from banks	11	182,593	149,399
Monetary reserve assets	12	27,743	27,637
Debt securities	13	67,287	14,653
Loans and advances	14	1,893	3,285
Due from State	15	43,433	59,678
Interest receivable and other assets	17	2,855	675
Investments	18	1,402	427
Tangible and intangible assets	19	1,879	1,246
State budget contribution prepaid	10	195	-
		<u>329,567</u>	<u>257,240</u>
Liabilities			
Cash in circulation		68,536	66,139
Deposits from banks	20	121,654	107,213
Borrowings	21	89,643	38,865
Other current and deposit accounts	22	12,117	7,976
Due to State	23	29,460	29,809
Interest payable and other liabilities	24	3,003	3,339
		<u>324,413</u>	<u>253,341</u>
Capital and reserves			
Capital	25	1,400	933
Retained earnings	26	3,754	2,966
		<u>5,154</u>	<u>3,899</u>
		<u>329,567</u>	<u>257,240</u>

The notes on pages 4 to 25 form an integral part of these financial statements.

The financial statements on pages 1 to 25 were approved by the Bank's executive management on 3 June 1994 and signed on its behalf by:


 Vicegovernor ČNB
 Ing. P. Kysilka, CSc.


 Executive Director
 Ing. J. Hampl

ČESKÁ NÁRODNÍ BANKA

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CASH FLOW STATEMENT

	<u>Note</u>	<u>1993</u> Kč'million
Net cash inflow from operating activities	31	25,333
Contribution to State budget paid		(240)
Investing activities:		
Increase in investments		(975)
Increase in monetary reserve assets		(106)
Purchase of premises and equipment		(810)
Proceeds from disposal of premises and equipment		1
Increase in cash and cash equivalents	32	<u>23,203</u>

The notes on pages 4 to 25 form an integral part of these financial statements.

ČESKÁ NÁRODNÍ BANKA

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 1993

SUMMARY OF ACCOUNTING POLICIES

Background

Česká Národní Banka (the "Bank") is the Central Bank of the Czech Republic. The primary objective of Česká Národní Banka is to ensure the stability of the Czech Crown by setting monetary policy, controlling currency in circulation and performing supervision over the banking system in the Czech Republic.

In addition to the above activities the Bank handles receipts and makes disbursements for the State. The Bank provides a limited amount of commercial loans to selected State enterprises.

Basis of preparation

The financial statements have been prepared in accordance with International Accounting Standards under the historical basis of accounting.

On 1 January 1993 the Czechoslovak Federation ceased to exist and successor states, the Czech Republic and the Slovak Republic were formed. A consequence of this was that the former State Bank of Czechoslovakia was superseded by Česká Národní Banka and the National Bank of Slovakia. The opening financial statements of the Bank have been derived from the closing financial statements of the former State Bank of Czechoslovakia. For this reason there is no comparative income statement or cash flow statement.

Currency separation

The separation of the currency into Czech Crowns and Slovak Crowns respectively occurred on 8 February 1993.

The opening financial statements have been stated in Czech Crowns for comparison purposes utilising an exchange rate of 1 Czechoslovak Crown: 1 Czech Crown. The balances as at 8 February 1993 and transactions arising before this date were translated in Czech Crowns to maintain comparability.

Interest, fees and commission income

Interest income is accounted for on an accruals basis on interest earning assets. Interest earned on non-performing assets is recorded in the income statement and a provision for a similar amount, included in the net transfers to provisions, is charged to income.

If uncollected, interest income accrued in a prior accounting period with respect to a non-performing asset is provisioned in the accounting period in which this asset becomes non-performing.

Additional interest receivable on unpaid advances (penalty interest) is recognised on collection only.

Commission income is accrued over the life of the underlying transaction.

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SUMMARY OF ACCOUNTING POLICIES (continued)

Interest, fees and commission income (continued)

If interest income from assets to a particular counterparty becomes subject to non accrual, fees, commission and similar income with respect to the same counterparty which have been accrued cease to accrue in the current period and are provisioned with respect to past periods, if uncollected.

Fees and commission earned by the Bank as a result of renegotiation or rescheduling of outstanding debts are recognised on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit.

Foreign currency translation

Assets and liabilities are translated at market exchange mid-rates at the end of the period. Resulting gains and losses are recorded in the income statement. Income and expenses are translated at the market exchange rate at the dates on which they are recognised.

Long or short positions and unmatured commitments to deliver or acquire foreign currencies under spot or forward exchange transactions are translated at official rates of exchange ruling at the end of the accounting period. Forward foreign exchange contracts are translated at forward exchange rates applicable to the date of maturity of each contract.

Accrued interest is translated at market exchange mid-rates at the end of the period. Translation adjustments between the mid-rate and the actual period end rate are charged or credited to reserves.

Notwithstanding the above, any forward transaction which together with one or several spot transactions concluded at the same time have been arranged as a substitute for money market transactions in the two currencies involved are subject to special treatment. The resulting gains or losses associated with currency swaps are recorded as interest income or expense, and not as a foreign exchange result, and are accrued over the period between the respective maturity dates of the spot and forward transactions involved.

Unrealised gains on foreign currency transactions that are designated hedges of foreign currency investments are not included in income.

Bills of exchange, promissory notes, banker's acceptances and other forfeited assets

Bills of exchange, forfeited and discounted assets are included at cost less provisions for losses. Discounts are amortised and credited to income over the term of the related assets.

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FINANCIAL STATEMENTS

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SUMMARY OF ACCOUNTING POLICIES (continued)

Debt securities

Debt securities are classified into three categories: Trading securities, available for sale and held to maturity.

Trading securities are marketable securities which are bought and held principally for the purpose of selling in the near future. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objectives of generating profits on a short term difference in price. Trading securities are carried on the balance sheet at the prevailing market value at the end of the accounting period. The unrealised gains or losses are included in the income statement.

The available for sale category includes debt securities which are being held for an unspecified period of time, such as those which the Bank would consider selling to meet liquidity needs. The available for sale debt securities are recorded at the lower of cost or market value with unrealised gains and losses included in the income statement.

Accrued interest of debt securities is included within interest receivable.

Interest received from debt securities is distinguished from trading gains or losses.

Debt securities subject to repurchase agreements are treated as collateralised borrowing transactions. Securities are included in debt securities in the balance sheet and valued according to the classification. The corresponding liability, representing the repurchase agreement, is carried at amortised value of the liability at the year end. The repurchase premium is expensed on a straight line basis over the life of the repurchase agreement.

Swaps

Payables and receivables arising from currency swaps are recorded at net amounts and included in borrowings.

Equity securities

The classification scheme of equity securities is similar to debt securities. Presently only investment equity securities carried at historical cost are held. Permanent diminutions in the value of investments are written off through the income statement. Dividends receivable from securities with fixed interest are accrued.

The investment in the associated bank, Československá Obchodní Banka has not been consolidated as Česká Národní Banka does not seek to influence the bank in any way other than in a supervisory capacity.

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SUMMARY OF ACCOUNTING POLICIES (continued)

Bullion

Bullion is held for investment purposes and is valued at historical cost.

Bullion subject to repurchase agreement is stated in assets in the balance sheet and the related liability is recorded at amortised value at the period end. The repurchase premium is charged to the income statement on a straight line basis.

Due from banks

Amounts due from banks subject to foreign currency resale agreements are stated in assets in the balance sheet at their amortised value at the period end.

Amounts due from the International Monetary Fund are stated at the current value of the last International Monetary Fund revaluation date.

Amounts due from banks are disclosed after deduction of an appropriate provision for bad and doubtful debts.

Loans and advances

Loans and advances are disclosed after deduction of provision for loan losses.

Securities issued

Treasury bills and bonds issued are stated at their amortised value. Principal and amortised discount or premium are carried on separate accounts. Issuing costs, such as commission, brokerage and underwriting fees, incurred at the time of the issue of securities are capitalised and amortised over the period to maturity.

Tangible and intangible assets

Tangible and intangible assets are recorded at cost less provision for depreciation. Freehold land and buildings are stated at cost less depreciation on buildings, and freehold land is not depreciated. Depreciation is provided on a straight line basis over the estimated useful lives of assets. Generally, depreciation rates are 2% per annum on buildings and between 6% and 28% per annum on intangibles, premises and equipment.

Assets in the course of construction are recorded at cost. Depreciation is not provided until the asset is complete or put into use.

Profits and losses arising from a sale of tangible and intangible assets are recognised as "Net gains/losses arising from tangible and intangible assets" in the income statement.

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FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

1 Interest income

1993
Kč'million

Interest from other banks	7,761
Interest from State budget	6,567
Interest from securities	3,290
Interest from loans	417
Interest from swap operations	528
	<hr/>
	18,563
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2 Interest expense

1993
Kč'million

Interest to other banks	412
Interest to International Monetary Fund	1,887
Interest to State budget	4,078
Interest on securities	3,384
Interest on other current and deposit accounts	82
Interest on swap and repo operations	589
	<hr/>
	10,432
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3 Fees and commission income

1993
Kč'million

Clearing and obligatory deposit accounts	155
Deposit accounts	46
Loan accounts	98
Foreign exchange transactions	8
Issuance of guarantees	43
Receipts from issue of commemorative coins	17
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	367
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FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS (continued)

4 Fees and commission expense

	<u>1993</u> Kč'million
Cost of production of Bank notes and coins	696
Fees of International Monetary Fund	131
Amortisation of fees for issued securities	96
Others	93
	<u>1,016</u>

5 Net foreign exchange losses

	<u>1993</u> Kč'million
Realised gains	857
Net realised and unrealised losses	(2,678)
	<u>(1,821)</u>

The Bank's system of accounting does not separately identify realised and unrealised foreign exchange losses.

6 Net gains arising from dealing and available for sale securities

	<u>1993</u> Kč'million
Realised gains	374
Realised losses	(226)
Net unrealised losses	(25)
Net gain from securities	<u>123</u>

All net gains and losses relating to securities have arisen on debt securities.

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FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS (continued)

7	Income from investments	<u>1993</u> Kč'million
	Dividends	81
		<hr/>
8	Other operating income	<u>1993</u> Kč'million
	Income from real estate	10
	Other operating income	50
		<hr/>
		60
		<hr/>
9	Operating expenses	<u>1993</u> Kč'million
	Personnel costs	348
	Depreciation	178
	Other operating expenses	704
		<hr/>
		1,230
		<hr/>
10	Contribution to State budget	<u>1993</u> Kč'million
	State budget contribution payable at 1 January 1993	-
	Charge for the year	(45)
	Contribution paid during the year	240
		<hr/>
	State budget contribution prepaid at 31 December 1993	195
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The Bank is exempt from the payment of income tax. Any non allocated profit of the Bank is paid to the Ministry of Finance and is treated above as "Contribution to State budget".

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NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Due from banks

	<u>31 Dec 1993</u> Kč'million	<u>1 Jan 1993</u> Kč'million
Domestic banks:		
Placings with banks	74,977	82,393
Current accounts and money at call with banks	1,996	758
Receivables from resale agreements with banks	59	-
	<u>77,032</u>	<u>83,151</u>
Less: Provisions (Note 16)	(648)	-
	<u>76,384</u>	<u>83,151</u>
Foreign banks:		
Nostros with OECD banks	1,801	11,501
Money market deposits with OECD banks	26,722	957
Receivables from resale agreements with OECD banks	24,631	-
Placings with other non OECD banks	24,572	22,298
	<u>77,726</u>	<u>34,756</u>
Less: Provisions (Note 16)	(3,254)	(790)
	<u>74,472</u>	<u>33,966</u>
Placing with International Monetary Fund	31,490	31,428
Nostros with International Monetary Fund	247	854
	<u>31,737</u>	<u>32,282</u>
	<u>182,593</u>	<u>149,399</u>

Balances with two domestic banks and 17 foreign institutions, including the International Monetary Fund, within amounts due from banks totalling Kč 68,148 million and Kč 100,537 million respectively each exceeded 25% of the Bank's capital base.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Due from banks (continued)

	<u>31 Dec 1993</u>	<u>1 Jan 1993</u>
	Kč'million	Kč'million
Placings with domestic banks comprise:		
One to seven day refinancing	-	6,035
One month refinancing	88	2,140
Emergency refinancing	956	-
Lombard credit	-	920
Bills of exchange rediscounted	5,741	3,033
Export rediscount	67	-
Redistribution credits	68,125	70,265
	<u>74,977</u>	<u>82,393</u>

An amount due from the National Bank of Slovakia of Kč 24,572 million arose from the separation of the assets, liabilities and equity of the State Bank of Czechoslovakia on the formation of separate central banks for the Czech Republic and Slovakia. Recoverability of this amount is the subject of ongoing discussions between the respective parties.

The exposure to the National Bank of Slovakia constitutes the only country risk exposure which exceeded 10% of the Bank's capital base on countries which are not a full member of OECD.

Resale agreements contracted with the same counterparty as repurchase agreements amounted to Kč 2,878 million and are stated at gross amounts.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Due from banks (continued)

A summary of the currency composition of amounts due from foreign banks at 31 December 1993 is as follows:

	<u>31 Dec 1993</u> Kč'million	<u>1 Jan 1993</u> Kč'million
Slovak Crowns	24,572	22,297
Deutsche Marks	36,655	2,042
Japanese Yen	2,018	6,159
United States Dollars	14,393	1,842
Others	88	2,416
	<u>77,726</u>	<u>34,756</u>

12 Monetary reserve assets

Monetary reserve assets represent membership subscription to the International Monetary Fund and bullion reserves.

	<u>31 Dec 1993</u> Kč'million	<u>1 Jan 1993</u> Kč'million
Membership quota in the International Monetary Fund	23,783	23,679
Bullion held for investment purposes	3,960	3,958
	<u>27,743</u>	<u>27,637</u>

The market value of bullion held for investment purposes at 31 December 1993 was Kč 24,547 million (1 January 1993: Kč 20,114 million).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

13 Debt securities

The Bank holds Kč 14,090 million repurchased Česká Národní Banka Treasury Bills as trading securities which have been offset against the amount stated as borrowings.

	<u>31 Dec 1993</u> Kč'million	<u>1 Jan 1993</u> Kč'million
<u>Trading securities</u>		
State Treasury Bills issued in local currency of the issuer	11,185	11,217
Bank for International Settlement Bills issued other than in local currency of the issuer	23,188	-
State bonds issued in local currency of the issuer	869	2,425
State bonds issued other than in local currency of the issuer	690	-
Central bank bonds issued in local currency of the issuer	2,256	-
Other bank bonds issued in local currency of the issuer	-	277
	<u>38,188</u>	<u>13,919</u>
<u>Available for sale securities</u>		
State Treasury Bonds issued in local currency of the issuer	25,788	-
Commercial bank Bonds issued other than in local currency	3,311	734
	<u>29,099</u>	<u>734</u>
	<u>67,287</u>	<u>14,653</u>

The market price of the portfolio of securities available for sale at the prevailing rate at 31 December 1993 is Kč 29,385 million (1 January 1993: Kč 734 million).

A summary of the currency composition of debt securities at 31 December 1993 is as follows:

	<u>31 Dec 1993</u> Kč'million	<u>1 Jan 1993</u> Kč'million
Czech Crowns	1,537	2,750
Deutsche Marks	26,461	2,001
United States Dollars	39,289	9,902
	<u>67,287</u>	<u>14,653</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

14 Loans and advances

	<u>31 Dec 1993</u> Kč'million	<u>1 Jan 1993</u> Kč'million
Commercial loans and overdrafts	2,153	3,300
Government and government guaranteed agencies	4	16
Employee loans	6	4
	<u>2,163</u>	<u>3,320</u>
Less: Provisions (Note 16)	(270)	(35)
	<u>1,893</u>	<u>3,285</u>

The portfolio of commercial loans and overdrafts comprised the following industrial sectors:

	<u>31 Dec 1993</u> Kč'million	<u>1 Jan 1993</u> Kč'million
Steel, engineering and electronics	1,044	863
Agriculture and forestry	333	305
Transport and tourism	16	27
Construction	60	39
Other	700	2,066
	<u>2,153</u>	<u>3,300</u>

No loans have been made to the directors of the Bank except those under normal commercial terms.

The amount of loans and advances provided by the Bank to its employees did not exceed 5% of the Bank's equity as required by Article 20 of the Banking Act. In addition, the amount of non-mortgaged credit provided by the Bank to its employees did not exceed two years' gross income of the employee.

There were no credit exposures which exceeded 25% of the Bank's capital base and no significant concentrations of other country risk.

15 Due from State

This represents the amount due from the Czech State, which is a loan to the Czech Ministry of Finance. This bears interest at a rate which varies with the Česká Národní Banka discount rate.

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FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Loan and guarantee loss provisions

	Kč'million
At 1 January 1993	825
Transfers to provisions	3,461
Recoveries	(6)
At 31 December 1993	<u>4,280</u>

At 31 December 1993, the provision for loan and guarantee losses comprised:

	<u>31 Dec 1993</u> Kč'million	<u>1 Jan 1993</u> Kč'million
Due from foreign banks	3,254	790
Due from domestic banks	648	-
Due from customers	270	35
Interest accrued on non-performing assets	108	-
	<u>4,280</u>	<u>825</u>

Provisions against country risks amounted to Kč 3,254 million (1 January 1993: Kč 790 million).

17 Interest receivable and other assets

	<u>31 Dec 1993</u> Kč'million	<u>1 Jan 1993</u> Kč'million
Interest receivable	1,344	146
Accrued income and prepaid expenses	22	34
Items in the course of clearing	1,227	412
Stock of consumables	24	18
Precious metals	32	32
Capitalised cost on the issue of bonds	314	33
	<u>2,963</u>	<u>675</u>
Less: Provisions (Note 16)	(108)	-
	<u>2,855</u>	<u>675</u>

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FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS (continued)

18 Investments

	<u>31 Dec 1993</u> Kč'million	<u>1 Jan 1993</u> Kč'million
Czech Republic financial institutions:		
Československá Obchodní Banka	1,353	353
Foreign financial institutions:		
Bank for International Settlements	49	74
	<u>1,402</u>	<u>427</u>

The principal holdings of equity share capital included above are as follows:

Over 20%	<u>31 Dec 1993</u> % held	<u>1 Jan 1993</u> % held
3,532 Československá Obchodní Banka Shares of Kč 100,000 each	6.9	33.6
200 Československá Obchodní Banka Shares of Kč 5,000,000 each	19.6	-
	<u>26.5</u>	<u>33.6</u>

Československá Obchodní Banka is incorporated in the Czech Republic.

As a matter of policy, the Bank does not seek to influence the commercial or financial decisions of Československá Obchodní Banka and, accordingly, is not considered an associated bank.

Under 20%	<u>31 Dec 1993</u> % held	<u>1 Jan 1993</u> % held
Bank for International Settlements Shares of 2,500 gold francs each (Incorporated in Switzerland)	1.1	1.5

The current value of these shares amounted to Kč 774 million based upon the prevailing rate at 31 December 1993.

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FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS (continued)

19 Tangible and intangible assets

	Land and Buildings Kč'million	Fixtures, furniture and equipment Kč'million	Assets in course of construction Kč'million	Intangible assets Kč'million	Total Kč'million
Cost					
At 1 January 1993	287	463	667	72	1,489
Net movement	55	381	305	49	790
At 31 December 1993	<u>342</u>	<u>844</u>	<u>972</u>	<u>121</u>	<u>2,279</u>
Accumulated depreciation					
At 1 January 1993	99	131	-	13	243
Net movement	4	141	-	12	157
At 31 December 1993	<u>103</u>	<u>272</u>	<u>-</u>	<u>25</u>	<u>400</u>
Net book amount					
At 31 December 1993	<u>239</u>	<u>572</u>	<u>972</u>	<u>96</u>	<u>1,879</u>
At 1 January 1993	<u>188</u>	<u>332</u>	<u>667</u>	<u>59</u>	<u>1,246</u>

20 Deposits from banks

	31 Dec 1993 Kč'million	1 Jan 1993 Kč'million
Obligatory minimum reserve deposits from		
Czech Republic banks	58,952	44,282
Demand deposits from Czech Republic banks	6,799	7,137
Term deposits from Czech Republic banks	44	44
Term deposits from non OECD banks	585	586
Term deposits from International Monetary Fund	55,274	55,164
	<u>121,654</u>	<u>107,213</u>

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FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Borrowings

	<u>31 Dec 1993</u> Kč'million	<u>1 Jan 1993</u> Kč'million
Česká Národní Banka Treasury Bills	23,727	-
Foreign bonds	25,162	4,290
Short term loans	1,734	3,465
Long and medium term loans	33,698	31,110
Securities sold under agreements to repurchase	2,878	-
Bullion sold under agreements to repurchase	1,722	-
Net currency swaps and forwards	722	-
	<u>89,643</u>	<u>38,865</u>

Repurchase agreements are treated as collateralised borrowing transactions and are carried at amounts at which securities and monetary reserve assets will subsequently be required in the respective agreements.

The Bank enters into agreements whereby State Treasury Bills, State bonds, and securities and bullion reserves are sold subject to repurchase on a demand and fixed maturity basis.

The Bank has entered into currency swaps in which proceeds of borrowings are converted into a different currency and, simultaneously, a forward exchange agreement is executed providing for a schedule of future exchanges of the two currencies in order to recover the currency converted. The combination of a borrowing and currency swap produces the financial equivalent of substituting a borrowing in the currency obtained in the initial conversion for the original borrowing. The Bank also undertakes interest rate swaps, which transform a fixed rate payment obligation in a particular currency into a floating rate obligation in that currency and vice versa.

The Bank undertakes swap transactions with a list of authorised counterparties. Credit and maturity limits have been established for each counterparty.

ČESKÁ NÁRODNÍ BANKA

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 1993

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Other current and deposit accounts

	<u>31 Dec 1993</u> Kč'million	<u>1 Jan 1993</u> Kč'million
Current and deposit accounts of individuals	157	57
Current and deposit accounts of enterprises	2,039	3,280
Current and deposit accounts of State budgetary organisations:		
- Government bodies	6,265	3,891
- Local authorities	3,638	740
Current account of European Economic Community	18	8
	<u>12,117</u>	<u>7,976</u>

23 Due to State

	<u>31 Dec 1993</u> Kč'million	<u>1 Jan 1993</u> Kč'million
State budget surplus	1,081	-
State borrowings from international financial institutions	23,986	21,659
Other assets of the State	4,393	8,150
	<u>29,460</u>	<u>29,809</u>

24 Interest payable and other liabilities

	<u>31 Dec 1993</u> Kč'million	<u>1 Jan 1993</u> Kč'million
Interest payable	1,765	840
Accrued expenses and unearned income	757	1,231
Other liabilities	481	1,268
	<u>3,003</u>	<u>3,339</u>

25 Capital

	Kč'million
At 1 January 1993	933
Transfer from revenue reserve	467
At 31 December 1993	<u>1,400</u>

Capital bears the form of a statutory reserve fund.

ČESKÁ NÁRODNÍ BANKA

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 1993

NOTES TO THE FINANCIAL STATEMENTS (continued)

26 Retained earnings

	Kč'million
At 1 January 1993	2,966
Retained profit for the year	1,193
Translation adjustment	62
Less: Transfer to capital	(467)
At 31 December 1993	<u>3,754</u>

As of 31 December 1993, the Bank's capital to risk asset ratio under International Treasury Standards and Basle rules was 10.0%.

27 Contingencies and commitments

	<u>31 Dec 1993</u> Kč'million	<u>1 Jan 1993</u> Kč'million
Payment guarantees	2,721	691
Bills of exchange rediscounted	5,741	3,031
Planned expenditure in respect of tangible fixed assets	1,531	1,325
Loans contracted, not disbursed	3,468	-
Repurchased Česká Národní Banka Treasury Bills	14,090	-
International Monetary Fund facility available	39,052	40,098
Bullion held on behalf of third parties (stated at market price)	-3,430	3,035

ČESKÁ NÁRODNÍ BANKA

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 1993

NOTES TO THE FINANCIAL STATEMENTS (continued)

28 Transactions with related parties

The following is a summary of significant balances with Československá Obchodní Banka included in the balance sheet at 31 December 1993 (Note 18). Transactions with the Bank for International Settlements have not been included as the investment has purely been made to enable the Bank to transact with foreign financial institutions.

	<u>31 Dec 1993</u> Kč'million
Assets	
Due from banks	715
	<hr/>
Liabilities	
Obligatory minimum reserve deposits from Czech Republic banks	3,069
Demand deposits from Czech Republic banks	524
Term deposits from Czech Republic banks	44
	<hr/>
	<u>3,637</u>
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29 Currency analysis

The analysis of on balance sheet currency positions at 31 December 1993 is as follows:

	<u>Asset</u> Kč'million	<u>Liability</u> Kč'million
Convertible currencies:		
Deutsche Marks	61,109	30,577
Japanese Yen	2,018	2,100
United States Dollars	50,699	29,962
Others	6,066	5,953
	<hr/>	<hr/>
	119,892	68,592
Domestic currency:		
Czech Crowns	188,334	255,821
Non-convertible currencies:		
Slovak Crowns	21,341	-
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	<u>329,567</u>	<u>324,413</u>
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ČESKÁ NÁRODNÍ BANKA

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 1993

NOTES TO THE FINANCIAL STATEMENTS (continued)

30 Pensions

All Bank employees are members of the State pension scheme. In addition, selected members of the Bank's staff are enrolled in a defined contribution pension scheme.

31 Reconciliation of profit before contribution to State budget to net cash inflow from operating activities

	1993 Kč'million
Profit before contribution to State budget	1,238
Net (increase) in interest receivable and prepaid expenses	(1,090)
Net increase in interest payable and accrued expenses	925
Depreciation	178
(Loss) on sale of tangible and intangible assets	(2)
Effect of other deferrals and accruals on operating activity cash flow	(2,351)
Net increase in other deposits	4,141
Net decrease in advances to customers	1,392
Net increase in borrowings and swaps	50,778
Net (increase) in securities held	(29,478)
Net (increase) in collections on other banks	(18,691)
Net decrease in amounts due to/from State	15,896
Net increase in cash in circulation	2,397
Net cash inflow from operating activities	<u>25,333</u>

ČESKÁ NÁRODNÍ BANKA

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 1993

NOTES TO THE FINANCIAL STATEMENTS (continued)

32 Analysis of changes in cash and cash equivalents during the year

	<u>1993</u> Kč'million
Balance at 1 January	11,457
Increase in cash and cash equivalents	23,203
Balance at 31 December (Note 33)	<u>34,660</u>

33 Analysis of the balances of cash and cash equivalents

	<u>31 Dec 1993</u> Kč'million	Change in year Kč'million	<u>1 Jan 1993</u> Kč'million
Cash on hand	287	47	240
Treasury and other bills	34,373	23,156	11,217
	<u>34,660</u>	<u>23,203</u>	<u>11,457</u>

Treasury and other bills are treated as cash equivalents as they represent the Bank's principal liquidity. The allocation of this liquidity depends on prevailing market conditions.

34 Concentration in the source of liabilities

The liability towards the International Monetary Fund of Kč 87,570 million is the only liability which exceeded 25% of the Bank's liabilities at 31 December 1993.

35 Maturity analysis

The Bank's policy towards liquidity management is to preserve a prudent level of liquidity based on its obligations. The information contained in the following maturity analysis is drawn up based on the data available at the Bank.

ČESKÁ NÁRODNÍ BANKA

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 1993

NOTES TO THE FINANCIAL STATEMENTS (continued)

35 Maturity analysis (continued)

The analysis of assets and liabilities at 31 December 1993 according to their remaining contractual maturity, is as follows:

	Undefined Kč million	Up to 1 year Kč million	1 year up to 5 years Kč million	Over 5 years Kč million	Total Kč million
Assets					
Cash on hand	287	-	-	-	287
Due from banks	21,341	64,424	45,661	51,167	182,593
Monetary reserve assets	27,743	-	-	-	27,743
Debt securities	-	36,025	30,110	1,152	67,287
Loans and advances	-	1,449	201	243	1,893
Due from State	-	-	-	43,433	43,433
Interest receivable and other assets	2,855	-	-	-	2,855
Investments	1,402	-	-	-	1,402
Tangible and intangible assets	1,879	-	-	-	1,879
State budget contribution prepaid	-	195	-	-	195
Total assets	55,507	102,093	75,972	95,995	329,567
Liabilities					
Cash in circulation	68,536	-	-	-	68,536
Deposits from banks	58,952	12,707	25,388	24,607	121,654
Borrowings	-	38,154	40,423	11,066	89,643
Other current and deposit accounts	-	12,117	-	-	12,117
Due to State	-	7,147	22,313	-	29,460
Interest payable and other liabilities	3,003	-	-	-	3,003
Total liabilities	130,491	70,125	88,124	35,673	324,413
Net position	(74,984)	31,968	(12,152)	60,322	5,154