



**FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 1999**

ENGLISH TRANSLATION

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REPORT OF INDEPENDENT AUDITORS

TO THE BANKING BOARD OF THE CZECH NATIONAL BANK

We have audited the accompanying balance sheet of the Czech National Bank (hereinafter the "CNB") as at 31 December 1999, the related income statement and notes (hereinafter the "financial statements") for the year then ended. These financial statements and underlying accounting records are the responsibility of the management of CNB. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards of the Chamber of Auditors of the Czech Republic and International Standards on Auditing. Those 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 of the CNB, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the accompanying financial statements present fairly, in all material respects, the assets, liabilities and equity of CNB as at 31 December 1999, and the results of its operations for the year then ended in accordance with the Act on Accounting and other relevant accounting legislation of the Czech Republic.

27 March 2000



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

  
Zdeněk Mojžíšek  
Auditor  
Licence No. 1813

**CZECH NATIONAL BANK**

**BALANCE SHEET**

**AS AT 31 DECEMBER 1999**

IKF							Year	Identification number									
0	1	8	2	8	0	9	1	9	9	4	8	1	3	6	4	5	0

Name of bank: **CZECH NATIONAL BANK**

Code of bank:


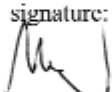

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**BALANCE SHEET**

**AS AT 31 DECEMBER 1999**

**(CZK million)**

**(translation)**

Date:	Stamp and signature of statutory representative:	Person responsible for accounting:	Person responsible for financial statements:
20.03.2000	 Doc. Ing. J. Tošovský	 Ing. M. Mayer tel.: 2441 4326	 V. Vicovský tel.: 2441 4424

# CZECH NATIONAL BANK

## BALANCE SHEET

AS AT 31 DECEMBER 1999

	Note	Current accounting period			Previous
		Gross	Adjustments	Net	accounting
		CZK million	CZK million	CZK million	period
<b>ASSETS</b>					
<b>1. Gold</b>		<b>840</b>	<b>-</b>	<b>840</b>	<b>541</b>
<b>2. Receivables from International Monetary Fund</b>	<b>4</b>	<b>39,405</b>	<b>-</b>	<b>39,405</b>	<b>26,320</b>
<b>3. Receivable from foreign banks including trading securities</b>	<b>5</b>	<b>506,965</b>	<b>28,741</b>	<b>478,224</b>	<b>402,412</b>
3.1. Deposits at foreign banks		75,751		75,751	16,427
3.2. Credits granted to foreign banks		7,659		7,659	16,356
3.3. Trading securities		397,703	2,931	394,772	343,471
3.4. Other receivables against foreign countries		25,852	25,810	42	26,158
<b>4. Receivables from domestic Banks</b>	<b>6</b>	<b>30,753</b>	<b>14</b>	<b>30,739</b>	<b>53,822</b>
<b>5. Receivables from clients</b>	<b>7</b>	<b>45,285</b>	<b>5,336</b>	<b>39,949</b>	<b>29,113</b>
<b>6. Domestic trading securities and shares</b>	<b>8</b>	<b>35,542</b>	<b>19,717</b>	<b>15,825</b>	<b>17,178</b>
<b>7. Current result of state budget</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>8. Other receivables against state budget</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>9. Cash in CZK</b>		<b>1,063</b>		<b>1,063</b>	<b>869</b>
<b>10. Fixed assets</b>	<b>9</b>	<b>11,360</b>	<b>2,746</b>	<b>8,614</b>	<b>6,860</b>
10.1. Tangible fixed assets		10,531	2,364	8,167	6,468
10.2. Intangible fixed assets		829	382	447	392
<b>11. Other assets</b>	<b>10</b>	<b>8,960</b>	<b>1,444</b>	<b>7,516</b>	<b>4,942</b>
11.1. Deferred revenue and accrued expenses		686	-	686	575
11.2. Others		8,274	1,444	6,830	4,367
<b>ASSETS TOTAL</b>		<b>680,173</b>	<b>57,998</b>	<b>622,175</b>	<b>542,057</b>

# CZECH NATIONAL BANK

## BALANCE SHEET

AS AT 31 DECEMBER 1999

	<u>Note</u>	<u>Current</u> <u>accounting</u> <u>period</u> CZK million	<u>Previous</u> <u>accounting</u> <u>period</u> CZK million
<b>LIABILITIES</b>			
1.	11	<b>183,939</b>	<b>146,060</b>
2.	4	<b>39,405</b>	<b>26,320</b>
3.			
	12	<b>30,545</b>	<b>11,383</b>
3.1.		17,798	1,883
3.2.		12,331	9,069
3.3.		416	431
4.	13	<b>275,884</b>	<b>275,927</b>
4.1.		26,279	86,605
4.2.		249,605	189,322
5.	14	<b>33,123</b>	<b>31,812</b>
6.	15	-	-
7.		-	-
8.	16	<b>27,069</b>	<b>28,370</b>
9.	17	<b>33,602</b>	<b>54,370</b>
10.	18	<b>1,400</b>	<b>1,400</b>
11.	18	<b>8,203</b>	<b>8,234</b>
12.			
	18	<b>(50,740)</b>	-
13.	18	<b>32,378</b>	<b>(50,740)</b>
14.	19	<b>7,367</b>	<b>8,921</b>
14.1.		1,075	1,061
14.2.		6,292	7,860
<b>LIABILITIES TOTAL</b>		<b>622,175</b>	<b>542,057</b>

# CZECH NATIONAL BANK

## OFF BALANCE SHEET

AS AT 31 DECEMBER 1999

	<u>Note</u>	Current accounting <u>period</u> CZK million	Previous accounting <u>period</u> CZK million
<b>1. Contingent liabilities</b>	<b>20</b>	<b>37,631</b>	<b>79,423</b>
1.1. Accepted bills of exchange and endorsed bills		-	-
1.2. Guarantees issued		37,631	79,423
1.3. Obligation from collateral		0	0
<b>2. Other irrevocable liabilities</b>	<b>20</b>	<b>-</b>	<b>-</b>
<b>3. Receivables from spot, term and option operations</b>	<b>20</b>	<b>42,639</b>	<b>75,006</b>
<b>4. Liabilities from spot, term and option operations</b>	<b>20</b>	<b>42,496</b>	<b>77,379</b>
<b>5. Guarantees received</b>	<b>20</b>	<b>22,500</b>	<b>52,100</b>

**CZECH NATIONAL BANK**

**PROFIT AND LOSS ACCOUNT**

**AS AT 31 DECEMBER 1999**

	<b>IKF</b>	<b>Year</b>	<b>Identification number</b>
<b>0</b>	<b>1 8 2 8 0 9 1</b>	<b>9 9</b>	<b>4 8 1 3 6 4 5 0</b>

Name of bank: **CZECH NATIONAL BANK**

Code of bank:


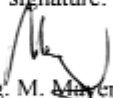

<b>0</b>	<b>7</b>	<b>1</b>	<b>0</b>
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**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**(CZK million)**

**(translation)**

<b>Date:</b>  20.03.2000	<b>Stamp and signature of statutory representative:</b>   Doc. Ing. J. Tošovský	<b>Person responsible for accounting:</b>  <b>Name and signature:</b>  Ing. M. Mayer tel.: 2441 4326	<b>Person responsible for financial statements:</b>  <b>Name and signature:</b>  O. Štéglová tel.: 2441 4424
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# CZECH NATIONAL BANK

## PROFIT AND LOSS ACCOUNT

AS AT 31 DECEMBER 1999

	Note	Current Accounting Period CZK million	Previous Accounting Period CZK million
<b>1. Interest income</b>	<b>20</b>	<b>33,361</b>	<b>57,450</b>
1.1. Interest from securities bearing fixed income		25,578	37,884
1.2. Other		7,783	19,566
<b>2. Interest expense</b>	<b>21</b>	<b>28,923</b>	<b>55,881</b>
2.1. Interest from securities bearing fixed income		10,522	27,462
2.2. Other		18,401	28,419
<b>3. Income from securities with variable income</b>		<b>39</b>	<b>-</b>
3.1. Income from shares		39	-
3.2. Income from shares in subsidiaries		-	-
<b>4. Income from fees and charges</b>		<b>542</b>	<b>513</b>
<b>5. Expenses from fees and charges</b>		<b>49</b>	<b>52</b>
<b>6. Profit / (loss) from financial operations</b>	<b>22</b>	<b>25,666</b>	<b>(41,302)</b>
<b>7. Other income</b>		<b>16,217</b>	<b>68</b>
7.1. Income from money issue		21	20
7.2. Other		16,196	48
<b>8. Administration expenses</b>	<b>23</b>	<b>2,295</b>	<b>2,073</b>
8.1. Personnel expenses		624	613
8.1.1. Wages and salaries		454	441
8.1.2. Social and health security		170	172
8.2. Other operating expenses		1,671	1,460
<b>9. Charge for specific and general provisions for Tangible and intangible assets</b>		<b>-</b>	<b>-</b>
<b>10. Release of specific and general provisions for Tangible and intangible assets</b>		<b>-</b>	<b>-</b>
<b>11. Other expenses</b>	<b>24</b>	<b>3,949</b>	<b>436</b>
11.1. Expenses for issuing bank notes and coinage		351	296
11.2. Other		3,598	140
<b>12. Charge to specific and general provisions for loans and guarantees</b>	<b>17</b>	<b>32,667</b>	<b>13,739</b>
<b>13. Release of specific and general provisions for Loans and guarantees</b>	<b>17</b>	<b>8,814</b>	<b>31,598</b>
<b>14. Release of specific and general provisions for Tangible and intangible assets</b>		<b>-</b>	<b>-</b>
<b>15. Other expenses</b>		<b>-</b>	<b>-</b>
<b>16. Charge to other specific and general provisions</b>	<b>17</b>	<b>1,440</b>	<b>27,053</b>
<b>17. Release of other specific and general provisions</b>	<b>17</b>	<b>17,035</b>	<b>183</b>
<b>18. Ordinary profit / (loss) after taxation</b>		<b>-</b>	<b>-</b>
<b>19. Extraordinary income</b>	<b>25</b>	<b>53</b>	<b>3</b>
<b>20. Extraordinary expenses</b>	<b>25</b>	<b>26</b>	<b>18</b>
<b>21. Extraordinary profit / (loss) after taxation</b>		<b>-</b>	<b>-</b>
<b>22. Profit / (loss) for accounting period</b>		<b>32,378</b>	<b>(50,740)</b>
			<b>(8)</b>



**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

IKF						Year	Identification number										
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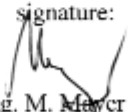

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**NOTES TO THE FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

**(CZK million)**

**(translation)**

Date:	Stamp and signature of statutory representative:	Person responsible for accounting:	Person responsible for financial statements:
20.03.2000	 Doc. Ing. J. Tošovský	 Ing. M. Mlýnský tel.: 2441 4326	 V. Vicořský tel.: 2441 4424

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 1 GENERAL INFORMATION

Czech National Bank (hereafter referred to as the “Bank” or the “CNB”) is the Central Bank of the Czech Republic. The Bank was established on 1 January 1993 following the dissolution of the State Bank of Czechoslovakia to form the Czech National Bank and National Bank of Slovakia. The Bank was established on the basis of Act No. 6/1993 Col., The Czech National Bank Act. The Bank is a legal entity based in Prague, and is not registered in the Commercial Register. The Bank operates from its headquarters in Prague and from seven branches around the Czech Republic (Prague, Brno, Ostrava, České Budějovice, Plzeň, Ústí nad Labem and Hradec Králové).

The primary objective of the Bank is to ensure stability of the Czech currency. In pursuit of this purpose, the Bank sets monetary rules, issues bank notes and coins, manages the money supply and clearing for interbank settlements including its maintenance for fluency and efficiency and undertakes control over the performance of bank operations and of the safe functioning and development of the banking system in the Czech Republic. The Bank also performs other activities as defined by the CNB Act and by other legislation.

When pursuing its objectives, the Bank is independent from government instruction and is accountable directly to the Parliament of the Czech Republic.

The highest ranking management body of the Bank is the Bank Council of the Czech National Bank. The Bank Council has seven members. The members include the governor of the Bank, two vice-governors of the Bank, and four other directors of the Bank. The members of the Bank Council are appointed and recalled by the President of the Czech Republic. The members of the Bank Council are appointed for a period of six years.

The members of the Bank Council as at 31 December 1999 were as follows:

Mr. Josef Tošovský	Governor	Appointed 23 July 1998
Mr. Zdeněk Tůma	Vice-Governor	Appointed 13 February 1999
Mr. Oldřich Dědek	Vice-Governor	Appointed 13 February 1999
Mr. Pavel Štěpánek	Director	Appointed 13 February 1999
Mr. Luděk Niedermayer	Director	Appointed 27 February 1996
Mr. Pavel Racoča	Director	Appointed 13 February 1999
Mr. Miroslav Hrnčíř	Director	Appointed 27 February 1996

The statutory representative of the Bank is the Governor. In the event of the Governor’s absence the Vice-Governor is appointed by him to represent the Bank.

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 1 GENERAL INFORMATION (continued)

The Bank operates on a budget which is agreed by the Bank Council. The Bank uses its income to meet necessary operational expenses. The Bank's profit is allocated to its reserve fund and other funds, and for other uses within the Bank's budget. The remaining profit is directly transferred to the state budget of the Czech Republic. Losses are expected to be covered by future profits. The annual report of its results is presented by the Bank to the Parliament of the Czech Republic.

The Bank manages its assets as would a private entrepreneur.

### 2 ACCOUNTING POLICIES

#### (a) Basis of preparation

The financial statements and accounting records are prepared in accordance with and comply with the Act on accounting (Act No. 563/1991 as amended) and the Chart of accounts and accounting rules for banks prescribed by the Ministry of Finance of the Czech Republic. The financial statements are prepared under the historical cost convention.

The financial statements are shown in millions of Czech Crowns unless otherwise stated. According to article I, paragraph (1) of the regulation, which sets the standards for Consolidation of financial statements of banks (Number 282/9090/1994 dated 18 February 1994 as amended) the Bank does not prepare consolidated financial statements.

#### (b) Foreign currencies

Transactions in foreign currencies are translated into Czech Crowns at the exchange rate effective at the transaction date. Assets and liabilities, including all unsettled committed spot or term purchases and sales of foreign currencies, are translated to Czech Crowns at the exchange rate announced by the Bank effective at the balance sheet date. All resulting realised and unrealised foreign exchange gains and losses are recognised in the income statement.

#### (c) Gold and other precious metals

Gold and other precious metals are valued at historic cost. Gold swaps are accounted for on the gold account and the related payables from swaps are accounted for as payables and valued at the swap price. Gold deposits are accounted for on the gold account and related interest is accrued.

## **CZECH NATIONAL BANK**

### **NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

#### **2 ACCOUNTING POLICIES (continued)**

##### **(d) Cash**

Cash includes cash on hand in Czech Crowns. Cash in foreign currencies is included in Other receivables from abroad.

##### **(e) Securities**

Securities transactions are recorded on a settlement date basis.

Foreign dealing securities consist of money market and capital market securities, represented by treasury bills and other bills, government bonds and other foreign bonds. Part of the bonds portfolio is managed by an external manager.

Treasury bills and other discounted securities are valued at cost. Interest calculated on the basis of the discount is accrued.

Bonds are valued at cost. Interest income is accrued.

Disposals of securities are valued at the weighted average cost.

A specific provision is made for securities for the difference between cost and lower market value of the individual security. Specific provisions are not created for highly liquid securities with maturity less than six months that are held till maturity. Specific provisions are also not created for securities subject to term sale contracts when the sale price is not lower than cost.

Investments in subsidiary and associated undertakings and other financial investments and their accounting treatment are described in Note 2 (f).

##### **(f) Investments in subsidiary and associated undertakings and other investment securities**

Investments in subsidiary and associated undertakings and other financial investments include investments in subsidiary and associated undertakings and other traded or not traded investment securities purchased for strategic holding purposes.

Investments in subsidiary and associated undertakings and other investment securities are valued at cost. For investments in subsidiary and associated undertakings and other investment securities a specific provision is created for the difference between cost and market value or when the market valuation is not available between cost and net asset value. The specific provision is only created if the market value or net asset value respectively is lower than cost.

## **CZECH NATIONAL BANK**

### **NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

#### **2 ACCOUNTING POLICIES (continued)**

##### **(g) Securities financing arrangements**

Securities purchased under agreements to resell (resale or reverse repo operations) and securities sold under agreements to repurchase (repo operations) are treated as collateralised lending and borrowing transactions respectively, in accordance with the legal form of the contract (i.e. only under circumstances in which a loan agreement exists under which securities are transferred as collateral) and are recorded on a settlement date basis.

Securities in repo operations are carried at the amounts at which the securities were initially acquired. Securities in reverse repo operations are carried at the amounts at which the underlying securities were valued in case the Bank has or had them included in its portfolio (latest average purchase price) or in the amount of loan granted.

The interest related to securities sold in repo operation is included in accrued income.

Under circumstances where there is no such loan agreement, the transactions are reported as a simultaneous spot purchase and forward sale or spot sale and forward purchase of securities.

##### **(h) Issued securities**

Bonds issued in foreign currency are recorded at nominal value. The interest expense is accrued over the period till maturity of the coupon.

The amount of treasury bills is presented in the balance sheet after offset with treasury bills repurchased by the Bank, together with the related accrued discount. The Bank repurchases the whole issued amount and uses the treasury bills it in repo or sell and buy operations with domestic banks. Interest income and interest expense relating to treasury bills of the Bank's own portfolio are disclosed in the profit and loss account separately.

##### **(i) Derivative financial instruments**

The Bank enters the derivative market only for the purpose of hedging. The Bank does not trade derivatives for the purpose of market speculation.

Off balance sheet receivables and payables from currency derivatives are valued using the exchange rate valid at the balance sheet date as announced by the Bank. Foreign currency differences from revaluation of currency derivatives are recognised as income or expense. Gains and losses on derivative financial instruments are accrued and recognised on the same basis as the corresponding expense or income on the hedged position.

## **CZECH NATIONAL BANK**

### **NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

#### **2 ACCOUNTING POLICIES (continued)**

##### **(i) Derivative financial instruments (continued)**

The Bank's criteria for a derivative instrument to be classified as a hedge include:

- (i) the transaction must be reasonably expected to match or eliminate a significant portion of the risk inherent in the position being hedged, and
- (ii) there is adequate evidence of the intent to hedge at the outset of the transaction.

##### **(j) Interest and income and expense**

Interest income and expense are recognised on an accruals basis. Income on non-performing loans is also accrued and included in the related loan balance at the due date. Such amounts are considered in estimating the specific provisions for non-performing loans. Interest income also includes coupons earned on bonds. Interest expense includes coupons of issued bonds, discount of issued treasury bills and interest from received loans and deposits.

##### **(k) Fee and commission income**

Fee income from current accounts maintenance and other activities is accrued.

##### **(l) Specific provisions and reserves**

Reserves are created when the Bank has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount of specific provisions for loans and other assets at risk is based on appraisals of these assets at the balance sheet date after taking into consideration the present forced sale value of collateral.

When creating reserves for classified assets related to the consolidation of the banking industry, the guarantee issued by the Government which covers these assets was taken into consideration (see also Note 28 "Consolidation of the banking sector").

Reserves for off balance sheet exposures, reserves for classified assets related to the consolidation of the banking sector and reserves for the standard loans are included in liabilities. Specific provisions adjust the book value of individual assets at risk.

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 2 ACCOUNTING POLICIES (continued)

#### (m) Tangible and intangible fixed assets

Tangible and intangible fixed assets with the exception of vehicles are recorded at cost excluding value added tax ("VAT"). Vehicles are valued at cost including VAT.

Tangible fixed assets are depreciated by applying the straight-line basis of depreciation over the estimated useful lives. Intangible fixed assets are amortised over four years unless their usage is limited by contract; in such case the intangible fixed assets are amortised over the shorter of the contractual period or five years. Low value tangible fixed assets with a unit cost of more than CZK 2,000 and less than or equal to CZK 40,000 and low value intangible fixed assets with a unit cost less than or equal to CZK 60,000 are treated as fixed assets and are fully depreciated / amortised upon the inception of use. Land, arts and art collections are not depreciated.

Tangible and intangible fixed assets are depreciated as follows:

Buildings and constructions	30 years
Furniture and fittings	6 years
Motor vehicles	4 years
Office equipment and computers	4 years
Software	4 years

In case of a change in annual depreciation / amortisation rate, classification or valuation of the property the depreciation is modified in the month of the change; the depreciation / amortisation charged before that date is not adjusted.

Repairs and maintenance expenditures are charged to expenses as incurred. Improvement expenditures (i.e. expenditures enhancing the value of the property) exceeding CZK 40,000 per unit in one year increase the costs of the property.

The Bank does not have any fixed assets held under finance lease agreements.

#### (n) Value added tax

The Bank is registered for VAT. The Bank has not claimed input VAT, since the coefficient reducing the input VAT is lower than 0.05, ie the amount of revenues subject to VAT is lower than 5 % of the total revenues of the Bank. Input VAT incurred is expensed immediately except for VAT representing part of the purchase price (for example, purchase of motor vehicles or purchase of services not related to the main activity of the Bank).

## **CZECH NATIONAL BANK**

### **NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

#### **2 ACCOUNTING POLICIES (continued)**

##### **(o) Income tax and profit transfer to the state budget**

The Bank is exempt from income tax in accordance with Note 17, paragraph 2 of the Act no. 586/92 Coll. on Income Taxes as amended. The income of the Bank is used to cover necessary operating expenses. Remaining profit is transferred to the state budget.

##### **(p) Pensions**

No pension plan is currently in operation at the Bank. Regular contributions are made to the state to fund the national pension plan.

##### **(q) Changes in accounting policy**

There were no changes in accounting policies during the year 1999.

##### **(r) Subsequent events**

The effects of events, which occurred between the balance sheet date and the date of signing the financial statements, are reflected in the financial statements in the case that these events provide further evidence of conditions, which existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date prior to signing of the financial statements which are indicative of conditions which arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves reflected in the financial statements.



## CZECH NATIONAL BANK

### NOTES TO FINANCIAL STATEMENTS

#### AS AT 31 DECEMBER 1999

#### 3 GOLD

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
Gold in total	<u>840</u>	<u>541</u>

The market value of gold as at 31 December 1999 is CZK 4,664 million (as at 31 December 1998: CZK 2,488 million). The increase of gold held by the Bank was primarily caused by the cancellation of the expected sale of gold to Národní banka Slovenska (the "NBS") in line with the agreement about the settlement between the Czech Republic and the Slovak Republic dated 24 November 1999 (Net book amount CZK 313 million, market value CZK 1 681 million, 4,995 kg, Note 5).

#### 4 RECEIVABLES AND PAYABLES WITH THE INTERNATIONAL MONETARY FUND

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
Membership quota IMF (item no 2 of the Assets Balance Sheet)	39,405	26,320
Liability to IMF (item no 2 of the Liabilities Balance sheet)	(39 306)	(26,254)
Current account IMF (item no 2 of the Liabilities Balance sheet)	<u>(99)</u>	<u>(66)</u>
Total position with IMF	<u>-----</u> -	<u>-----</u> -

Membership quota at International Monetary Fund (the "IMF") is denominated in special drawing rules (SDR) and financed with bills of exchange payable on request issued by the Government.

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 5 RECEIVABLES FROM ABROAD INCLUDING SECURITIES

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
Current accounts with banks	1,062	784
Deposits	<u>74,689</u>	<u>15,643</u>
Total deposits with foreign banks	<u>75,751</u>	<u>16,427</u>
Reverse repo operations with foreign banks	<u>7,659</u>	<u>16,356</u>
Total loans provided to foreign banks	<u>7,659</u>	<u>16,356</u>
Cash in foreign currencies	42	36
Other receivables from abroad	<u>25,810</u>	<u>26,122</u>
	25,852	26,158
Specific provisions (Note 17)	<u>(25,810)</u>	<u>-</u>
Net other receivables from abroad	<u>42</u>	<u>26,158</u>
Net receivables from foreign financial institutions	<u>83,452</u>	<u>58,941</u>
Securities traded on the money market	177,713	167,433
Bonds and other debt securities with fixed income	219,940	176,251
Other financial investments	<u>50</u>	<u>50</u>
	397,703	343,734
Specific provisions (Note 17)	<u>(2,931)</u>	<u>(263)</u>
Total securities	<u>394,772</u>	<u>343,471</u>
Total receivables from abroad including securities	<u>478,224</u>	<u>402,412</u>

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

**5 RECEIVABLES FROM ABROAD INCLUDING SECURITIES (continued)**

Receivables from abroad can be analysed as follows:

At 31 December 1999

<u>Actual residual maturities</u>	Within 3 <u>months</u> CZK million	3 - 12 <u>months</u> CZK million	1 - 5 <u>years</u> CZK million	Over 5 <u>years</u> CZK million	<u>Total</u> CZK million
Current accounts	1,602	-	-	-	1,602
Deposits	74,689	-	-	-	74,689
Reverse repo operations with foreign banks	7,659	-	-	-	7,659
Other receivables from abroad	<u>25,852</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,852</u>
Total	<u>109,262</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,262</u>

At 31 December 1998

<u>Actual residual maturities</u>	Within 3 <u>months</u> CZK million	3 - 12 <u>months</u> CZK million	1 - 5 <u>years</u> CZK million	Over 5 <u>years</u> CZK million	<u>Total</u> CZK million
Current accounts	784	-	-	-	784
Deposits	15,643	-	-	-	15,643
Reverse repo operations with foreign banks	16,356	-	-	-	16,356
Other receivables from abroad	<u>26,158</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,158</u>
Total	<u>58,941</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,941</u>

## CZECH NATIONAL BANK

### NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

#### 5 RECEIVABLES FROM ABROAD INCLUDING SECURITIES (continued)

##### Loans provided to foreign banks

Loans provided to foreign banks consist only of reverse repo operations.

Securities used in reverse repo operations include treasury bills, other short term treasury bills and government bonds. Their market value does not materially differ from the carrying value of the agreements.

The maturity profile is as follows:

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
Up to 30 days	7,659	12,275
31 to 60 days	—	<u>4,081</u>
	<u>7,659</u>	<u>16,356</u>

Reverse repo operations at 31 December 1999 include foreign bonds purchased from counterparties of CZK 7,681 million (31 December 1998: CZK 16,356 million).

##### Národní banka Slovenska

Other receivables from abroad at 31 December 1999 include CZK 25,810 million (31 December 1998: CZK 26,122 included in other receivables from banks) of receivables from NBS resulting from the separation of the assets and liabilities of the former Státní banka Československá into the central banks of the Czech Republic and Slovak Republic and from the losses resulting from the split of federal currency as at 31 December 1992. The recoverability of this receivable was determined on the basis of the results of negotiation between the Czech and Slovak governments.

The CNB receivable against NBS was considered in the final agreement related to the settlement of assets of the former Czech and Slovak Federative Republic (the “CSFR”) dated 24 November 1999. The government of the Czech Republic approved by its resolution number 1253 dated 22 November 1999 an agreement concerning the transfer of this receivable to the state (i.e. the Czech Republic), for a consideration of one Czech crown (the “Agreement”). The Agreement became valid as of its signature by both contractual parties and will become effective as of the date of the effectiveness of the agreement between the Czech Republic and Slovak Republic on the final financial settlement of CSFR assets.

## CZECH NATIONAL BANK

### NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

#### 5 RECEIVABLES FROM ABROAD INCLUDING SECURITIES (continued)

##### Národní banka Slovenska (continued)

Consequently CNB included the receivable from NBS in non-performing receivables from banks and created a specific provision for the receivable at the amount of the difference between the nominal value and an amount for which the receivable will be transferred to the state. When the Agreement becomes effective and the receivable is transferred to the state, the resulting loss will be covered by the specific provisions created.

As at 31 December 1998 the receivable from NBS included CZK 313 million relating to the expected sale of 4.99 tons of gold to NBS for book value. Within the scope of the agreement between the Czech Republic and Slovak Republic on the final financial settlement of CSFR assets it was agreed that sale would not take place and consequently the receivable was cancelled and the gold was included in the CNB gold reserves.

##### Securities traded on the money market

At 31 December 1999

	<u>Cost</u> CZK million	<u>Market value</u> CZK million
State treasury bills	61,354	61,355
Other short term treasury bills	<u>116,359</u>	<u>116,342</u>
	177,713	<u>177,697</u>
Specific provisions (Note 17)	<u>(23)</u>	
Total securities traded on the money market	<u>177,690</u>	

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

**5 RECEIVABLES FROM ABROAD INCLUDING SECURITIES (continued)**

At 31 December 1998

	<u>Cost</u> CZK million	<u>Market value</u> CZK million
State treasury bills	91,607	91,608
Other short term treasury bills	<u>75,826</u>	<u>75,824</u>
	167,433	<u>167,432</u>
Specific provisions (Note 17)	<u>(2)</u>	
Total securities traded on the money market	<u>167,431</u>	

**Bonds and other debt securities with fixed income**

Bonds and other debt securities with fixed income can be analysed as follows:

	Cost 31 December <u>1999</u> CZK million	Market value 31 December <u>1999</u> CZK million	Cost 31 December <u>1998</u> CZK million	Market value 31 December <u>1998</u> CZK million
State bonds	193,824	191,244	161,983	162,188
Other foreign bonds	17,457	17,418	4,230	4,274
Bonds managed by external manager	4,508	4,480	5,608	5,669
Accrued interest from bonds	<u>4,151</u>	<u>4,151</u>	<u>4,430</u>	<u>4,430</u>
	<u>219,940</u>	<u>217,293</u>	<u>176,251</u>	<u>176,561</u>
Specific provisions (Note 17)	<u>(2,908)</u>		<u>(261)</u>	
Bonds and other securities with fixed income	<u>217,032</u>	<u>217,293</u>	<u>175,990</u>	<u>176,561</u>

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

### AS AT 31 DECEMBER 1999

#### 5 RECEIVABLES FROM ABROAD INCLUDING SECURITIES (continued)

Bonds and other securities with fixed income reported as trading securities as at 31 December 1999 and 31 December 1998 include solely fixed income securities. Bonds and similar debt securities in the Bank's dealing portfolio at 31 December 1999 include CZK 35,831 million (at 31 December 1998: CZK 71,722 million) of dealing securities bearing fixed interest with the maturity within one year which represents 17 % of the total of bonds and similar debt securities (at 31 December 1998: 41 %).

#### Other foreign investments

	Cost <u>31 December 1999</u> CZK million	Cost <u>31 December 1998</u> CZK million
Bank for International Settlements	<u>50</u>	<u>50</u>
Total shares	<u>50</u>	<u>50</u>

The Bank holds an investment in SWIFT valued at purchase price of net book amount below CZK 1 million (CZK 224,000). According to the opinion of the management of the Bank the market value of Other foreign investments does not substantially differ from the purchase price.

#### 6 RECEIVABLES FROM DOMESTIC BANKS

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
Redistribution loans	28,315	32,441
Non-performing loans	14	14
Loans provided from EXIM and European Investment Bank (the "EIB") funds	1,106	1,963
Other receivables	<u>1,318</u>	<u>19,418</u>
	30,753	53,836
Specific provisions (Note 17)	<u>(14)</u>	<u>(14)</u>
Total receivables from domestic banks	<u>30,739</u>	<u>53,822</u>

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

**6 RECEIVABLES FROM DOMESTIC BANKS (continued)**

Receivables from domestic banks can be divided as follows:

At 31 December 1999

<u>Actual residual maturities</u>	<u>Within 3 months</u> CZK million	<u>3 - 12 months</u> CZK million	<u>1 - 5 years</u> CZK million	<u>Over 5 years</u> CZK million	<u>Total</u> CZK million
Redistribution loans	14,389	-	-	13,926	28,315
Non-performing loans	14	-	-	-	14
Loans provided from EXIM and EIB funds	103	103	827	73	1,106
Other receivables	<u>1,318</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,318</u>
Total	<u>15,824</u>	<u>103</u>	<u>827</u>	<u>13,999</u>	<u>30,753</u>

At 31 December 1998

<u>Actual residual maturities</u>	<u>Within 3 months</u> CZK million	<u>3 - 12 months</u> CZK million	<u>1 - 5 years</u> CZK million	<u>Over 5 years</u> CZK million	<u>Total</u> CZK million
Redistribution loans	-	17,260	-	15,181	32,441
Non-performing loans	14	-	-	-	14
Loans provided from EXIM and EIB funds	103	103	827	930	1,963
Other receivables	<u>19,418</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,418</u>
Total	<u>19,535</u>	<u>17,363</u>	<u>827</u>	<u>16,111</u>	<u>53,836</u>



## CZECH NATIONAL BANK

### NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

#### 6 RECEIVABLES FROM DOMESTIC BANKS (continued)

Long-term redistribution loans were provided in the years 1990 and 1991 and as at 31 December 1999 they comprised CZK 14,389 million (redistribution loan) and CZK 13,926 million (a redistribution loan under special conditions). The redistribution loan under special conditions was provided for funding the co-operative housing scheme. It is repayable by annual instalments based on payments received from clients and its final maturity has not been specified. The redistribution loan is being repaid and final maturity is in 2000.

Loans offered from EXIM and EIB are not secured.

#### Non-performing loans

Non-performing loans represent loans after maturity and loans that show in other respects violated contract terms or worsening financial situation of the debtor.

#### 7 DUE FROM CLIENTS

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
Standard loans	17,393	18,615
Classified loans	<u>27,892</u>	<u>14,058</u>
	45,285	32,673
Specific provisions (Note 17)	<u>(5,336)</u>	<u>(3,560)</u>
Total due from clients	<u>39,949</u>	<u>29,113</u>

## CZECH NATIONAL BANK

### NOTES TO FINANCIAL STATEMENTS

#### AS AT 31 DECEMBER 1999

#### 7 DUE FROM CLIENTS (continued)

Receivables from clients can be divided as follows:

At 31 December 1999

<u>Actual residual maturities</u>	<u>Within 3 months</u> CZK million	<u>3 - 12 months</u> CZK million	<u>1 - 5 years</u> CZK million	<u>Over 5 years</u> CZK million	<u>Total</u> CZK million
Standard loans	1	17,337	3	52	17,393
Classified loans	<u>27,059</u>	<u>360</u>	<u>441</u>	<u>32</u>	<u>27,892</u>
Total	<u>27,060</u>	<u>17,697</u>	<u>444</u>	<u>84</u>	<u>45,285</u>

At 31 December 1998

<u>Actual residual maturities</u>	<u>Within 3 months</u> CZK million	<u>3 - 12 months</u> CZK million	<u>1 - 5 years</u> CZK million	<u>Over 5 years</u> CZK million	<u>Total</u> CZK million
Standard loans	1	18,567	5	42	18,615
Classified loans	<u>13,696</u>	<u>339</u>	<u>23</u>	<u>-</u>	<u>14,058</u>
Total	<u>13,697</u>	<u>18,906</u>	<u>28</u>	<u>42</u>	<u>32,673</u>

#### Loans to related parties

As at 31 December 1999 the Bank provided loans to a company in which the Bank has an equity holding of CZK 17,337 million (as at 31 December 1998: CZK 18,567 million). All transactions with subsidiaries were conducted within the operation of the Bank in respect of the consolidation of the banking sector in the Czech Republic under the same conditions and interest rates that were at the same time provided in comparable transactions with other clients.

#### Classified loans

Classified loans are categorised in accordance with the definitions issued by the Bank in four categories (watch, substandard, doubtful, loss) and represent total outstanding principal and accrued interest receivable overdue or other defaults in contractual terms or financial performance.

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 7 DUE FROM CLIENTS (continued)

#### Classified loans (continued)

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
Watch	23	75
Substandard	-	44
Doubtful	69	87
Loss	<u>27,800</u>	<u>13,852</u>
Total classified loans	<u>27,892</u>	<u>14,058</u>

In respect of classified loans the total specific provisions required are CZK 27,836 million (as at 31 December 1998: CZK 13,908 million). Specific provisions actually created totalled CZK 5,336 million (Note 17) (as at 31 December 1998: CZK 3,560 million) and the remainder is covered by a guarantee provided by the Czech Government (Note 28).

### 8 DOMESTIC SECURITIES AND SHARES

Domestic securities and subsidiary shares include the following equity shares or shares issued by subsidiary or associated undertakings of the Bank and other equity investments:

At 31 December 1999

	Cost 31 December <u>1999</u> CZK million	Market value 31 December <u>1999</u> CZK million	Cost 31 December <u>1998</u> CZK million	Market value 31 December <u>1998</u> CZK million
Institut bankovního vzdělávání, a. s.	11	11	11	11
Československá obchodní banka, a. s.	-	-	1,353	16,160
Česká finanční, s. r. o.	15,814	-	15,814	-
Other equity investments:				
Shares of GE Capital	<u>19,717</u>		<u>19,717</u>	
	35,542		36,895	
Specific provisions (Note 17)	<u>(19,717)</u>		<u>(19,717)</u>	
Total domestic securities and shares	<u>15,825</u>		<u>17,178</u>	

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 8 DOMESTIC SECURITIES AND SHARES (continued)

In case the equity shares are not traded on the market the market value is calculated based on the amount of equity of the company.

The Bank has created reserves for the share in Česká finanční, s. r. o. (thereafter referred to as "CF").

In June 1999 the Bank sold its investment in its associated undertaking Československá obchodní banka, a. s. ("CSOB") to KBC Bank N.V. The sale price was CZK 16,160 million (included in Other Income, item 7 of the Profit and Loss Account), whereas the purchase price of the investment by the Bank was CZK 1,353 million (included in Other Expenses, item 11 of the Profit and Loss Account).

#### Investments in subsidiary undertakings

At 31 December 1999

<u>Name</u>	<u>Cost</u> CZK million	<u>Share capital</u> CZK million	<u>Share</u> %
CF	15,814	15,814	100

At 31 December 1998

<u>Name</u>	<u>Cost</u> CZK million	<u>Share capital</u> CZK million	<u>Share</u> %
CF	15,814	15,814	100

#### Summarised financial information about subsidiaries

At 31 December 1999 and for the year then ended:

<u>Name</u>	Net book <u>amount</u> CZK million	<u>Equity</u> CZK million	Total <u>assets</u> CZK million	<u>Subsidiary financial data</u>	
				Revenues from sale of securities and <u>deposits</u> CZK million	Profit/(loss) <u>before tax</u> CZK million
CF	15,814	5,498	42,192	912	(5,514)

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 8 DOMESTIC SECURITIES AND SHARES (continued)

#### Investments in subsidiary undertakings (continued)

At 31 December 1998 and for the year then ended

<u>Name</u>	Net book <u>amount</u> CZK million	<u>Equity</u> CZK million	Total <u>assets</u> CZK million	<u>Audited subsidiary financial data</u>	
				Revenues from sale of securities and <u>deposits</u> CZK million	Profit/(loss) <u>before tax</u> CZK million
CF	15,814	7,711	43,918	598	(6,528)

Česká finanční was acquired by the Bank in 1997 as a special purpose vehicle to administer the banking industry Stabilisation and Consolidation programmes which focused on small and middle sized banks. The Stabilisation program was approved by the Government of the Czech Republic in 1996.

The Stabilisation programme involved transfers of certain doubtful assets of banks taking part in this programme to CF in exchange for a cash advance from CF. The banks involved are obliged to repay this advance in seven year's time from the date of the transfer of assets to CF. The Stabilisation programme is financed by Konsolidační banka, s.p.ú. and The National Property Fund has issued a guarantee in favour of CF covering any potential losses borne by CF as a result of repayment delinquency of any of the banks involved. The net book value of the Stabilisation programme assets administered by CF was CZK 8,412 million as at 31 December 1999 (1998: CZK 9,949 million).

The Consolidation programme involved transfers of certain doubtful assets of banks including CNB taking part in this programme to CF in exchange for an irrecoverable cash advance from CF. The aim of this programme was to assist certain small banks to regain financial stability. The Consolidation programme is financed by the Bank. The program was started in 1997. In this respect the Bank provided CF with a loan as at 31 December 1999 of CZK 17,324 million (31 December 1998: CZK 18,567 million). During 1998 the Bank increased the share capital of CF by CZK 13,333 million. The net book amount of the Consolidation programme assets net of reserves created administered by CF was CZK 33,734 million as at 31 December 1999 (31 December 1998: CZK 32,677 million).

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 8 DOMESTIC SECURITIES AND SHARES (continued)

#### Investments in subsidiary undertakings (continued)

On 3 February 1998 CF and the Bank entered into an agreement whereby the Bank agreed to cover all losses borne by CF in respect of the Consolidation programme as well as all other costs of operation of CF (the "Guarantee agreement"). Pursuant to the Guarantee agreement the Bank has created a reserve of CZK 31,374 million as at 31 December 1999 (31 December 1998: CZK 28,030 million). When arriving at this reserve the Bank took into consideration the expected recoverability of assets at risk covered by the Guarantee agreement as well as the expected level of operational costs of CF.

The calculation of the reserve as at 31 December 1999 and as at 31 December 1998 can be summarised as follows:

	<u>31 December 1999</u> CZK'000	<u>31 December 1998</u> CZK'000
Provided loans	17,324	18,567
Investment in subsidiary undertaking	15,814	15,814
Losses covered in line with Agreement	<u>5,982</u>	<u>2,330</u>
	39,120	36,711
Less expected recoverability of		
- receivables in Consolidation programme	7,637	8,318
- securities in Consolidation programme	<u>109</u>	<u>363</u>
	7,746	8,681
Created reserves (Note 17)	<u>31,374</u>	<u>28,030</u>

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 8 DOMESTIC SECURITIES AND SHARES (continued)

#### Investments in subsidiary undertakings (continued)

Further to the resolution of the government of the Czech Republic number 1162 dated 8 November 1999, by which the government of the Czech Republic approved the restructuring of certain transformation institutions, Konsolidační banka, s.p.ú. should acquire 100 % of the share capital of CF for an unspecified amount. A formal agreement has not yet been signed however it is intended that CNB will remain responsible for all losses arising from the Consolidation programme as well as for operational costs of CF in line with the Guarantee agreement.

#### Investments in associated undertakings

At 31 December 1999

<u>Name</u>	<u>Cost</u>	<u>Nominal</u>	<u>Share</u>	<u>Share</u>
	<u>CZK million</u>	<u>value</u>	<u>capital</u>	
Institut bankovního vzdělávání, a. s.	<u>11</u>	<u>11</u>	<u>44</u>	30
Total investments in associated undertakings	<u>11</u>			

At 31 December 1998

<u>Name</u>	<u>Cost</u>	<u>Nominal</u>	<u>Share</u>	<u>Share</u>
	<u>CZK million</u>	<u>value</u>	<u>capital</u>	
Institut bankovního vzdělávání, a. s.	11	11	44	30
CSOB	<u>1,353</u>	<u>1,353</u>	<u>5,105</u>	27
Total investments in associated undertakings	<u>1,364</u>			

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

**8 DOMESTIC SECURITIES AND SHARES (continued)**

**Investments in associated undertakings (continued)**

Changes in investments in subsidiary and associated undertakings can be analysed as follows:

	<u>Investments in subsidiaries</u>		<u>Investments in associates</u>	
	<u>Cost</u>	<u>Nominal value</u>	<u>Cost</u>	<u>Nominal value</u>
	<u>CZK million</u>	<u>CZK million</u>	<u>CZK million</u>	<u>CZK million</u>
At 1 January 1998	2,481	2,481	1,364	1,364
Increase in share capital in CF	<u>13,333</u>	<u>13,333</u>	—	—
At 31 December 1998	15,814	15,814	1,364	1,364
Sale of share in CSOB	—	—	<u>(1,353)</u>	<u>(1,353)</u>
At 31 December 1999	<u>15,814</u>	<u>15,814</u>	<u>—</u>	<u>—</u>



# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 9 TANGIBLE AND INTANGIBLE FIXED ASSETS

#### Tangible fixed assets

	<u>31 December 1998</u>	<u>Additions</u>	<u>Disposals</u>	<u>31 December 1999</u>
	CZK million	CZK million	CZK million	CZK million
<u>Cost</u>				
Land	197	-	-	197
Buildings	2,708	151	108	2,751
Machinery	1,982	174	153	2,003
Equipment	300	-	1	299
Other	258	30	14	274
Advances for fixed asset acquisitions	<u>2,992</u>	<u>2,305</u>	<u>290</u>	<u>5,007</u>
	<u>8,437</u>	<u>2,660</u>	<u>566</u>	<u>10,531</u>
<u>Accumulated amortisation</u>				
Buildings	(296)	97	6	(387)
Machinery	(1,297)	272	20	(1,549)
Equipment	(141)	49	10	(180)
Other	<u>(235)</u>	<u>45</u>	<u>32</u>	<u>(248)</u>
	<u>(1,969)</u>	<u>463</u>	<u>68</u>	<u>(2,364)</u>
Net book amount	<u>6,468</u>	<u>2,197</u>	<u>498</u>	<u>8,167</u>

The value of low value tangible fixed assets that has been fully amortised when put into use in 1999 is CZK 17 million (1998: CZK 49 million).

Land of CZK 197 million was recorded in 1991 in accordance with state decree number 393/1991.

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 9 TANGIBLE AND INTANGIBLE FIXED ASSETS (continued)

#### Intangible fixed assets

	<u>31 December 1998</u> CZK million	<u>Additions</u> CZK million	<u>Disposals</u> CZK million	<u>31 December 1999</u> CZK million
<u>Cost</u>				
Software	514	138	2	650
Other intangible assets	2	-	-	2
Advances for intangible assets acquisitions	<u>154</u>	<u>171</u>	<u>148</u>	<u>177</u>
	<u>670</u>	<u>309</u>	<u>150</u>	<u>829</u>
<u>Accumulated amortisation</u>				
Software	(277)	106	2	(381)
Other intangible assets	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>(1)</u>
	<u>(278)</u>	<u>106</u>	<u>2</u>	<u>(382)</u>
Net book amount	<u>392</u>	<u>203</u>	<u>148</u>	<u>447</u>

The value of low value intangible fixed assets that has been fully amortised when put into use in 1999 is CZK 2 million (1998: CZK 2 million).

The Bank did not provide any fixed tangible or intangible assets as collateral at 31 December 1999 or at 31 December 1998.

The Bank does not hold any fixed assets under finance lease contracts.

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 10 OTHER ASSETS

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
Prepayments	80	271
Accrued revenue	606	304
Advances	5,939	4,086
Other precious metals	14	38
Other	<u>2,321</u>	<u>247</u>
	8,960	4,946
Specific provisions (Note 17)	<u>(1,444)</u>	<u>(4)</u>
Total other assets	<u>7,516</u>	<u>4,942</u>

### 11 ISSUE OF CURRENCY

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
Notes in circulation	178,962	141,575
Coins in circulation	<u>4,977</u>	<u>4,485</u>
Total currency in issue	<u>183,939</u>	<u>146,060</u>

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

**12 LIABILITIES TO ABROAD INCLUDING SECURITIES**

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
Payables from repo operations	17,601	-
Loans from EXIM	-	1,670
Loans from EIB	<u>197</u>	<u>213</u>
Total loans from abroad	<u>17,798</u>	<u>1,883</u>
Bonds issued in total	<u>12,331</u>	<u>9,069</u>
Total other liabilities to abroad	<u>416</u>	<u>431</u>
Total liabilities to abroad including securities	<u>30,545</u>	<u>11,383</u>

The Bank received loans from EIB. From this source, the Bank granted loans in foreign currencies to domestic banks. Loans were received and provided in the same currency, amount and have the same maturity date. The Bank earns margin on these loans.

Payables to abroad can be divided as follows:

At 31 December 1999

<u>Actual residual maturities</u>	Within 3 <u>months</u> CZK million	3 - 12 <u>months</u> CZK million	4 - 5 <u>years</u> CZK million	Over 5 <u>years</u> CZK million	<u>Total</u> CZK million
Loans from EXIM	17,601	-	-	-	17,601
Loans from EIB	12	12	92	81	197
Total other liabilities to abroad	<u>5</u>	<u>411</u>	<u>-</u>	<u>-</u>	<u>416</u>
Total	<u>17,618</u>	<u>423</u>	<u>92</u>	<u>81</u>	<u>18,214</u>

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

**12 LIABILITIES TO ABROAD INCLUDING SECURITIES (continued)**

At 31 December 1998

<u>Actual residual maturities</u>	Within 3 <u>months</u> CZK million	3 - 12 <u>months</u> CZK million	4 - 5 <u>years</u> CZK million	Over 5 <u>years</u> CZK million	<u>Total</u> CZK million
Loans from EXIM	108	108	859	595	1,670
Loans from EIB	11	11	90	101	213
Total other liabilities to abroad	<u>20</u>	<u>411</u>	<u>-</u>	<u>-</u>	<u>431</u>
Total	<u>139</u>	<u>530</u>	<u>949</u>	<u>696</u>	<u>2,314</u>

**Issued bonds**

	Average <u>interest rate</u> %	31 December <u>1999</u> CZK million	31 December <u>1998</u> CZK million
Medium term issue	6.6	12,331	9,069

Bonds issued by the Bank at 31 December 1999 include one issue of bonds of CZK 12,331 million (31 December 1998: CZK 9,069 million). These bonds were issued on 9 August 1993 in Japan, in Japanese yen ("JPY") with 6.6 % coupon. The issue will mature on 9 August 2000. See information about long-term swap operations for the detail of currency and interest rate risk that refers to this issue in Note 19.

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 13 DUE TO DOMESTIC BANKS

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
Monetary reserves from banks	<u>26,279</u>	<u>86,605</u>
Repo operations	209,657	164,456
Received loans	4,929	14,788
Other liabilities to domestic banks	<u>35,019</u>	<u>10,078</u>
Total other liabilities	<u>249,605</u>	<u>189,322</u>
Total liabilities to domestic banks	<u>275,884</u>	<u>275,927</u>

#### **Monetary reserves from banks**

Obligatory minimum reserves represent interest free deposits of the banks in the Czech Republic at the Bank. Obligatory minimum reserves should be hold by banks and branches of foreign banks in the form of fourteen days average of the stated percentage of the primary deposits received from all non banking clients. In the period from 7 October 1999 to the date of the financial statements the stated percentage was 2 % and from 28 January 1999 to 6 October 1999 the stated percentage was 5 % of all primary payables received from all non-banking clients (in the period from 30 July 1998 to 27 January 1999 the minimum reserves were 7.5 % and from 1 January 1998 to 29 July 1998 they were 9.5 %).

#### **Repo operations**

Repo operations as at 31 December 1999 include CZK 209,657 million (31 December 1998: CZK 164,456 million) of loans received from banks in the Czech Republic. Repurchased treasury bills of the Bank guarantee these loans. Their market value does not materially differ from the carrying value of the operations.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

**13 DUE TO DOMESTIC BANKS (continued)**

**Repo operations (continued)**

The maturity profile is as follows:

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
Up to 30 days	183,857	154,056
31 to 90 days	<u>25,800</u>	<u>10,400</u>
	<u>209,657</u>	<u>164,456</u>

Liabilities to domestic banks can be divided as follows:

At 31 December 1999

<u>Actual residual maturities</u>	<u>Within 3</u> <u>months</u> CZK million	<u>3 - 12</u> <u>months</u> CZK million	<u>1 - 5</u> <u>years</u> CZK million	<u>Over 5</u> <u>years</u> CZK million	<u>Total</u> CZK million
Monetary reserves from banks	26,279	-	-	-	26,279
Repo operations	209,657	-	-	-	209,657
Received loans	2,465	2,464	-	-	4,929
Other liabilities to domestic banks	<u>10,725</u>	<u>24,700</u>	<u>-</u>	<u>44</u>	<u>35,019</u>
Total	<u>248,676</u>	<u>27,164</u>	<u>-</u>	<u>44</u>	<u>275,884</u>

**CZECH NATIONAL BANK****NOTES TO FINANCIAL STATEMENTS****AS AT 31 DECEMBER 1999****13 DUE TO DOMESTIC BANKS (continued)****Repo operations (continued)**

At 31 December 1998

<u>Actual residual maturities</u>	<u>Within 3 months</u> CZK million	<u>3 - 12 months</u> CZK million	<u>1 - 5 years</u> CZK million	<u>Over 5 years</u> CZK million	<u>Total</u> CZK million
Monetary reserves from banks	86,605	-	-	-	86,605
Repo operations	164,256	200	-	-	164,456
Received loans	-	-	14,788	-	14,788
Other liabilities to domestic banks	<u>10,033</u>	<u>-</u>	<u>-</u>	<u>45</u>	<u>10,078</u>
Total	<u>260,894</u>	<u>200</u>	<u>14,788</u>	<u>45</u>	<u>275,927</u>

**14 CLIENT DEPOSITS**

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
Current accounts	19,815	6,300
Term deposits	2,323	16,330
Deposits of local government bodies	6,863	6,842
Other deposits	<u>4,122</u>	<u>2,340</u>
Total client deposits	<u>33,123</u>	<u>31,812</u>



**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

**14 CLIENT DEPOSITS (continued)**

Client deposits can be divided as follows:

At 31 December 1999

<u>Actual residual maturities</u>	<u>within 3 months</u> CZK million	<u>3 - 12 months</u> CZK million	<u>1 - 5 years</u> CZK million	<u>over 5 years</u> CZK million	<u>Total</u> CZK million
Current accounts	19,815	-	-	-	19,815
Term deposits	155	325	365	1,478	2,323
Deposits of local government bodies	6,863	-	-	-	6,863
Other deposits	<u>4,122</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,122</u>
Total client deposits	<u>30,955</u>	<u>325</u>	<u>365</u>	<u>1,478</u>	<u>33,123</u>

At 31 December 1998

<u>Actual residual maturities</u>	<u>within 3 months</u> CZK million	<u>3 - 12 months</u> CZK million	<u>1 - 5 years</u> CZK million	<u>over 5 years</u> CZK million	<u>Total</u> CZK million
Current accounts	6,300	-	-	-	6,300
Term deposits	14,275	274	352	1,429	16,330
Deposits of local government bodies	6,842	-	-	-	6,842
Other deposits	<u>2,340</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,340</u>
Total client deposits	<u>29,757</u>	<u>274</u>	<u>352</u>	<u>1,429</u>	<u>31,812</u>

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

**15 DOMESTIC SECURITIES ISSUED**

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
CNB treasury bills	500,000	350,000
Deferred interest expense	_____ -	<u>(9,808)</u>
	<u>500,000</u>	<u>340,192</u>
Less:		
CNB treasury bills repurchased:		
- held in the treasury bills portfolio	(289,015)	(176,646)
- in repo operations	<u>(210,985)</u>	<u>(163,546)</u>
	===== -	===== -

As at 31 December 1999 there is no deferred interest expense as during 1999 the Bank started to issue the treasury bills without discount.

**16 OTHER LIABILITIES TO STATE BUDGET**

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
State funds accounts	6,442	5,428
Other state assets	<u>20,627</u>	<u>22,942</u>
Total other debts to state budget	<u>27,069</u>	<u>28,370</u>

Other liabilities to state budget can be divided as follows:

At 31 December 1999

<u>Actual residual maturities</u>	within 3 <u>months</u> CZK million	3 - 12 <u>months</u> CZK million	1 - 5 <u>years</u> CZK million	over 5 <u>years</u> CZK million	<u>Total</u> CZK million
State funds accounts	6,442	-	-	-	6,442
Other state assets	<u>8,299</u>	<u>5,062</u>	<u>7,266</u>	-	<u>20,627</u>
Total	<u>14,741</u>	<u>5,062</u>	<u>7,266</u>	-	<u>27,069</u>
					(42)

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

**16 OTHER LIABILITIES TO STATE BUDGET (continued)**

At 31 December 1998

<u>Actual residual maturities</u>	within 3 <u>months</u> CZK million	3 - 12 <u>months</u> CZK million	1 - 5 <u>years</u> CZK million	over 5 <u>years</u> CZK million	<u>Total</u> CZK million
State funds accounts	5,428	-	-	-	5,428
Other state assets	<u>17,731</u>	<u>5,062</u>	<u>149</u>	<u>-</u>	<u>22,942</u>
Total	<u>23,159</u>	<u>5,062</u>	<u>149</u>	<u>-</u>	<u>28,370</u>

**17 EQUITY, RESERVES, SPECIFIC PROVISIONS AND WRITE OFFS**

**Equity**

Changes of equity during 1998 and 1999 were as follows:

	<u>Share capital</u> CZK million	<u>Funds</u> CZK million	Retained earnings/ accumulated <u>(losses)</u> CZK million	Profit/(loss) for the <u>year</u> CZK million	<u>Equity</u> CZK million
Balance at 1 January 1998	1,400	6,186	(8,654)	10,745	9,677
Division of profit from 1997	-	2,091	8,654	(10,745)	-
Usage of social fund	-	(43)	-	-	(43)
Loss for the year 1998	<u>-</u>	<u>-</u>	<u>-</u>	<u>(50,740)</u>	<u>(50,740)</u>
Balance at 31 December 1998	<u>1,400</u>	<u>8,234</u>	<u>-</u>	<u>(50,740)</u>	<u>(41,106)</u>
Transfer of loss from 1998 to accumulated losses	-	-	(50,740)	50,740	-
Usage of social fund	-	(31)	-	-	(31)
Profit for the year 1999	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,378</u>	<u>32,378</u>
Balance at 31 December 1999	<u>1,400</u>	<u>8,203</u>	<u>(50,740)</u>	<u>32,378</u>	<u>(8,759)</u>

(43)

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

### AS AT 31 DECEMBER 1999

#### 17 EQUITY, RESERVES, SPECIFIC PROVISIONS AND WRITE OFFS (continued)

##### Accumulated losses for the year 1998

The net loss of CZK 50,740 million for the year 1998 was transferred to the accumulated losses account and will be partly covered by the profit for the year 1999.

##### Reserves, specific provisions and write offs

At 31 December 1999 and 1998 the Bank created specific provisions and reserves for assets at risk:

	31 December <u>1999</u> CZK million	31 December <u>1998</u> CZK million
Specific provisions for non-performing amounts due from banks (Note 6)	14	14
Specific provisions for classified loans to clients (Note 7)	5,336	3,560
Total specific provisions for securities	22,648	19,980
- Foreign securities (Note 5)	2,931	263
- Domestic securities (Note 8)	19,717	19,717
Specific provisions for other receivables from abroad (Note 5)	25,810	-
Other specific provisions (Note 10)	<u>1,444</u>	<u>4</u>
Total specific provisions	<u>55,252</u>	<u>23,558</u>
Reserves for guarantees (Note 19)	71	61
Reserves for standard loans (Note 6)	348	348
Reserves for consolidation of the banking sector (Notes 8, 28)	31,900	37,593
Other reserves	<u>1,283</u>	<u>16,368</u>
Total reserves	<u>33,602</u>	<u>54,370</u>

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 1999**

**17 EQUITY, RESERVES, SPECIFIC PROVISIONS AND WRITE OFFS (continued)**

**Reserves, specific provisions and write offs (continued)**

The movements in the specific provisions can be analysed as follows:

	Amounts due <u>from banks</u> CZK million	Classified <u>loans</u> CZK million	<u>Securities</u> CZK million	<u>Other</u> CZK million	<u>Total</u> CZK million
At 1 January 1998	20,764	667	156	3	21,590
Additions	10,800	2,929	20,007	1	33,737
FX differences	-	-	(18)	-	(18)
Usage	<u>(31,550)</u>	<u>(36)</u>	<u>(165)</u>	<u>-</u>	<u>(31,751)</u>
At 31 December 1998	<u>14</u>	<u>3,560</u>	<u>19,980</u>	<u>4</u>	<u>23,558</u>
Addition	25,810	2,124	2,930	1,440	32,304
FX difference	-	-	20	-	20
Usage	<u>-</u>	<u>(348)</u>	<u>(282)</u>	<u>-</u>	<u>(630)</u>
At 31 December 1999	<u>25,824</u>	<u>5,336</u>	<u>22,648</u>	<u>1,444</u>	<u>55,252</u>

The 1999 and 1998 creation and usage of specific provisions against securities was accounted as profit / loss from financial operations (Note 22).

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 17 EQUITY, RESERVES, SPECIFIC PROVISIONS AND WRITE OFFS (continued)

#### Reserves, specific provisions and write offs (continued)

The movements in the reserves can be analysed as follows:

	<u>Guarantees and standard loans</u> CZK million	<u>Consolidation</u> CZK million	<u>Other</u> CZK million	<u>Total</u> CZK million
At 1 January 1998	411	13,357	13,734	27,502
Additions	9	24,419	2,634	27,062
Usage	(11)	(183)	-	(194)
At 31 December 1998	<u>409</u>	<u>37,593</u>	<u>16,368</u>	<u>54,370</u>
Addition	10	3,440	1,283	4,733
Usage	-	(9,133)	(16,368)	(25,501)
At 31 December 1999	<u>419</u>	<u>31,900</u>	<u>1,283</u>	<u>33,602</u>

#### Write-offs and recovery of amounts written off previously

The Bank did not write off any overdue debts or receive any payments on debts that were previously written off during 1998 and 1999.

### 18 OTHER LIABILITIES

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
Deferred revenue and accrued expenses	<u>1,075</u>	<u>1,061</u>
Settlement accounts of local authorities resources	4,130	4,841
Other liabilities	<u>2,162</u>	<u>3,019</u>
Total others	<u>6,292</u>	<u>7,860</u>
Total other liabilities	<u>7,367</u>	<u>8,921</u>

## CZECH NATIONAL BANK

### NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

#### 19 CONTINGENCIES AND COMMITMENTS

##### Received and issued guarantees

Received and issued guarantees can be divided as follows:

	<u>31 December 1999</u> CZK million	<u>31 December 1998</u> CZK million
Issued guarantees for clients	526	21,622
Issued guarantee for CF	31,375	28,030
Issued guarantee for the consolidation of the banking sector	<u>5,730</u>	<u>29,771</u>
Total issued guarantees	<u>37,631</u>	<u>79,423</u>
Guarantee received from the government of the Czech Republic for impaired assets overtaken by the Bank within the Consolidation programme (Note 29)	22,500	22,500
Other guarantees received within the consolidation of the banking sector	<u>-</u>	<u>29,600</u>
Total guarantees received	<u>22,500</u>	<u>52,100</u>

The identified need for reserves for expected loss on the issued guarantees amounts to CZK 33,183 million (as at 31 December 1998: CZK 45,264 million).

##### Agrobanka

CNB issued a guarantee in favour of clients of Agrobanka, a.s. ("Agrobanka") in 1996 covering client deposits and other receivables of clients of Agrobanka (the "CNB guarantee"). The maturity of the CNB guarantee was one year from the date of termination of the forced administration of Agrobanka and it matured in September 1999. CNB received a counterguarantee from the new majority shareholder of Agrobanka covering the possible settlements of CNB only in respect of client deposits and not other receivables for the same period.

In 1999 the total counterguarantee of CZK 29 600 million was removed from the off balance sheet of CNB. The CNB guarantee was reduced by CZK 28 672 million being the amount of secured client deposits and other receivables of clients except for the portion of still valid guarantee covering the other receivables of clients.

## CZECH NATIONAL BANK

### NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

#### 19 CONTINGENCIES AND COMMITMENTS (continued)

##### Receivables and payables from spot, term and option operations

Receivables and payables from spot, term and option operations can be analysed as follows:

	<u>31 December 1999</u>	<u>31 December 1998</u>
	CZK million	CZK million
Receivables		
- from spots	2,023	1,199
- from swaps (Note 27)	14,003	9,069
- from forwards (Note 27)	20,049	60,287
- from option contracts (Note 27)	<u>6,564</u>	<u>4,451</u>
Total receivables from spot, term and option operations	<u>42,639</u>	<u>75,006</u>
Payables		
- from spots	2,021	1,199
- from swaps (Note 27)	11,892	9,962
- from forwards (Note 27)	22,019	61,767
- from option contracts (Note 27)	<u>6,564</u>	<u>4,451</u>
Total payables from spot, term and option operations	<u>42,496</u>	<u>77,379</u>

##### Settlements and legal claims

In assessing claims against the Bank, the Bank has recorded reserves based on its best estimates of the likely outcome.

##### Long term swap operations

The Bank signed a long term swap contract in order to hedge against currency and interest risk associated with the issue of long term bonds in JPY in the total amount of JPY 35,000 million (Note 12). Within these swap operations, the Bank pays semi-annually floating interest in euro ("EUR") in exchange for fixed interest in JPY. Received interest in JPY is used for payments of interest expense from issued bonds. The swap operations mature on 8 August 2000, when the Bank will receive JPY 35,070 million in exchange for EUR 285 million.



# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 19 CONTINGENCIES AND COMMITMENTS (continued)

#### Long term swap operations (continued)

##### Base for the calculation of interest

<u>Base for the calculation of interest</u> million	<u>Interest rate for</u> <u>interest payable</u> %	<u>Interest rate for</u> <u>interest receivable</u> %
JPY 20,000	not applicable	6.6
EUR 163	six month LIBOR + 2.13	not applicable
JPY 15,000	not applicable	6.6
EUR 122	8.6	not applicable

#### Investment commitments

The Bank had signed contracts for the purchase of tangible and intangible fixed assets at 31 December 1999 of CZK 257 million (31 December 1998: CZK 1,546 million).

#### Assets held in custody

The Bank has not received any assets from third parties to be held in custody.

### 20 INTEREST INCOME AND OTHER SIMILAR INCOME

	<u>1999</u> CZK million	<u>1998</u> CZK million
Discount on repurchased treasury bills issued by the Bank	10,255	26,895
Discount on debt securities	5,776	4,640
Interest on debt securities	<u>9,547</u>	<u>6,349</u>
Interest from securities with fixed income	<u>25,578</u>	<u>37,884</u>
Interest on inter-bank transactions	4,224	13,950
Interest on loans to clients	1,803	2,675
Interest on swap transactions	717	549
Other interest income	<u>1,039</u>	<u>2,392</u>
Total other interest income	<u>7,783</u>	<u>19,566</u>
Total income from interest and related income	<u>33,361</u>	<u>57,450</u>

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 20 INTEREST INCOME AND OTHER SIMILAR INCOME (continued)

The discount on repurchased treasury bills issued by the Bank includes CZK 499 million of profit made on repurchasing the treasury bills with zero discount issued during 1999 which were originally sold with loss due to their purchase price being equal to their nominal value. The loss in the same amount made on sales of repurchased zero discounted treasury bills of CZK 499 million is included in Loss from sale of securities (Note 23).

Based on the Bank's estimation, in 1999 total income included CZK 94 million from interest income on classified loans (1998: CZK 69 million). Unpaid penalty interest is accrued and is taken into account when calculating the amount of specific provisions.

### 21 INTEREST EXPENSE AND OTHER EXPENSES

	<u>1999</u> CZK million	<u>1998</u> CZK million
Interest and discount from issued treasury bills and bonds in total	<u>10,522</u>	<u>27,462</u>
Interest on liabilities to state	1,371	2,930
Interest on liabilities to banks	15,506	22,149
Interest on liabilities to clients	692	2,098
Interest on swap transactions	700	835
Other interest expense	<u>132</u>	<u>407</u>
Total other interest expense	<u>18,401</u>	<u>28,419</u>
Total interest expense and other expenses	<u>28,923</u>	<u>55,881</u>

# CZECH NATIONAL BANK

## NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

### 22 PROFIT / (LOSS) FROM FINANCIAL OPERATIONS

Net profit / (loss) from financial operations for the years 1999 and 1998 can be divided as follows:

	<u>1999</u>	<u>1998</u>
	CZK million	CZK million
Profit from sale of gold	-	16,433
Profit from sale of securities	356	605
Loss from sale of securities	(3,872)	(899)
FX gains / (losses)	31,830	(38,014)
Other income	-	415
Addition to specific provisions for securities	(2,930)	(20,007)
Usage of specific provisions for securities	<u>282</u>	<u>165</u>
Total gain / (loss) on financial operations	<u>25,666</u>	<u>(41,302)</u>

### 23 GENERAL OPERATING EXPENSES

General operating expenses can be divided as follows:

	<u>1999</u>	<u>1998</u>
	CZK million	CZK million
Wages and salaries	454	441
Social security and health insurance	<u>170</u>	<u>172</u>
Personnel costs in total	<u>624</u>	<u>613</u>
Depreciation of tangible fixed assets	448	469
Amortisation of intangible fixed assets	106	102
Rent	378	394
Other	<u>739</u>	<u>495</u>
Other operating expenses in total	<u>1,671</u>	<u>1,460</u>
Total general operating expenses	<u>2,295</u>	<u>2,073</u>

#### Staff statistics

	<u>1999</u>	<u>1998</u>
Average number of employees	1,447	1,504
Number of members of the Bank Council	7	7
		(51)

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## CZECH NATIONAL BANK

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#### 24 OTHER EXPENSES

	<u>1999</u>	<u>1998</u>
	CZK million	CZK million
Expenses for issuing bank notes and coins	351	296
Cost of sold investment in CSOB	1,353	-
Cost of damage incurred by Union Banka, a. s.	1,913	-
Other expenses	<u>332</u>	<u>140</u>
Other expenses in total	<u>3,949</u>	<u>436</u>

CNB paid CZK 1,913 million to Union banka, a.s., based on the decision of the arbitration court and according to the out of the court settlement agreement dated 27 December 1999, as additional compensation for the contractually defined damage incurred in connection with the agreement concluded between Union banka, a.s. and CNB on 19 March 1996 about co-operation during the take-over by Union banka, a.s. of Bankovní dům SKALA, a.s.

#### 25 EXTRAORDINARY EXPENSE AND INCOME

	<u>1999</u>	<u>1998</u>
	CZK million	CZK million
Extraordinary expenses	19	12
Other damages	<u>7</u>	<u>6</u>
Total extraordinary expense	<u>26</u>	<u>18</u>
Total extraordinary income	<u>53</u>	<u>3</u>

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### 26 FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES

	<u>31 December 1999</u>		<u>31 December 1998</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
	CZK million	CZK million	CZK million	CZK million
USD	144,877	4,739	86,958	-
EUR	301,556	25,197	-	-
DEM	10,134	202	134,426	2,818
JPY	24,733	2,348	61,823	11,002
ITL	565	-	56,643	-
ECU	-	-	62,177	32
Other currencies	<u>101</u>	<u>5</u>	<u>2,652</u>	<u>1</u>
Total	<u>481,966</u>	<u>32,491</u>	<u>404,679</u>	<u>13,853</u>

### 27 DERIVATIVE FINANCIAL INSTRUMENTS

The Bank has outstanding derivative contracts (hedging) at the balance sheet date that can be divided as follows:

	<u>31 December 1999</u>	<u>31 December 1998</u>
	CZK million	CZK million
<u>Currency derivatives</u>		
Receivables from swaps	14,003	9,069
Payables from swaps	11,892	9,962
Receivables from forwards	22,049	60,287
Payables from forwards	22,019	61,767
<u>Option contracts on shares</u>		
Receivables from option contracts	6,564	4,451
Payables from option contracts	6,564	4,451

## CZECH NATIONAL BANK

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#### 28 CONSOLIDATION OF THE BANKING SECTOR

Pursuant to its role in supporting and maintaining the stability of the banking sector the CNB took over certain assets and liabilities or guaranteed certain liabilities of various banks. The government of the Czech Republic issued a guarantee of CZK 22,500 million in favour of the Bank (the "Guarantee") to cover the exposure of the Bank arising as a consequence of these activities. The Guarantee was issued on 19 March 1997 and is valid for ten years from that date. CNB has fully provided for the estimated losses arising as a result of Consolidation programme assets not covered by the Guarantee.

In previous years the Bank also created specific provisions and reserves which totalled CZK 4,542 million as at 31 December 1998 for a certain portion of the risks related to the Consolidation programme covered by the Guarantee. In line with the agreement with the government of the Czech Republic about compensation of losses arising as a result of the transfer of the NBS receivable to the state the Government of the Czech Republic confirmed by its resolution dated 12 January 2000 its full commitment to the Guarantee. As a result CNB fully took into the account the Guarantee as at 31 December 1999 and decreased the specific provisions and reserves created during last years by CZK 4,542 million.

The assets taken over and created specific provisions and reserves as at 31 December 1999 and as at 31 December 1998 can be summarised as follows:

	<u>31 December 1999</u> CZK'000	<u>31 December 1998</u> CZK'000
Receivables from banks	28,471	13,007
Purchased receivables of banks	437	271
Guarantees and commitments	<u>525</u>	<u>16,350</u>
Total accounting value covered by the Guarantee	<u>29,433</u>	<u>29,628</u>
Total specific provisions and reserves	<u>(6,933)</u>	<u>(11,670)</u>
Total	<u>22,500</u>	<u>17,958</u>

#### 29 SUBSEQUENT EVENTS

The CNB's management is not aware of any subsequent events that would have a material impact on the financial statements.

