

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED  
UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**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 as at 31 December 1999, and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Czech National Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Czech National Bank as at 31 December 1999, and the results of its operations, its changes in equity and its cash flows for the year then ended in accordance with International Accounting Standards.

19 May 2000

*PricewaterhouseCoopers*

PricewaterhouseCoopers Audit, s.r.o.

**CZECH NATIONAL BANK****FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS****FOR THE YEAR ENDED 31 DECEMBER 1999****Income statement**

(all amounts expressed in millions of CZK)

	Note	Year ended <u>31 December 1999</u>	Year ended <u>31 December 1998</u>
Interest and discount income		32,862	57,450
Interest expense		<u>(28,922)</u>	<u>(55,881)</u>
<b>Net interest income</b>	3	3,940	1,569
Fee and commission income		542	513
Fee and commission expense		<u>(49)</u>	<u>(52)</u>
<b>Net fee and commission income</b>		493	461
Foreign exchange gains / (losses)	4	31,830	(38,014)
Net profit / (loss) from trading	5	9,142	(3,288)
Dividend income		39	-
Other operating income		<u>110</u>	<u>59</u>
<b>Operating income / (loss)</b>		41,121	(41,243)
Operating expenses	6	(4,746)	(2,563)
Provision for loan losses and other estimated losses and receivables written off	8	<u>(8,461)</u>	<u>(9,012)</u>
<b>Profit / (loss) for the period</b>		<u>32,347</u>	<u>(50,788)</u>

The following notes form an integral part of these financial statements.

(1)

**CZECH NATIONAL BANK****FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS****FOR THE YEAR ENDED 31 DECEMBER 1999****Balance sheet**

(all amounts expressed in millions of CZK)

	Note	Year ended 31 December 1999	Year ended 31 December 1998
<b>ASSETS</b>			
Cash and current accounts in other banks	9	3,022	5,519
Gold and other precious metals	10	853	578
Due from other banks	11	111,886	91,398
Treasury bills and eligible bills	12	177,690	167,431
Dealing securities	13	217,032	175,990
Loans and advances to customers	14	39,950	29,113
Investment securities	15	50	50
Investments in unconsolidated subsidiary and associated undertakings	16	15,825	17,178
Membership quota at the International Monetary Fund	17	39,405	26,320
Property and equipment	18	8,614	6,860
Other assets	19	<u>5,613</u>	<u>4,903</u>
<b>Total assets</b>		<b><u>619,940</u></b>	<b><u>525,340</u></b>
<b>LIABILITIES</b>			
Due to other banks	20	288,972	261,570
Due to state	21	27,069	28,370
Due to customers	22	37,262	36,657
Debt securities in issue	23	12,331	9,069
Other borrowed funds	24	5,126	16,671
Due to the International Monetary Fund	17	39,405	26,320
Currency in circulation	25	183,939	146,060
Other liabilities	26	<u>34,595</u>	<u>41,729</u>
<b>Total liabilities</b>		<b><u>628,699</u></b>	<b><u>566,446</u></b>
<b>EQUITY</b>			
Share capital fund		1,400	1,400
Reserves		8,234	8,282
Accumulated losses		<u>(18,393)</u>	<u>(50,788)</u>
<b>Total equity</b>	29	<b><u>(8,759)</u></b>	<b><u>(41,106)</u></b>
<b>Total equity and liabilities</b>		<b><u>619,940</u></b>	<b><u>525,340</u></b>

The following notes form an integral part of these financial statements.

(2)

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**Statement of changes in equity**

(all amounts expressed in millions of CZK)

	Share capital fund	Reserve and capital funds	Retained profits / (losses)	Total / (deficiency in) equity
Balance at 1 January 1998	1,400	6,186	2,091	9,677
Transfer to statutory reserve	-	2,096	(2,091)	5
Loss for the year	-	-	(50,788)	(50,788)
<b>Balance at 31 December 1998</b>	<b><u>1,400</u></b>	<b><u>8,282</u></b>	<b><u>(50,788)</u></b>	<b><u>(41,106)</u></b>
Balance at 1 January 1999	1,400	8,282	(50,788)	(41,106)
Transfer from statutory reserve	-	(48)	48	-
Profit for the year	-	-	32,347	32,347
<b>Balance at 31 December 1999</b>	<b><u>1,400</u></b>	<b><u>8,234</u></b>	<b><u>(18,393)</u></b>	<b><u>(8,759)</u></b>

The following notes form an integral part of these financial statements.

(3)

**CZECH NATIONAL BANK****FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS****FOR THE YEAR ENDED 31 DECEMBER 1999****Cash flow statement**

(all amounts expressed in millions of CZK)

	<u>Year ended</u> <u>31 December 1999</u>	<u>Year ended</u> <u>31 December 1998</u>
<b>Cash flows from operating activities</b>		
Interest and commission receipts	32,560	57,146
Interest payments	(28,909)	(54,820)
Fee receipts	542	513
Fee payments	(49)	(52)
Other income received	(4,372)	59
Cash payments to employees and suppliers	(4,787)	(2,137)
Taxes paid	<u>(1)</u>	<u>(1)</u>
Cash flows from operating profits before changes in operating assets and liabilities	<u>(5,016)</u>	<u>708</u>
Changes in operating assets and liabilities:		
Net (increase)/decrease in Treasury bills and other discounted securities	(17,719)	34,369
Net increase in dealing securities	(71,764)	(87,200)
Net decrease in loans and advances to banks	28,757	18,005
Net increase in loans and advances to customers	(10,836)	(10,136)
Net increase in membership quota at the International Monetary Fund	-	(1,357)
Net increase in other assets	(46)	(13,229)
Net increase in deposits from other banks	27,402	50,917
Net increase/(decrease) in liabilities to state	(1,301)	1,545
Net (decrease)/increase in amounts due to customers	605	(8,087)
Net increase in currency in circulation	37,879	6,915
Net decrease in deposits from International Monetary Fund	-	(1,357)
Net decrease in other liabilities	<u>(6,913)</u>	<u>(3,024)</u>
	<u>(13,936)</u>	<u>(12,639)</u>
Net cash/(outflow) from operating activities	<u>(18,952)</u>	<u>(11,931)</u>

The following notes form an integral part of these financial statements.

**CZECH NATIONAL BANK****FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS****FOR THE YEAR ENDED 31 DECEMBER 1999****Cash flow statement (continued)**

(all amounts expressed in millions of CZK)

	Note	Year ended 31 December 1999	Year ended 31 December 1998
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(2,308)	(1,805)
Proceeds from sale of CSOB ownership interest		16,160	-
Proceeds from sale of fixed assets		-	12
Purchase of investment securities		-	(13,333)
Net (increase)/decrease of gold and other precious metals		<u>(275)</u>	<u>19,722</u>
Net cash used in investing activities		<u>(13,577)</u>	<u>4,596</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowed funds and debt securities		-	19,717
Repayments of borrowed funds and debt securities		<u>(11,551)</u>	<u>(5,151)</u>
Net cash from financing activities		<u>(11,551)</u>	<u>14,566</u>
Effect of exchange rate changes on cash and cash equivalents		<u>25,492</u>	<u>(27,065)</u>
Net increase / (decrease) in cash and cash equivalents		8,566	(19,834)
Cash and cash equivalents at beginning of year		<u>257,550</u>	<u>277,384</u>
Cash and cash equivalents at end of year	30	<u>266,116</u>	<u>257,550</u>

The following notes form an integral part of these financial statements.

(5)

## **CZECH NATIONAL BANK**

### **FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

## **1 GENERAL INFORMATION AND ACCOUNTING POLICIES**

### **General information**

The Czech National Bank (hereinafter 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 Coll., The Czech National Bank Act. The Bank is a legal entity with its registered office located in Prague, Na Příkopě 28, 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



**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**1 GENERAL INFORMATION AND ACCOUNTING POLICIES (continued)**

**General information (continued)**

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.

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.

**Accounting policies**

**(a) Basis of presentation**

The financial statements are prepared in accordance with and comply with International Accounting Standards (hereinafter the "IAS"). The financial statements are prepared under the historical cost convention as modified by the revaluation of certain trading assets and liabilities to fair value.

The financial statements are reported in millions of Czech Crowns (CZK).

**(b) Investment in unconsolidated subsidiary and associated undertakings**

Investments in subsidiary and associated undertakings include investments in subsidiary and associated undertakings purchased for strategic holding purposes.

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

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**1 GENERAL INFORMATION AND ACCOUNTING POLICIES (continued)**

**Accounting policies (continued)**

**(b) Investment in unconsolidated subsidiary and associated undertakings (continued)**

The only subsidiary undertaking is Česká finanční, s. r. o. ("CF"). Although CF is fully owned by the Bank, the effect of consolidation of CF is, in the opinion of the Banking Board of the Bank, not material for the fair presentation of the financial position and results of the Bank and therefore CF has not been consolidated (described in Note 36).

The associated undertaking Bankovní institut, a. s. has not been accounted for under the equity method for reasons of materiality.

**(c) Foreign currencies**

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies, including receivables and payables from spot and term operations, are translated at year-end exchange rates announced by the Bank. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

**(d) 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 instruments underlying currency derivatives are recognised as income or expense. Gains and losses on derivative financial instruments are included in the profit and loss of financial operations and are accrued and recognised on the same basis as the corresponding expense or income on the hedged position.

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**1 GENERAL INFORMATION AND ACCOUNTING POLICIES (continued)**

**Accounting policies (continued)**

**(d) Derivative financial instruments (continued)**

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

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

**(e) Interest and discount and fee and commission income and expense**

Interest, fee and commission income and expense are recognised on an accrual 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 and interest from received loans and deposits.

**(f) 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 sold under agreement to repurchase is accounted for on the gold account and related interest is accrued.

**(g) Dealing securities**

Dealing securities are stated at lower of cost and market value of individual securities. All gains and losses realised and provisions for unrealised losses from trading in dealing securities are reported in net trading income. Interest earned whilst holding dealing securities is reported as interest income. Dividends received are included separately in dividend income. Dealing securities include securities sold under sale and repurchase agreements.

Debt securities issued by the Bank are described in Note 23.

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**1 GENERAL INFORMATION AND ACCOUNTING POLICIES (continued)**

**Accounting policies (continued)**

**(h) Sale and repurchase agreements**

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. These operations 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.

**(i) Investment securities**

Investment securities include debt which management of the Bank intends to hold until maturity and equity securities which management of the Bank intends to hold in perpetuity. These are stated at cost, and for debt securities as adjusted for the amortisation of premiums or discounts on purchases over the period to maturity. Interest earned on investment securities is reported as interest income. Dividends received are included in the gains less losses from investment securities. A reduction in market value is not taken into account unless it is considered to be permanent.

**(j) Membership quota at the International Monetary Fund**

The membership quota of the International Monetary Fund ("IMF") is denominated in Special Drawing Rights and is translated to CZK at the last rate advised by the IMF.

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**1 GENERAL INFORMATION AND ACCOUNTING POLICIES (continued)**

**Accounting policies (continued)**

**(k) Receivables and provisions for impairment**

A specific credit risk provision for loan impairment is established to provide for the Bank management's estimate of credit losses as soon as the recovery of an exposure is identified as threatened.

In the case of receivables from borrowers in countries where there is an increased risk of difficulties in servicing external debt, an assessment of the political and economic situation is made, and additional country risk provisions are established as necessary.

When a loan is deemed uncollectable, it is written off against the related provision for impairments. Subsequent recoveries are credited to the income statement if previously written off.

**(l) 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 fully depreciated / amortised upon the inception of use. Land and works of art 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

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**1 GENERAL INFORMATION AND ACCOUNTING POLICIES (continued)**

**Accounting policies (continued)**

**(l) Tangible and intangible fixed assets (continued)**

In case of a change in annual depreciation / amortisation rate, classification or valuation of the property the depreciation / amortisation 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 fixed asset.

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

**(m) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central banks, treasury bills and other eligible bills, amounts due from other banks and dealing securities.

**(n) Treasury bills issued**

Treasury bills issued by CNB are recorded at their nominal value. 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 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.

**(o) Pension obligations**

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

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**1 GENERAL INFORMATION AND ACCOUNTING POLICIES (continued)**

**Accounting policies (continued)**

**(p) Provisions**

Provisions are recognised when the Bank has a present legal or constructive 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.

**(q) Taxes**

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 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).

**(r) Comparatives**

There are no changes in accounting policy that affect operating profit or presentation of the balance sheet in the financial statements.

## CZECH NATIONAL BANK

### FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS

FOR THE YEAR ENDED 31 DECEMBER 1999

(In the notes all amounts are shown in millions of CZK unless otherwise stated)

## 2 SEGMENTAL REPORTING

	<u>As at 31 December 1999 and for the year ended</u>		
	<u>Central bank activities</u>	<u>Stabilisation of the banking sector</u>	<u>Total</u>
Operating result	39,413	1,708	41,121
Segment result	30,219	2,128	32,347
Segment assets	559,791	60,149	619,940
Segment liabilities	590,587	38,112	628,699
Capital expenditure	2,495	-	2,495
Depreciation / amortisation	554	-	554
Net (release)/creation of provision for loan losses and other estimated losses	(8,881)	622	(8,259)

	<u>As at 31 December 1998 and for the year ended</u>		
	<u>Central bank activities</u>	<u>Stabilisation of the banking sector</u>	<u>Total</u>
Operating result	(21,526)	(19,717)	(41,243)
Segment result	(24,693)	(26,095)	(50,788)
Segment assets	462,005	63,335	525,340
Segment liabilities	514,065	52,381	566,446
Capital expenditure	1,805	-	1,805
Depreciation / amortisation	454	-	454
Net creation of provision for loan losses and other estimated losses	2,648	6,364	9,012

The Bank's activities can be split between following segments:

- Central bank activities – administration of Czech currency in respect of foreign exchange rate and currency in circulation, administration of foreign currency reserves and banking sector supervision.
- Stabilisation of the banking sector – see detail in Notes 36 and 37.

All assets and liabilities comprise operating assets and liabilities, which arose from operations in the Czech Republic.



**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**3 INTEREST INCOME AND EXPENSE**

	<u>1999</u>	<u>1998</u>
<b>Interest and other income</b>		
Due from banks	4,224	13,950
Debt securities and gold sold under agreement to repurchase	25,079	37,884
Loan to CF	1,708	2,605
Other	<u>1,851</u>	<u>3,011</u>
	<u>32,862</u>	<u>57,450</u>
<b>Interest expense and other expense</b>		
Due to banks	15,506	22,150
Due to state	1,370	4,867
Due to customers	692	161
Issued T-bills	9,808	26,895
Other	<u>1,546</u>	<u>1,808</u>
	<u>28,922</u>	<u>55,881</u>
<b>Net interest income</b>	<u>3,940</u>	<u>1,569</u>

**4 FOREIGN EXCHANGE GAINS AND LOSSES**

	<u>1999</u>	<u>1998</u>
Foreign exchange gains	41,626	941
Foreign exchange losses	<u>(9,796)</u>	<u>(38,955)</u>
<b>Net result</b>	<u>31,830</u>	<u>(38,014)</u>

**5 NET PROFIT / (LOSS) FROM TRADING**

	<u>1999</u>	<u>1998</u>
Income from sale of gold	-	16,433
Realised gains from the sale of shares in CSOB	14,807	-
Realised gains less losses from the trading portfolio	<u>(3,017)</u>	121
Net creation of provisions for unrealised losses from trading securities	<u>(2,648)</u>	<u>(19,842)</u>
	<u>9,142</u>	<u>(3,288)</u>

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**6 OPERATING EXPENSES**

	<u>1999</u>	<u>1998</u>
Staff costs (Note 7)	624	614
Cost of issue of notes and coins	351	297
Professional services	732	481
Depreciation / amortisation	554	454
Loss on sale of property and equipment	-	5
Rentals	378	394
Other	<u>2,107</u>	<u>318</u>
	<u>4,746</u>	<u>2,563</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. This is included within "Other operating expenses".

**7 STAFF COSTS**

	<u>1999</u>	<u>1998</u>
Wages and salaries	454	442
Social security costs	129	131
Other social costs	<u>41</u>	<u>41</u>
	<u>624</u>	<u>614</u>

The average number of persons employed by the Bank during the year was 1,454 (1998: 1,511).

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**8 PROVISIONS FOR LOAN AND GUARANTEE LOSSES AND OTHER ESTIMATED LOSSES**

	<u>1999</u>	<u>1998</u>
Additions	(34,108)	(40,790)
Release	25,848	31,778
Receivables written off	<u>(201)</u>	<u>—</u>
	<u>(8,461)</u>	<u>(9,012)</u>

The receivables written off during 1999 amounted to CZK 201 million. The receivables written off during 1999 were previously fully provided for. The provisions for securities are analysed in Notes 12 and 13.

Provision for loan losses and other estimated losses can be analysed as follows:

	<u>Due from banks</u> (Note 11)	<u>Due from clients</u> (Note 14)	<u>Other assets</u> (Note 19)	<u>Other liabilities</u> (Note 26)	<u>Total</u>
<b>Balance at 1 January 1998</b>	34,846	667	3	13,419	48,935
Additions	32,020	3,252	1	5,517	40,790
Release	(31,236)	(359)	-	(183)	(31,778)
Reclassification	<u>(18,900)</u>	<u>—</u>	<u>—</u>	<u>18,900</u>	<u>—</u>
<b>Balance at 31 December 1998</b>	16,730	3,560	4	37,653	57,947
Additions	25,810	2,124	1,440	4,734	34,108
Release	<u>(16,368)</u>	<u>(348)</u>	<u>—</u>	<u>(9,132)</u>	<u>(25,848)</u>
<b>Balance at 31 December 1999</b>	<u>26,172</u>	<u>5,336</u>	<u>1,444</u>	<u>33,255</u>	<u>66,207</u>

**CZECH NATIONAL BANK****FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS****FOR THE YEAR ENDED 31 DECEMBER 1999****9 CASH AND CURRENT ACCOUNTS IN OTHER BANKS**

	<u>1999</u>	<u>1998</u>
Cash in hand	1,107	904
Current accounts of other banks	1,016	3,865
Short term deposits	<u>899</u>	<u>750</u>
	<u>3,022</u>	<u>5,519</u>

Geographic sector risk concentrations within the cash and current accounts in other banks were as follows:

	<u>1999</u>	<u>1999</u>	<u>1998</u>	<u>1998</u>
		%		%
Czech Republic	2,053	68	4,739	85
Other European countries	57	2	25	1
USA	910	30	751	14
Japan	<u>2</u>	<u>-</u>	<u>4</u>	<u>-</u>
	<u>3,022</u>	<u>100</u>	<u>5,519</u>	<u>100</u>

**10 GOLD AND OTHER PRECIOUS METALS**

	<u>1999</u>	<u>1998</u>
Gold	840	541
Other precious metals	<u>13</u>	<u>37</u>
	<u>853</u>	<u>578</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 National Bank of Slovakia (hereinafter 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, representing 4,995 kg).

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING  
STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**11 DUE FROM OTHER BANKS**

	<u>1999</u>	<u>1998</u>
Placements with other banks	74,689	15,643
Reverse repo agreements	7,659	16,356
Loans to banks	29,421	34,419
Loss loans	14	14
Other receivables from banks	<u>26,275</u>	<u>41,696</u>
Due from other banks in total	138,058	108,128
Less specific provision for impairment (Note 8)	<u>(26,172)</u>	<u>(16,730)</u>
	<u>111,886</u>	<u>91,398</u>

Other receivables from banks at 31 December 1999 include CZK 25,810 million (31 December 1998: CZK 26,122 million) 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 the former 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**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**11 DUE FROM OTHER BANKS (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 tonnes 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.

Geographic sector risk concentrations within the receivables from other banks were as follows:

	<u>1999</u>	<u>1999</u> %	<u>1998</u>	<u>1998</u> %
France	30,833	22	-	-
Czech Republic	28,701	21	50,002	46
Slovak Republic	25,810	19	26,122	24
Other European countries	50,907	37	25,203	23
USA	<u>1,807</u>	<u>1</u>	<u>6,801</u>	<u>7</u>
	<u>138,058</u>	<u>100</u>	<u>108,128</u>	<u>100</u>

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**12 TREASURY BILLS AND OTHER ELIGIBLE BILLS**

	<u>1999</u>	<u>1998</u>
Treasury bills	63,544	91,607
Other eligible bills	<u>114,169</u>	<u>75,826</u>
Treasury bills and other eligible bills in total	177,713	167,433
Provisions	<u>(23)</u>	<u>(2)</u>
	<u>177,690</u>	<u>167,431</u>

Geographic sector risk concentrations within the treasury bills and other eligible bills were as follows:

	<u>1999</u>	<u>1999</u>	<u>1998</u>	<u>1998</u>
		%		%
Great Britain	17,668	10	-	-
USA	13,672	8	-	-
Italy	14,373	8	30,339	18
Switzerland	62,058	35	71,194	43
Other European countries	38,820	22	11,917	7
Japan	22,019	12	53,983	32
Other countries	<u>9,103</u>	<u>5</u>	<u>-</u>	<u>-</u>
	<u>177,713</u>	<u>100</u>	<u>167,433</u>	<u>100</u>

**CZECH NATIONAL BANK****FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS****FOR THE YEAR ENDED 31 DECEMBER 1999****13 DEALING SECURITIES**

	<u>1999</u>	<u>1998</u>
Government bonds	181,071	174,390
Other debt securities	17,457	4,230
Other debt securities in repo transactions	-	(6,799)
Coupons	4,151	4,430
Shares	19,717	19,717
Debt securities in reverse repo transactions	<u>17,262</u>	<u>-</u>
Debt securities in total	239,658	195,968
Provisions	<u>(22,626)</u>	<u>(19,978)</u>
	<u>217,032</u>	<u>175,990</u>

Shares in GE Capital Bank, a.s. of purchase price CZK 19,717 million have been provided against in full. The net book value of the shares represents their nominal value.

Geographic sector risk concentrations within the dealing securities were as follows:

	<u>1999</u>	<u>1999</u>	<u>1998</u>	<u>1998</u>
		%		%
Czech Republic	19,717	8	19,717	10
Germany	42,931	18	42,504	22
France	36,173	15	31,519	16
Italy	56,333	23	27,708	14
USA	45,084	19	44,465	23
Other European countries	<u>39,420</u>	<u>17</u>	<u>30,055</u>	<u>15</u>
	<u>239,658</u>	<u>100</u>	<u>195,968</u>	<u>100</u>



**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**14 LOANS AND ADVANCES TO CUSTOMERS**

	<u>1999</u>	<u>1998</u>
Loans in respect of the stabilisation of the banking sector	27,058	13,008
Loans to related parties (Note 35)	17,324	18,567
Other	<u>904</u>	<u>1,098</u>
Gross loans and advances to customers in total	45,286	32,673
Less specific provisions for impairment to loans and advances (Note 8)	<u>(5,336)</u>	<u>(3,560)</u>
	<u>39,950</u>	<u>29,113</u>

All loans within the loan portfolio were granted to entities in the Czech Republic.

Loans and advances are further analysed as a part of the balance sheet in the following notes: Currency risk (Note 32), Interest rate risk (Note 33), Liquidity risk (Note 34) and Related party transactions (Note 35).

**15 INVESTMENT SECURITIES**

The Bank has in its portfolio 5,330 shares of the Bank for International Settlements in Basle, which represents 1.1 % of issued shares. These equity securities are unlisted.

**16 INVESTMENT IN UNCONSOLIDATED SUBSIDIARY AND ASSOCIATED UNDERTAKINGS**

	<u>1999</u>		<u>1998</u>	
		%		%
Bankovní institut, a.s.	11	29.9	11	29.9
Československá obchodní banka, a. s.	-	-	1,353	26.5
CF (Note 36)	<u>15,814</u>	100.0	<u>15,814</u>	100.0
	<u>15,825</u>		<u>17,178</u>	

In June 1999 the Bank sold its investment in its associated undertaking Československá obchodní banka, a. s. (hereinafter the "CSOB") to KBC Bank N.V. The sale price was CZK 16,160 million (Note 5), whereas the purchase price of the investment by the Bank was CZK 1,353 million (Note 5).

**CZECH NATIONAL BANK****FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS****FOR THE YEAR ENDED 31 DECEMBER 1999****17 MEMBERSHIP QUOTA AND PAYABLES AT THE IMF**

	<u>1999</u>	<u>1998</u>
Membership quota at the IMF	39,405	26,320
Total receivable from the IMF	<u>39,405</u>	<u>26,320</u>
Payable to the IMF	39,306	26,254
IMF current account	<u>99</u>	<u>66</u>
Total payable to the IMF	<u>39,405</u>	<u>26,320</u>

The Bank administers a membership in the IMF, denominated in special drawing rights (SDR), which was funded through the issuance of bills of exchange, payable upon demand. Pursuant to this membership the amounts of CZK 39,405 million and CZK 26,320 million as at 31 December 1999 and 1998, respectively are maintained at the IMF. The IMF holds deposits of the same amount with the Bank.

**18 PROPERTY AND EQUIPMENT**

	<u>Real estate</u>	<u>Other</u>	<u>Software</u>	<u>Total</u>
<b>At 31 December 1998</b>				
Cost	2,905	5,688	514	9,107
Accumulated depreciation / amortisation	<u>(296)</u>	<u>(1,673)</u>	<u>(278)</u>	<u>(2,247)</u>
Net book amount	<u>2,609</u>	<u>4,015</u>	<u>236</u>	<u>6,860</u>
<b>Year ended 31 December 1999</b>				
Opening net book amount	2,609	4,015	236	6,860
Additions	151	2,680	138	2,969
Disposals	(108)	(606)	(2)	(716)
Depreciation / amortisation charge	<u>(91)</u>	<u>(304)</u>	<u>(104)</u>	<u>(499)</u>
Closing net book amount	<u>2,561</u>	<u>5,785</u>	<u>268</u>	<u>8,614</u>
<b>At 31 December 1999</b>				
Cost	2,948	7,762	650	11,360
Accumulated depreciation / amortisation	<u>(387)</u>	<u>(1,977)</u>	<u>(382)</u>	<u>(2,746)</u>
Net book amount at 31 December 1999	<u>2,561</u>	<u>5,785</u>	<u>268</u>	<u>8,614</u>

**CZECH NATIONAL BANK****FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS****FOR THE YEAR ENDED 31 DECEMBER 1999****18 PROPERTY AND EQUIPMENT (continued)**

Advances paid for reconstruction of buildings of CZK 4,670 million at 31 December 1999 (31 December 1998: CZK 2,763 million) are included in Other property and equipment.

**19 OTHER ASSETS**

	<u>1999</u>	<u>1998</u>
Advances paid to CF	4,498	2,685
Other advances paid	1,441	1,401
Prepaid expenses	80	271
Accrued income	606	304
Other	<u>432</u>	<u>246</u>
Other assets in total	7,057	4,907
Less specific provision for impairment (Note 8)	<u>(1,444)</u>	<u>(4)</u>
	<u>5,613</u>	<u>4,903</u>

**20 DUE TO OTHER BANKS**

	<u>1999</u>	<u>1998</u>
Statutory minimum reserves of domestic banks	26,279	86,606
Short term deposits	24,700	-
Deposits on demand from other banks	10,691	10,464
Term deposits from other banks	44	44
Short term loans	17,601	-
Loans in respect of repo agreements	<u>209,657</u>	<u>164,456</u>
	<u>288,972</u>	<u>261,570</u>

**21 DUE TO STATE**

	<u>1999</u>	<u>1998</u>
State assets	20,627	22,942
Assets of state owned non-profit organisations	<u>6,442</u>	<u>5,428</u>
	<u>27,069</u>	<u>28,370</u>

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**22 DUE TO CUSTOMERS**

	<u>1999</u>	<u>1998</u>
Current accounts	30,808	15,486
Term deposits	2,323	16,330
Accounts of local authorities	<u>4,131</u>	<u>4,841</u>
	<u>37,262</u>	<u>36,657</u>

**23 DEBT SECURITIES IN ISSUE**

	<u>Average interest rate</u> %	<u>1999</u>	<u>1998</u>
Medium term issue in JPY	6.6	12 331	9,069
CNB bills		500,000	350,000
Accrued interest expense		<u>-</u>	<u>(9,808)</u>
		512,331	349,261
Less:			
CNB bills repurchased:			
– held in the T-bills portfolio		(289,015)	(176,646)
– under repo agreements		<u>(210,985)</u>	<u>(163,546)</u>
		<u>12,331</u>	<u>9,069</u>

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 27.

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**24 OTHER BORROWED FUNDS**

	<u>Interest rate</u> %	<u>1999</u>	<u>1998</u>
Loan in respect of stabilisation of the Czech banking sector	7.30	4,929	14,788
Loan from Export-Import Bank of Japan	4.30	-	1,670
Loan from European Investment Bank	-	<u>197</u>	<u>213</u>
		<u>5,126</u>	<u>16,671</u>

**Export-Import Bank of Japan (EXIM Bank)**

Long-term debt represents advances under the loan facility between the Czech and Slovak Federal Republic and the EXIM Bank entered into on 9 December 1991. This loan facility is advanced under a USD 450 million loan agreement with the World Bank, available in various currencies for the purpose of providing funding export activity by commercial banks in the Czech Republic. This loan agreement appoints the Bank as the loan administrator.

<u>Tranche amount</u> JPY	<u>Advance date</u>	<u>Advance amount</u> JPY	<u>Balance at 31 December 1999</u> CZK	<u>Interest rate</u> %	<u>Balance at 31 December 1998</u> CZK
1,500	9 March 1993	4,366,000	-	4.7	1,002
7,500	1 February 1995	1,455,000	-	4.7	334
7,500	17 July 1995	1,455,000	-	2.5	<u>334</u>
			=		<u>1,670</u>

The interest rate on advances under this facility is the Japanese long-term prime lending rate prevailing on the disbursement date minus 0.2%. Required semi-annual repayments of JPY 1,289 billion commenced on 15 March 1997 and were based on the total amount advanced. The loan was repaid during 1999.

## CZECH NATIONAL BANK

### FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS

FOR THE YEAR ENDED 31 DECEMBER 1999

#### 24 OTHER BORROWED FUNDS (continued)

##### European Investment Bank (EIB)

The remaining balance of long-term borrowings of CZK 197 million as at 31 December 1999 (CZK 213 million as at 31 December 1998) consists of an advance from the EIB denominated in DEM under a loan agreement allowing for advances of up to ECU 57 million. This agreement provided for funding of specific projects approved by the Bank and expired in February 1996.

Loans advanced by the Bank to commercial banks under the EXIM Bank and EIB loan facilities totalled CZK 1,106 million and CZK 1,963 million as at 31 December 1999 and 1998, respectively. The Bank acts as an agent and earns a margin on these loans.

Geographic sector risk concentrations within dealing securities were as follows:

	<u>1999</u>	<u>1999</u> %	<u>1998</u>	<u>1998</u> %
European countries	197	-	213	1
Czech Republic	4,929	96	14,788	89
Japan	-	4	1,670	10
	<u>5,126</u>	<u>100</u>	<u>16,671</u>	<u>100</u>

#### 25 CURRENCY IN CIRCULATION

One of the Bank's central bank activities is administration of Czech currency in respect of foreign exchange rate and currency in circulation.

The following table summarises movements in the balance of currency in circulation:

	<u>1999</u>	<u>1998</u>
Balance at 1 January 1999	146,060	139,146
Currency issued during 1999	94,274	52,761
Currency removed from circulation during 1999	(56,395)	(45,847)
Balance as at 31 December 1999	<u>183,939</u>	<u>146,060</u>

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**26 OTHER LIABILITIES**

	<u>1999</u>	<u>1998</u>
Creditors	214	347
Accruals	1,085	1,073
Provision for CF (Notes 8, 36)	31,374	28,030
Other provisions (Note 8)	1,881	9,623
Other	<u>41</u>	<u>2,656</u>
	<u>34,595</u>	<u>41,729</u>

**27 CONTINGENT LIABILITIES AND COMMITMENTS**

**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 23). 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.

**Legal Proceedings**

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

**Capital commitments from reconstruction**

At 31 December 1999 the Bank had capital commitments from reconstruction of CZK 257 million (1998: CZK 1,546 million) in respect of buildings and equipment purchases.

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**27 CONTINGENT LIABILITIES AND COMMITMENTS (continued)**

**Other**

As at 31 December 1999 the amount of guarantees issued by the Bank was CZK 37,631 million (31 December 1998: CZK 79,423 million).

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 accounts 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.

**28 DERIVATIVE FINANCIAL INSTRUMENTS**

**Commitments to buy or sell foreign currency**

Commitments to buy or sell foreign currency can be analysed as follows:

	<u>Notional amount as at 31 December 1999</u>	<u>Notional amount as at 31 December 1998</u>
<b>HEDGING</b>		
Commitments to buy foreign currency		
- spot operations	2,023	1,199
- swaps (Note 27)	14,003	9,069
- forward operations	<u>20,049</u>	<u>60,287</u>
Total	<u>36.075</u>	<u>70.555</u>
Commitments to sell foreign currency		
- spot operations	2,021	1,199
- swaps (Note 27)	11,892	9,962
- forward operations	<u>22.019</u>	<u>61,767</u>
Total	<u>35.932</u>	<u>72.928</u>



**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**28 DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

**Commitments to buy or sell foreign currency (continued)**

The table above provides a detailed breakdown of the notional amounts of the Bank's derivative financial instruments outstanding at 31 December 1999 valued at the spot rate as at 31 December 1999. Due to their maturity in January or February 2000 their fair values approximate their valuation at the spot rates as at 31 December 1999.

More details on swap operations are included in Note 23.

**29 EQUITY**

The Bank's capital is comprised of a statutory fund of CZK 1,400 million. In addition to the statutory fund the Bank maintains capital and reserve funds totalling CZK 8,234 million and a profit and loss reserve of CZK 18,393 million as at 31 December 1999.

	<u>1999</u>	<u>1998</u>
Share capital fund	1,400	1,400
Statutory reserve fund	7,773	7,773
Other capital funds	257	292
Other reserve funds	204	217
Profit / (loss) for the year	32,347	(50,788)
Accumulated losses	(50,740)	-
	<u>(8,759)</u>	<u>(41,106)</u>

**30 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprises the following balances with less than 90 days maturity:

	<u>1999</u>	<u>1998</u>
Cash and current accounts in other banks (from Note 9)	3,022	5,519
Due from other banks (from Note 11)	96,931	47,686
Treasury bills and other eligible bills (from Note 12)	141,644	149,104
Dealing securities (from Note 13)	<u>24,519</u>	<u>55,241</u>
	<u>266,116</u>	<u>257,550</u>

**CZECH NATIONAL BANK****FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS****FOR THE YEAR ENDED 31 DECEMBER 1999****31 CREDIT RISK****Geographical concentrations of assets, liabilities and off balance sheet items**

	<u>Total assets</u>	<u>Total liabilities and equity</u>	<u>Off balance sheet items</u>
<b>As at 31 December 1999</b>			
Czech Republic	101,296	550,406	1,515
Germany	60,969	4,828	10,304
Switzerland	60,908	-	-
France	67,006	3,680	-
Italy	68,706	4,416	-
Great Britain	28,864	-	-
Other European countries	100,764	-	(10,052)
Canada and USA	100,303	44,082	(1,211)
Japan	22,021	12,528	(699)
Other countries	<u>9,103</u>	<u>-</u>	<u>-</u>
	<u>619,940</u>	<u>619,940</u>	<u>(143)</u>
<b>As at 31 December 1998</b>			
Czech Republic	139,382	508,669	-
Germany	42,402	-	-
Switzerland	71,194	-	-
France	31,519	-	-
Italy	58,047	-	-
Slovak Republic	9,754	-	-
Other European countries	67,132	213	(20,655)
Canada and USA	51,923	14,788	(27,518)
Japan	<u>53,987</u>	<u>1,670</u>	<u>50,546</u>
	<u>525,340</u>	<u>525,340</u>	<u>2,373</u>

As an active participant in the international banking markets, the Bank has a significant concentration of credit risk with other financial institutions. In total, credit risk exposure to financial institutions was estimated to have amounted to CZK 244,023 million at 31 December 1999 (31 December 1998: CZK 176,890 million).

**CZECH NATIONAL BANK****FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS****FOR THE YEAR ENDED 31 DECEMBER 1999****31 CREDIT RISK (continued)**

The credit risk results mainly from the Consolidation programme (see details in Notes 36 and 37), which is closely connected with the supervision and assurance of stability of the Czech banking sector, and from sale and repurchase agreements. The credit risk from repo agreements is limited because the loans are secured by pledged liquid securities (mostly by CNB treasury bills).

**32 CURRENCY RISK****Concentrations of assets, liabilities and off balance sheet items**

The Bank had the following significant currency positions:

	<b>CZK</b>	<b>EUR</b>	<b>USD</b>	<b>JPY</b>	<b>Other</b>	<b>Total</b>
<b>As at 31 December 1999</b>						
<b>Assets</b>						
Cash and current accounts in other banks	2,012	47	910	2	51	3,022
Gold and other precious metals	-	-	-	-	853	853
Due from other banks	28,338	52,561	30,633	354	-	111,886
Treasury bills and other eligible bills	-	108,359	47,313	22,018	-	177,690
Dealing securities	1	150,554	65,912	-	565	217,032
Loans and advances to customers	39,950	-	-	-	-	39,950
Investment securities	-	-	-	-	50	50
Investments in unconsolidated subsidiary and associated undertakings	15,825	-	-	-	-	15,825
Membership quota at the IMF	39,405	-	-	-	-	39,405
Fixed assets	8,614	-	-	-	-	8,614
Other assets	<u>4,864</u>	<u>165</u>	<u>109</u>	<u>475</u>	<u>-</u>	<u>5,613</u>
Total assets	<u>139,009</u>	<u>311,686</u>	<u>144,877</u>	<u>22,849</u>	<u>1,519</u>	<u>619,940</u>

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**32 CURRENCY RISK (continued)**

	<b>CZK</b>	<b>EUR</b>	<b>USD</b>	<b>JPY</b>	<b>Other</b>	<b>Total</b>
<b>Liabilities</b>						
Due to other banks	271,371	12,924	4,677	-	-	288,972
Due to state	26,899	170	-	-	-	27,069
Due to customers	35,686	1,511	60	-	5	37,262
Debt securities in issue	-	10,304	-	2,027	-	12,331
Other borrowed funds	4,929	197	-	-	-	5,126
Due to the IMF	39,405	-	-	-	-	39,405
Currency in circulation	183,939	-	-	-	-	183,939
Other liabilities	<u>33,979</u>	<u>293</u>	<u>2</u>	<u>321</u>	<u>-</u>	<u>34,595</u>
<b>Total liabilities</b>	<u><b>596,208</b></u>	<u><b>25,399</b></u>	<u><b>4,739</b></u>	<u><b>2,348</b></u>	<u><b>5</b></u>	<u><b>628,699</b></u>
<b>Net balance sheet position</b>	<u><b>(457,199)</b></u>	<u><b>286,287</b></u>	<u><b>140,138</b></u>	<u><b>20,501</b></u>	<u><b>1,514</b></u>	<u><b>(8,759)</b></u>
<b>Off balance sheet net notional position</b>	<u><b>1,515</b></u>	<u><b>252</b></u>	<u><b>(1,211)</b></u>	<u><b>(699)</b></u>	<u><b>-</b></u>	<u><b>(143)</b></u>
<b>As at 31 December 1998</b>						
	<b>CZK</b>	<b>ECU</b>	<b>USD</b>	<b>JPY</b>	<b>Other</b>	<b>Total</b>
Total assets	120,661	196,603	86,958	61,823	59,295	525,340
Total liabilities	<u>552,593</u>	<u>11,919</u>	<u>-</u>	<u>1,933</u>	<u>1</u>	<u>566,446</u>
<b>Net balance sheet position</b>	<u><b>(431,932)</b></u>	<u><b>184,684</b></u>	<u><b>86,958</b></u>	<u><b>59,890</b></u>	<u><b>59,294</b></u>	<u><b>(41,106)</b></u>
<b>Off balance sheet net notional position</b>	<u><b>-</b></u>	<u><b>(20,650)</b></u>	<u><b>(27,518)</b></u>	<u><b>50,546</b></u>	<u><b>(5)</b></u>	<u><b>2,373</b></u>

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**33 INTEREST RATE RISK**

As at 31 December 1999

	Up to <u>1 month</u>	1-3 <u>months</u>	3-12 <u>months</u>	1-5 <u>years</u>	Over 5 <u>years</u>	Non- interest <u>bearing</u>	<u>Total</u>
<b>Assets</b>							
Cash and current accounts							
in other banks	3,022	-	-	-	-	-	3,022
Due from other banks	90,484	20,373	93	-	936	-	111,886
Treasury and other eligible							
bills	64,300	77,344	36,046	-	-	-	177,690
Dealing securities	32,494	73,265	53,405	57,868	-	-	217,032
Loans and advances to							
customers	21,725	17,697	-	444	84	-	39,950
Other	<u>853</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,507</u>	<u>70,360</u>
<b>Total assets</b>	<b><u>212,878</u></b>	<b><u>188,679</u></b>	<b><u>89,544</u></b>	<b><u>58,312</u></b>	<b><u>1,020</u></b>	<b><u>69,507</u></b>	<b><u>619,940</u></b>
<b>Liabilities</b>							
Due to other banks	263,128	25,800	-	-	44	-	288,972
Due to state	14,741	-	5,062	7,266	-	-	27,069
Due to customers	35,738	1,524	-	-	-	-	37,262
Debt securities in issue	-	-	12,331	-	-	-	12,331
Other borrowed funds	4,929	12	12	92	81	-	5,126
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>257,939</u>	<u>257,939</u>
<b>Total liabilities</b>	<b><u>318,536</u></b>	<b><u>27,336</u></b>	<b><u>17,405</u></b>	<b><u>7,358</u></b>	<b><u>125</u></b>	<b><u>257,939</u></b>	<b><u>628,699</u></b>
<b>On balance sheet</b>							
<b>Interest sensitivity gap</b>	<b><u>(105,658)</u></b>	<b><u>161,343</u></b>	<b><u>72,139</u></b>	<b><u>50,954</u></b>	<b><u>895</u></b>	<b><u>(188,432)</u></b>	<b><u>(8,759)</u></b>
<b>Off balance sheet</b>							
<b>Interest sensitivity gap</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

**Interest sensitivity of assets, liabilities and off balance sheet items**

CNB is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table above summarises the Bank's exposure to interest rate risks. Included in the above table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments are included in "Other assets" and "Other Liabilities" under the heading "Non-interest bearing". The off-balance sheet gap represents the net notional amounts of all interest sensitive derivative financial instruments.

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**33 INTEREST RATE RISK (continued)**

The table below summarises the effective interest rate by major currencies for monetary financial instruments:

As at 31 December 1999

	CZK	EUR	USD	DEM	JPY
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
<b>Assets</b>					
Cash and current accounts in other banks	-	-	-	-	-
Due from other banks	5.8	3.5	6.4	-	-
Treasury and other eligible bills	-	3.7	5.2	-	0.3
Dealing securities	-	3.7	5.2	3.4	-
Loans and advances to customers	4.0	-	-	-	-
<b>Liabilities</b>					
Due to other banks	5.8	-	-	-	-
Due to state	5.7	0.5	-	-	-
Due to customers	2.2	-	-	-	-
Debt securities in issue	-	-	-	-	6.6
Other borrowed funds	7.3	-	-	4.3	-

As at 31 December 1998

	CZK	ECU	USD	DEM	JPY
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
<b>Assets</b>					
Cash and current accounts in other banks	-	0.5	4.0	-	-
Due from other banks	11.8	-	6.1	3.6	0.3
Treasury and other eligible bills	-	3.2	6.1	3.6	-
Dealing securities	-	3.2	6.1	3.6	-
Loans and advances to customers	9.1	-	-	-	-
<b>Liabilities</b>					
Due to other banks	8.8	-	-	-	-
Due to state	10.1	-	-	-	-
Due to customers	5.9	1.9	-	3.4	-
Debt securities in issue	-	-	-	-	6.6
Other borrowed funds	14.0	-	-	-	4.6

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**33 INTEREST RATE RISK (continued)**

As at 31 December 1998

	Up to <u>1 month</u>	1-3 <u>months</u>	3-12 <u>months</u>	1-5 <u>years</u>	Over 5 <u>years</u>	Non- interest <u>bearing</u>	<u>Total</u>
<b>Assets</b>							
Cash and current accounts							
in other banks	5,519	-	-	-	-	-	5,519
Due from other banks	75,600	6,044	-	-	-	9,754	91,398
Treasury and other eligible bills	47,386	101,718	18,327	-	-	-	167,431
Dealing securities	25,847	44,092	16,241	75,720	14,090	-	175,990
Loans and advances to customers	10,410	18	18,617	26	42	-	29,113
Other	<u>578</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,311</u>	<u>55,889</u>
<b>Total assets</b>	<u>165,340</u>	<u>151,872</u>	<u>53,185</u>	<u>75,746</u>	<u>14,132</u>	<u>65,065</u>	<u>525,340</u>
<b>Liabilities</b>							
Due to other banks	251,126	10,200	200	-	44	-	261,570
Due to state	12,129	11,030	5,062	149	-	-	28,370
Due to customers	35,228	1,429	-	-	-	-	36,657
Debt securities in issue	-	-	-	9,069	-	-	9,069
Other borrowed funds	14,788	119	119	949	696	-	16,671
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>214,109</u>	<u>214,109</u>
<b>Total liabilities</b>	<u>313,271</u>	<u>22,778</u>	<u>5,381</u>	<u>10,167</u>	<u>740</u>	<u>214,109</u>	<u>566,446</u>
<b>On balance sheet</b>							
<b>Interest sensitivity gap</b>	<u>(147,931)</u>	<u>129,094</u>	<u>47,804</u>	<u>65,579</u>	<u>13,392</u>	<u>(149,044)</u>	<u>(41,106)</u>
<b>Off balance sheet</b>							
<b>Interest sensitivity gap</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**34 LIQUIDITY RISK**

**Maturities of assets and liabilities**

As at 31 December 1999	Up to <u>1 month</u>	1-3 <u>months</u>	3-12 <u>months</u>	1-5 <u>years</u>	Over 5 <u>years</u>	Un- <u>specified</u>	<u>Total</u>
<b>Assets</b>							
Cash and current accounts							
in other banks	3,022	-	-	-	-	-	3,022
Gold and other precious metals	853	-	-	-	-	-	853
Due from other banks	76,558	20,373	93	-	14,862	-	111,886
Treasury bills and other							
eligible bills	64,300	77,344	36,046	-	-	-	177,690
Dealing securities	12,754	11,765	20,573	169,377	2,563	-	217,032
Loans and advances to customers	21,725	-	17,697	444	84	-	39,950
Investment securities	-	-	-	-	-	50	50
Investments in unconsolidated							
subsidiary and associated							
undertakings	-	-	15,814	-	-	11	15,825
Membership quota at the IMF	-	-	-	-	-	39,405	39,405
Other	429	-	686	-	-	13,112	14,227
<b>Total assets</b>	<u>179,641</u>	<u>109,482</u>	<u>90,909</u>	<u>169,821</u>	<u>17,509</u>	<u>52,578</u>	<u>619,940</u>
<b>Liabilities</b>							
Due to other banks	262,717	25,800	411	-	44	-	288,972
Due to state	14,741	-	5,062	7,266	-	-	27,069
Due to customers	35,094	-	325	365	1,478	-	37,262
Debt securities in issue	-	-	12,331	-	-	-	12,331
Other borrowed funds	822	1,655	2,476	92	81	-	5,126
Due to the IMF	-	-	-	-	-	39,405	39,405
Other	227	-	1,114	-	-	217,193	218,534
<b>Total liabilities</b>	<u>313,601</u>	<u>27,455</u>	<u>21,719</u>	<u>7,723</u>	<u>1,603</u>	<u>256,598</u>	<u>628,699</u>
<b>Net liquidity gap</b>	<u>(133,960)</u>	<u>82,027</u>	<u>69,190</u>	<u>162,098</u>	<u>15,906</u>	<u>(204,020)</u>	<u>(8,759)</u>
<b>As at 31 December 1998</b>							
Total assets	126,579	142,135	72,991	119,187	17,368	47,080	525,340
Total liabilities	298,645	21,349	9,539	26,200	741	209,972	566,446
<b>Net liquidity gap</b>	<u>(172,066)</u>	<u>120,786</u>	<u>63,452</u>	<u>92,987</u>	<u>16,627</u>	<u>(162,892)</u>	<u>(41,106)</u>



**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**34 LIQUIDITY RISK (continued)**

The table above analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The maturities of assets and liabilities are important factors in assessing the liquidity of CNB and its exposure to changes in interest rates and exchange rates.

**35 RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. CNB exercised such influence over its 100 % owned subsidiary undertaking CF. The purpose and principal activities of CF are described in Note 36 below.

Transactions were entered into with CF performing the Bank's role in stabilisation of the banking sector. Loans were extended on arm's length interest rate terms. The loans and advances granted to CF can be summarised as follows.

	<u>1999</u>	<u>1998</u>
Loans outstanding at 1 January	18,567	9,638
Loans issued during the year	18,255	19,436
Loans repaid during the year	<u>(19,498)</u>	<u>(10,507)</u>
Loans outstanding at 31 December	<u>17,324</u>	<u>18,567</u>
Interest income earned	<u>1,708</u>	<u>2,605</u>

**36 ČESKÁ FINANČNÍ, S. R. O.**

The 100% share in ČF 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.

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**36 ČESKÁ FINANČNÍ, S. R. O. (continued)**

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. This 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 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 CNB. The program was started in 1997. In this respect the Bank provided CF with a loan of CZK 17,324 million as at 31 December 1999 (1998: CZK 18,567 million). During 1998 CNB increased the share capital of CF by CZK 13,333 million. The net book amount of the Consolidation programme assets net of provisions created administered by CF was CZK 33,734 million as at 31 December 1999 (1998: CZK 32,677 million).

On 3 February 1998 CF and CNB entered into a guarantee 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 ("Agreement"). Pursuant to this agreement the Bank has created a provision of CZK 31,374 million as at 31 December 1999 (1998: CZK 28,030 million). When arriving at this provision the Banking Board of the Bank took into consideration the expected recoverability of assets at risk covered by the guarantee as well as the expected level of operational costs of CF.

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**36 ČESKÁ FINANČNÍ, S. R. O. (continued)**

The calculation of the provision 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>
	<u>39,120</u>	<u>36,711</u>
Less expected recoverability of		
- receivables in Consolidation programme	7,637	8,318
- securities in Consolidation programme	<u>109</u>	<u>363</u>
	<u>7,746</u>	<u>8,681</u>
Provision created (Note 26)	<u>31,374</u>	<u>28,030</u>

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 been signed at the time of preparation of these financial statements, 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.

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**37 GUARANTEE RECEIVED FROM THE STATE**

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 took into account the full extent of the Guarantee as at 31 December 1999 and released the specific provisions and reserves created during previous years of CZK 4,542 million.

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

	<u>31 December 1999</u>	<u>31 December 1998</u>
	CZK'000	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	<u>29,433</u>	<u>29,628</u>
Total specific provisions and reserves	(6,933)	(11,670)
Total assets covered by the Guarantee	<u>22,500</u>	<u>17,958</u>

**CZECH NATIONAL BANK**

**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**38 FAIR VALUES OF FINANCIAL ASSETS**

The following table summarises the carrying amounts and fair values of those financial assets not presented on the Bank's balance sheet at their fair value.

	<u>Carrying value</u>		<u>Fair value</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
<b>Financial assets</b>				
Gold and other precious metals	853	578	4,664	2,488
Loans and advances to customers	39,950	29,113	25,507	18,269
Treasury bills and other eligible bills and dealing securities	394,722	343,421	394,990	343,993
Investment securities	50	50	1,065	1,065

**39 RECONCILIATION OF PROFITS FOR THE YEAR, TOTAL ASSETS AND EQUITY**

A reconciliation of the Czech Accounting Standard (hereinafter the "CAS") and the IAS profits for the years ended 31 December 1999 and 31 December 1998 and total assets and equity as at 31 December 1999 and 31 December 1998 is set out below:

	<u>Year ended 31 December 1999</u>	<u>Year ended 31 December 1998</u>
Profit / (loss) for the period – CAS	32,378	(50 740)
Transfer to social funds	<u>(31)</u>	<u>(48)</u>
Profit / (loss) for the period – IAS	<u>32,347</u>	<u>(50,788)</u>
	<u>31 December 1999</u>	<u>31 December 1998</u>
Total assets – CAS	622,175	542,057
Reclassification of general reserves	(348)	(16,717)
Other reclassification	<u>(1,887)</u>	<u>-</u>
Total assets – IAS	<u>619,940</u>	<u>525,340</u>
Equity – CAS	(8,759)	(1,106)
Reclassification	<u>-</u>	<u>-</u>
Equity – IAS	<u>(8,759)</u>	<u>(41,106)</u>

**CZECH NATIONAL BANK**

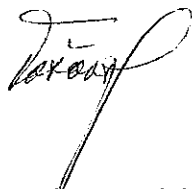
**FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL ACCOUNTING  
STANDARDS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**40 POST BALANCE SHEET EVENTS**

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

On behalf of CNB:

A handwritten signature in black ink, appearing to read 'Tošovský', written over a horizontal line.

Doc. Ing. Josef Tošovský  
Governor

19 May 2000