



**FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2000**

ENGLISH TRANSLATION

**REPORT OF INDEPENDENT AUDITORS**

**TO THE BANKING BOARD OF THE CZECH NATIONAL BANK**

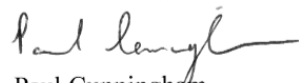
We have audited the accompanying balance sheet of Czech National Bank (hereinafter the "CNB") as at 31 December 2000, the related income statement and notes for the year then ended (hereinafter "financial statements"). The financial statements and underlying accounting records are the responsibility 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 Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the accompanying financial statements present fairly, in all material respects, the assets, liabilities and equity of CNB as at 31 December 2000, and the results of its operations for the year then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.

27 March 2001

  
PricewaterhouseCoopers Audit, s.r.o.  
represented by

  
Paul Cunningham  
Partner

  
Zdeněk Mojžíšek  
Auditor, Licence No. 1813

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

Name of bank: **CZECH NATIONAL BANK**

Code of bank:




|   |   |   |   |
|---|---|---|---|
| 0 | 7 | 1 | 0 |
|---|---|---|---|

## BALANCE SHEET

AS AT 31 DECEMBER 2000

(CZK million)

(translation)

|                          |  |   |  |
|--------------------------|--|---|--|
| Date:<br><br>15. 3. 2001 | Stamp and signature of statutory representative:<br><br><br>Doc. Ing. Z. Tůma, CSc. | Person responsible for accounting:  | Person responsible for financial statements:   |
|                          |  | Name and signature:<br><br>Ing. M. Mayer<br>tel.: 2441 4326 | Name and signature:<br><br>V. Vícovský<br>tel.: 2441 4424 |

# CZECH NATIONAL BANK

## BALANCE SHEET

AS AT 31 DECEMBER 2000

|   | Note      | Current accounting period |                            |                    | Previous                            |
|---|-----------|---------------------------|----------------------------|--------------------|-------------------------------------|
|   |           | Gross<br>CZK million      | Adjustments<br>CZK million | Net<br>CZK million | accounting<br>period<br>CZK million |
| <b>ASSETS</b>   |           |                           |                            |                    |                                     |
| <b>1. Gold</b>  | <b>3</b>  | <b>841</b>                | <b>-</b>                   | <b>841</b>         | <b>840</b>                          |
| <b>2. Receivables from International Monetary Fund</b>                | <b>4</b>  | <b>42,802</b>             | <b>-</b>                   | <b>42,802</b>      | <b>39,405</b>                       |
| <b>3. Receivables from foreign banks including trading securities</b> | <b>5</b>  | <b>506,457</b>            | <b>1,106</b>               | <b>505,351</b>     | <b>478,224</b>                      |
| 3.1. Deposits at foreign banks  |           | 92,805                    | -                          | 92,805             | 75,751                              |
| 3.2. Credits granted to foreign banks                                 |           | 14,240                    | -                          | 14,240             | 7,659                               |
| 3.3. Trading securities   |           | 399,352                   | 1,106                      | 398,246            | 394,772                             |
| 3.4. Other receivables against foreign countries                      |           | 60                        | -                          | 60                 | 42                                  |
| <b>4. Receivables from domestic banks</b>                             | <b>6</b>  | <b>17,385</b>             | <b>14</b>                  | <b>17,371</b>      | <b>30,739</b>                       |
| <b>5. Receivables from clients</b>                                    | <b>7</b>  | <b>42,422</b>             | <b>4,680</b>               | <b>37,742</b>      | <b>39,949</b>                       |
| <b>6. Domestic securities and shares</b>                              | <b>8</b>  | <b>19,728</b>             | <b>19,717</b>              | <b>11</b>          | <b>15,825</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>1,898</b>              | <b>-</b>                   | <b>1,898</b>       | <b>1,063</b>                        |
| <b>10. Fixed assets</b>   | <b>9</b>  | <b>11,837</b>             | <b>3,508</b>               | <b>8,329</b>       | <b>8,614</b>                        |
| 10.1. Tangible fixed assets   |           | 10,841                    | 2,964                      | 7,877              | 8,167                               |
| 10.2. Intangible fixed assets   |           | 996                       | 544                        | 452                | 447                                 |
| <b>11. Other assets</b>   | <b>10</b> | <b>3,149</b>              | <b>1,477</b>               | <b>1,672</b>       | <b>7,516</b>                        |
| 11.1. Deferred revenue and accrued expenses                           |           | 431                       | -                          | 431                | 686                                 |
| 11.2. Others  |           | 2,718                     | 1,477                      | 1,241              | 6,830                               |
| <b>ASSETS TOTAL</b>   |           | <b>646,519</b>            | <b>30,502</b>              | <b>616,017</b>     | <b>622,175</b>                      |

# CZECH NATIONAL BANK

## BALANCE SHEET

AS AT 31 DECEMBER 2000

|  | <u>Note</u> | <u>Current<br/>accounting<br/>period</u><br>CZK million | <u>Previous<br/>accounting<br/>period</u><br>CZK million |
|--|-------------|---|--|
| <b>LIABILITIES</b>   |             |   |  |
| <b>1. Currency in circulation</b>  | <b>11</b>   | <b>197,000</b>  | <b>183,939</b>   |
| <b>2. Liabilities to International Monetary Fund</b>                     | <b>4</b>    | <b>42,399</b>   | <b>39,405</b>  |
| <b>3. Liabilities to foreign banks including securities</b>              | <b>12</b>   | <b>13,829</b>   | <b>30,545</b>  |
| 3.1. Loans taken from abroad   |             | 13,415  | 17,798   |
| 3.2. Debt securities in issue  |             | -   | 12,331   |
| 3.3. Other liabilities against abroad                                    |             | 414   | 416  |
| <b>4. Liabilities to domestic banks</b>                                  | <b>13</b>   | <b>295,871</b>  | <b>275,884</b>   |
| 4.1. Bank monetary reserves  |             | 26,575  | 26,279   |
| 4.2. Other liabilities   |             | 269,296   | 249,605  |
| <b>5. Deposits from clients</b>  | <b>14</b>   | <b>21,573</b>   | <b>33,123</b>  |
| <b>6. Domestic Treasury bills issued</b>                                 | <b>15</b>   | <b>-</b>  | <b>-</b>   |
| <b>7. Current result of state budget</b>                                 |             | <b>-</b>  | <b>-</b>   |
| <b>8. Other liabilities to state budget</b>                              | <b>16</b>   | <b>36,574</b>   | <b>27,069</b>  |
| <b>9. Reserves</b>   | <b>18</b>   | <b>12,597</b>   | <b>33,602</b>  |
| <b>10. Share capital</b>   | <b>17</b>   | <b>1,400</b>  | <b>1,400</b>   |
| <b>11. Funds</b>   | <b>17</b>   | <b>8,202</b>  | <b>8,203</b>   |
| <b>12. Retained profits / (accumulated losses) from previous periods</b> | <b>17</b>   | <b>(18,393)</b>   | <b>(50,740)</b>  |
| <b>13. Profit / (loss) for accounting period</b>                         | <b>17</b>   | <b>2,524</b>  | <b>32,378</b>  |
| <b>14. Other liabilities</b>   | <b>19</b>   | <b>2,441</b>  | <b>7,367</b>   |
| 14.1. Deferred revenue and accrued expenses                              |             | 346   | 1,075  |
| 14.2. Others   |             | 2,095   | 6,292  |
| <b>LIABILITIES TOTAL</b>   |             | <b>616,017</b>  | <b>622,175</b>   |

# CZECH NATIONAL BANK

## OFF BALANCE SHEET

AS AT 31 DECEMBER 2000

|   | <u>Note</u> | <u>Current<br/>accounting<br/>period</u><br>CZK million | <u>Previous<br/>accounting<br/>period</u><br>CZK million |
|---|-------------|---|--|
| <b>OFF BALANCE SHEET</b>                                    |             |   |  |
| <b>1. Contingent liabilities</b>                            | <b>20</b>   | <b>78,740</b>   | <b>37,631</b>  |
| 1.1. Accepted bills of exchange and endorsed bills          |             | -   | -  |
| 1.2. Guarantees issued                                      |             | 78,740  | 37,631   |
| 1.3. Obligation from collateral                             |             | -   | -  |
| <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>13,694</b>   | <b>42,639</b>  |
| <b>4. Liabilities from spot, term and option operations</b> | <b>20</b>   | <b>13,269</b>   | <b>42,496</b>  |
| <b>5. Guarantees received</b>                               | <b>20</b>   | <b>30,445</b>   | <b>22,500</b>  |

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

Name of bank: **CZECH NATIONAL BANK**

Code of bank:


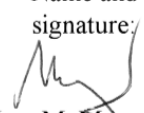
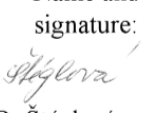
|   |   |   |   |
|---|---|---|---|
| 0 | 7 | 1 | 0 |
|---|---|---|---|

## PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2000

(CZK million)

(translation)

| Date:       | Stamp and signature of statutory representative:   | Person responsible for accounting:  | Person responsible for financial statements:   |
|-------------|--|---|--|
| 15. 3. 2001 | <br>Doc. Ing. Z. Tůma, CSc. | Name and signature:<br><br>Ing. M. Mayer<br>tel.: 2441 4326 | Name and signature:<br><br>O. Štéglová<br>tel.: 2441 3112 |

# CZECH NATIONAL BANK

## PROFIT AND LOSS FOR YEAR ENDED 31 DECEMBER 2000

|  | <u>Note</u> | <u>Current<br/>accounting<br/>period</u><br>CZK million | <u>Previous<br/>accounting<br/>period</u><br>CZK million |
|--|-------------|---|--|
| <b>1. Interest income and similar income</b>   | <b>21</b>   | <b>28,825</b>   | <b>33,361</b>  |
| 1.1. Interest from securities bearing fixed income   |             | 21,696  | 25,578   |
| 1.2. Other   |             | 7,129   | 7,783  |
| <b>2. Interest expense and similar expense</b>   | <b>21</b>   | <b>17,249</b>   | <b>28,923</b>  |
| 2.1. Interest from securities bearing fixed income   |             | 495   | 10,522   |
| 2.2. Other   |             | 16,754  | 18,401   |
| <b>3. Income from securities with variable income</b>  |             | <b>41</b>   | <b>39</b>  |
| 3.1. Income from shares  |             | 41  | 39   |
| 3.2. Income from shares in subsidiaries and associates   |             | -   | -  |
| <b>4. Income from fees and charges</b>   |             | <b>450</b>  | <b>542</b>   |
| <b>5. Expenses from fees and charges</b>   |             | <b>81</b>   | <b>49</b>  |
| <b>6. Profit / (loss) from financial operations</b>  | <b>22</b>   | <b>(5,074)</b>  | <b>25,666</b>  |
| <b>7. Other income</b>   |             | <b>116</b>  | <b>16,217</b>  |
| 7.1. Income from money issue   |             | 8   | 21   |
| 7.2. Other   |             | 108   | 16,196   |
| <b>8. Administration expenses</b>  | <b>23</b>   | <b>2,355</b>  | <b>2,295</b>   |
| 8.1. Personnel expenses  |             | 666   | 624  |
| 8.1.1. Wages and salaries  |             | 484   | 454  |
| 8.1.2. Social and health security  |             | 182   | 170  |
| 8.2. Other operating expenses  |             | 1,689   | 1,671  |
| <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>49,865</b>   | <b>3,949</b>   |
| 11.1. Expenses for issuing bank notes and coinage  |             | 297   | 351  |
| 11.2. Other  |             | 49,569  | 3,598  |
| <b>12. Charge for specific and general provisions for loans and guarantees</b>                   | <b>18</b>   | <b>1,351</b>  | <b>32,667</b>  |
| <b>13. Release of specific and general provisions for loans and guarantees</b>                   | <b>18</b>   | <b>33,008</b>   | <b>8,814</b>   |
| <b>14. Charge for specific and general provisions for shares and other financial investments</b> |             | <b>-</b>  | <b>-</b>   |
| <b>15. Release of specific and general provisions for shares and other financial investments</b> |             | <b>15,814</b>   | <b>-</b>   |
| <b>16. Charge for other specific and general provisions</b>                                      | <b>18</b>   | <b>33</b>   | <b>1,440</b>   |
| <b>17. Release of other specific and general provisions</b>                                      | <b>18</b>   | <b>1</b>  | <b>17,035</b>  |
| <b>18. Ordinary profit / (loss) after taxation</b>   |             | <b>2,247</b>  | <b>32,351</b>  |
| <b>19. Extraordinary income</b>  | <b>25</b>   | <b>280</b>  | <b>53</b>  |
| <b>20. Extraordinary expenses</b>  | <b>25</b>   | <b>3</b>  | <b>26</b>  |
| <b>21. Extraordinary profit / (loss) after taxation</b>  |             | <b>277</b>  | <b>27</b>  |
| <b>22. Profit / (loss) for accounting period</b>   |             | <b>2,524</b>  | <b>32,378</b>  |



## CZECH NATIONAL BANK

### NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2000

#### 1 GENERAL INFORMATION

Czech National Bank (hereinafter referred to also 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 up to 31 December 2000 was 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 directly accountable 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 2000 were as follows:

|                        |               |                            |
|------------------------|---------------|----------------------------|
| Mr. Zdeněk Tůma        | Governor      | Appointed 29 November 2000 |
| Mr. Luděk Niedermayer  | Vice-Governor | Appointed 29 November 2000 |
| Mr. Oldřich Dědek      | Vice-Governor | Appointed 13 February 1999 |
| Mr. Pavel Štěpánek     | Director      | Appointed 13 February 1999 |
| Mr. Pavel Racoča       | Director      | Appointed 13 February 1999 |
| Mrs. Michaela Erbenová | Director      | Appointed 29 November 2000 |
| Mr. Jan Frait          | Director      | Appointed 29 November 2000 |

As at 30 November 2000 Mr. Josef Tošovský left the position of the Governor and Mr. Miroslav Hrnčíř left the position of the member of the Bank Council.

## **CZECH NATIONAL BANK**

### **NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

#### **1 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 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 in the same manner as a private entrepreneur.

The Act No. 6/1993 Col. was amended by the Act No. 422/2000 Col. with effect from 1 January 2001. There were major changes in the following areas:

- modification of the primary objective of CNB (in favour of: security of price stability);
- specification of the CNB independence from instructions of the Czech Government, President, Parliament, other governmental bodies or municipalities;
- appointment of the members of the Bank Council by the President based on nomination from the Czech Government;
- approval of the CNB budget (the budget for main activities relating to the activities securing the primary objective is approved by the Bank Council and the budget for administration and investment expenditures is approved by the Parliament);
- the annual report on the Bank's result is discussed in the Parliament;
- change in the legal status of the Bank (in favour of: public institution).

#### **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 Col. as amended) and the Chart of accounts and accounting rules for banks, as prescribed by the Ministry of Finance of the Czech Republic. The financial statements are prepared under the historical cost convention.

The financial statements are rounded to 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.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**2 ACCOUNTING POLICIES (continued)**

**(b) Foreign currencies**

Transactions in foreign currencies are translated to 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 income is accrued.

**(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 included in the trading portfolio 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.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**2 ACCOUNTING POLICIES (continued)**

**(e) Securities (continued)**

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 and which 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.

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

Investments in subsidiary and associated undertakings and other financial investments include investments in subsidiary and associated undertakings and other non traded or 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 or general 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.

Investment securities include debt securities which management of the Bank intends to hold until maturity and equity securities which management of the Bank intends to hold in perpetuity and 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 gains from investment securities. A reduction in market value is not taken into account unless it is considered to be permanent.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**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). 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 weighted average cost) 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) Membership quota at the International Monetary Fund**

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

**(i) Issued securities**

Bonds issued in foreign currency are recorded at nominal value. The interest expense is accrued.

The amount of treasury bills is presented in the balance sheet after offset with treasury bills repurchased by the Bank. The Bank repurchases the whole issued amount of treasury bills 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 issued at zero discount are disclosed in the profit and loss account separately.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**2 ACCOUNTING POLICIES (continued)**

**(j) Derivative financial instruments**

The Bank enters the derivative market only for the purpose of hedging. The Bank does not trade derivative financial instruments 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 recorded in the profit and loss account. Gains and losses on derivative financial instruments and from derivative revaluation are recorded in the profit and loss account and are accrued and recognised on the same basis as the corresponding expense or income on the hedged position.

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.

**(k) Interest income and expense**

Interest 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, discount of treasury bills issued by the Bank and interest from received loans and deposits.

**(l) Fee and commission income**

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

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**2 ACCOUNTING POLICIES (continued)**

**(m) 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 specific provisions for classified assets related to the consolidation of the banking sector, the guarantee issued by the Czech Government which covers these assets was taken into consideration (see also Note 31 "Consolidation of the banking sector"). A specific credit risk provision for loan impairment is established to provide for the credit losses as soon as the recovery of an exposure is identified as threatened.

Reserves for off balance sheet exposures and reserves for standard loans are included in liabilities. Specific provisions adjust the book value of individual assets at risk.

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 and the related provision for impairment is released into the profit and loss account. Subsequent recoveries are credited to the income statement if previously written off.

**(n) Tangible and intangible fixed assets**

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

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**2 ACCOUNTING POLICIES (continued)**

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

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, art 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 or amortisation rate, classification or valuation of the property the depreciation is modified in the month of the change; the depreciation or amortisation charged before that date is not adjusted.

Repairs and maintenance expenditures are charged to expenses as incurred. Improvement expenditures exceeding CZK 40,000 per unit in one year are included in the costs of the property.

**(o) 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 of the fixed assets (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**

**YEAR ENDED 31 DECEMBER 2000**

**2 ACCOUNTING POLICIES (continued)**

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

The Bank is exempt from income tax in accordance with Paragraph 17, Article 2 of the Act No. 586/92 Col. 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.

**(q) Pensions**

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

**(r) Cash flow statement**

As the Bank is the central bank of the Czech Republic, the management of the Bank is of the opinion that inclusion of the cash flow statement would not provide to the users of these financial statements further significant information.

**(s) Changes in accounting policy**

In 2000 the Bank started to record the changes of the derivative revaluation in the balance sheet; the changes are included in the financial result of the Bank. This change in accounting policy did not have any significant impact on the financial result of the Bank.

**(t) 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**

**YEAR ENDED 31 DECEMBER 2000**

**3 GOLD**

|               | <u>31 December 2000</u><br>CZK million | <u>31 December 1999</u><br>CZK million |
|---------------|--|--|
| Gold in total | <u>841</u>                             | <u>840</u>                             |

The market value of gold as at 31 December 2000 is CZK 4,640 million (as at 31 December 1999: CZK 4,664 million).

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

|  | <u>31 December 2000</u><br>CZK million | <u>31 December 1999</u><br>CZK million |
|--|--|--|
| Membership quota IMF (Assets Balance sheet line 2)     | 42,406                                 | 39,405                                 |
| Deposits in IMF (Assets Balance sheet line 2)          | 396                                    | -                                      |
| Liability to IMF (Liabilities Balance sheet line 2)    | (42,291)                               | (39,306)                               |
| Current account IMF (Liabilities Balance sheet line 2) | <u>(108)</u>                           | <u>(99)</u>                            |
| Total position with IMF                                | <u>403</u>                             | <u>-</u>                               |

Membership quota at IMF is denominated in special drawing rules (“SDR”) and financed with bills of exchange payable on request issued by the Czech Government.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**5 RECEIVABLES FROM ABROAD INCLUDING SECURITIES**

|  | <u>31 December 2000</u><br>CZK million | <u>31 December 1999</u><br>CZK million |
|--|--|--|
| Current accounts with banks                        | 1,134                                  | 1,062                                  |
| Deposits   | <u>91,671</u>                          | <u>74,689</u>                          |
| Total amounts with foreign banks                   | <u>92,805</u>                          | <u>75,751</u>                          |
| Reverse repo operations with foreign banks         | <u>14,240</u>                          | <u>7,659</u>                           |
| Total loans provided to foreign banks              | <u>14,240</u>                          | <u>7,659</u>                           |
| Cash in foreign currencies                         | 60                                     | 42                                     |
| Other receivables from abroad                      | <u>-</u>                               | <u>25,810</u>                          |
| Total other receivables from abroad                | <u>60</u>                              | <u>25,852</u>                          |
| Receivables from abroad excluding securities       | 107,105                                | 109,262                                |
| Specific provisions (Note 18)                      | <u>-</u>                               | <u>(25,810)</u>                        |
| Receivables from foreign financial institutions    | <u>107,105</u>                         | <u>83,452</u>                          |
| Securities traded on the money market              | 130,125                                | 177,713                                |
| Bonds and other debt securities with fixed income  | 269,177                                | 219,940                                |
| Other financial investments                        | <u>50</u>                              | <u>50</u>                              |
|  | 399,352                                | 397,703                                |
| Specific provisions (Note 18)                      | <u>(1,106)</u>                         | <u>(2,931)</u>                         |
| Total securities                                   | <u>398,246</u>                         | <u>394,772</u>                         |
| Total receivables from abroad including securities | <u>505,351</u>                         | <u>478,224</u>                         |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**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.

Reverse repo operations at 31 December 2000 include foreign bonds purchased from counterparties of CZK 14,240 million (31 December 1999: CZK 7,681 million). The maturity of these operations is less than 60 days.

**Národní banka Slovenska**

Other receivables from abroad at 31 December 1999 include CZK 25,810 million of receivables from Národní banka Slovenska ("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 CNB receivable against NBS was considered in the final agreement related to the settlement of assets of the former Czech and Slovak Federative Republic dated 24 November 1999. The Czech Government 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 (hereinafter the "Agreement").

The Agreement became valid in 1999 and became effective in 2000. Consequently CNB included the receivable from NBS in non-performing receivables from banks as at 31 December 1999 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. In 2000, after the Agreement became effective, CNB realised a loss from the transfer of this receivable of CZK 25,810 million, however as CNB released the established provision of CZK 25,810 million at the same time, this transaction did not have any net impact on the CNB result for 2000.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

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

Geographic sector risk concentrations within the receivables from abroad excluding the securities (Assets Balance sheet lines 3.1., 3.2., 3.4.) were as follows:

|                 | <u>31 December 2000</u> | <u>31 December 2000</u> | <u>31 December 1999</u> | <u>31 December 1999</u> |
|-----------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                 | CZK million             | %                       | CZK million             | %                       |
| Great Britain   | 48,819                  | 46                      | 11,196                  | 10                      |
| France          | 26,987                  | 25                      | 30,833                  | 28                      |
| Other European  |                         |                         |                         |                         |
| Union countries | 26,111                  | 24                      | 36,704                  | 34                      |
| Slovak Republic | -                       | -                       | 25,810                  | 24                      |
| Other European  |                         |                         |                         |                         |
| countries       | 4                       | -                       | 1,958                   | 2                       |
| USA             | 5,119                   | 5                       | 2,717                   | 2                       |
| Japan           | 1                       | -                       | 2                       | -                       |
| Other countries | <u>64</u>               | <u>-</u>                | <u>42</u>               | <u>-</u>                |
|                 | <u>107,105</u>          | <u>100</u>              | <u>109,262</u>          | <u>100</u>              |

**Securities traded on the money market (Assets Balance sheet line 3.3.)**

At 31 December 2000

|   | <u>Cost</u>    | <u>Market value</u> |
|---|----------------|---------------------|
|   | CZK million    | CZK million         |
| State treasury bills                        | 48,823         | 48,846              |
| Other short term treasury bills             | <u>81,302</u>  | <u>81,278</u>       |
|   | 130,125        | <u>130,124</u>      |
| Specific provisions (Note 18)               | <u>(29)</u>    |                     |
| Total securities traded on the money market | <u>130,096</u> |                     |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

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

**Securities traded on the money market (Assets Balance sheet line 3.3.) (continued)**

At 31 December 1999

|   | <u>Cost</u><br>CZK million | <u>Market value</u><br>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 18)               | <u>(23)</u>                |                                    |
| Total securities traded on the money market | <u>177,690</u>             |                                    |

Geographic sector risk concentrations within securities traded on the money market were as follows:

|                 | <u>31 December 2000</u><br>CZK million | <u>31 December 2000</u><br>% | <u>31 December 1999</u><br>CZK million | <u>31 December 1999</u><br>% |
|-----------------|--|------------------------------|--|------------------------------|
| Great Britain   | 4,014                                  | 3                            | 17,668                                 | 10                           |
| USA             | 11,820                                 | 9                            | 13,672                                 | 8                            |
| Italy           | 13,745                                 | 11                           | 14,373                                 | 8                            |
| Switzerland     | 56,237                                 | 43                           | 62,058                                 | 35                           |
| Other European  |  |                              |  |                              |
| Union countries | 27,217                                 | 21                           | 25,543                                 | 14                           |
| Other European  |  |                              |  |                              |
| countries       | -                                      | -                            | 13,277                                 | 8                            |
| Japan           | 5,943                                  | 4                            | 22,019                                 | 12                           |
| Other countries | <u>11,149</u>                          | <u>9</u>                     | <u>9,103</u>                           | <u>5</u>                     |
|                 | <u>130,125</u>                         | <u>100</u>                   | <u>177,713</u>                         | <u>100</u>                   |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

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

**Bonds and other debt securities with fixed income (Assets Balance sheet line 3.3.)**

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

|  | Cost<br>31 December<br><u>2000</u><br>CZK million | Market value<br>31 December<br><u>2000</u><br>CZK million | Cost<br>31 December<br><u>1999</u><br>CZK million | Market value<br>31 December<br><u>1999</u><br>CZK million |
|--|---|---|---|---|
| State bonds                                  | 237,953   | 238,300   | 193,824   | 191,244   |
| Other foreign bonds                          | 14,431  | 14,586  | 17,457  | 17,418  |
| Bonds managed by external manager            | 11,219  | 11,219  | 4,508   | 4,480   |
| Accrued interest from bonds                  | <u>5,574</u>                                      | <u>5,573</u>  | <u>4,151</u>                                      | <u>4,151</u>  |
|  | 269,177   | <u>269,678</u>  | 219,940   | <u>217,293</u>  |
| Specific provisions (Note 18)                | <u>(1,077)</u>                                    |   | <u>(2,908)</u>                                    |   |
| Bonds and other securities with fixed income | <u>268,100</u>                                    |   | <u>217,032</u>                                    |   |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

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

**Bonds and other debt securities with fixed income (Assets Balance sheet line 3.3.) (continued)**

Bonds and other securities with fixed income reported as trading securities as at 31 December 2000 and 31 December 1999 include solely fixed income securities.

Geographic sector risk concentrations within the securities traded on the money market were as follows:

|                 | <u>31 December 2000</u> | <u>31 December 2000</u> | <u>31 December 1999</u> | <u>31 December 1999</u> |
|-----------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                 | CZK million             | %                       | CZK million             | %                       |
| Germany         | 49,807                  | 19                      | 42,931                  | 20                      |
| France          | 36,793                  | 14                      | 36,173                  | 16                      |
| Italy           | 102,692                 | 38                      | 56,332                  | 26                      |
| Other European  |                         |                         |                         |                         |
| Union countries | 28,234                  | 10                      | 25,121                  | 11                      |
| USA             | 50,728                  | 19                      | 45,084                  | 20                      |
| Other European  |                         |                         |                         |                         |
| countries       | -                       | -                       | 14,299                  | 7                       |
| Other countries | <u>923</u>              | <u>-</u>                | <u>-</u>                | <u>-</u>                |
|                 | <u>269,177</u>          | <u>100</u>              | <u>219,940</u>          | <u>100</u>              |

**Other financial investments (balance sheet line 3.3.)**

|                                    | <u>Cost</u>             | <u>Cost</u>             |
|------------------------------------|-------------------------|-------------------------|
|                                    | <u>31 December 2000</u> | <u>31 December 1999</u> |
|                                    | CZK million             | 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 of net book amount below CZK 1 million (CZK 217,000). According to the opinion of the Bank's management the market value of Other foreign investments does not substantially differ from the purchase price.



**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**6 RECEIVABLES FROM DOMESTIC BANKS**

|  | <u>31 December 2000</u><br>CZK million | <u>31 December 1999</u><br>CZK million |
|--|--|--|
| Redistribution loans   | 12,800                                 | 28,315                                 |
| Non-performing loans   | 14                                     | 14                                     |
| Loans provided from Export-Import Bank of Japan (the "EXIM")<br>and European Investment Bank (the "EIB") funds (Note 12) | 169                                    | 1,106                                  |
| Other receivables  | <u>4,402</u>                           | <u>1,318</u>                           |
|  | 17,385                                 | 30,753                                 |
| Specific provisions to receivables from domestic banks (Note 18)   | <u>(14)</u>                            | <u>(14)</u>                            |
| Total receivables from domestic banks  | <u>17,371</u>                          | <u>30,739</u>                          |

**Redistribution loans**

Long-term redistribution loans were provided in the years 1990 and 1991 and as at 31 December 2000 were CZK 12,800 million. 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 originally specified. The redistribution loan was repaid in 2000.

**Non-performing loans**

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

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**7 DUE FROM CLIENTS**

|  | <u>31 December 2000</u><br>CZK million | <u>31 December 1999</u><br>CZK million |
|--|--|--|
| Standard loans                                     | 15,225                                 | 17,393                                 |
| Classified loans                                   | <u>27,197</u>                          | <u>27,892</u>                          |
|  | 42,422                                 | 45,285                                 |
| Specific provisions for classified loans (Note 18) | <u>(4,680)</u>                         | <u>(5,336)</u>                         |
| Total due from clients                             | <u>37,742</u>                          | <u>39,949</u>                          |

**Classified loans**

Classified loans are categorised in accordance with the definitions issued by the Bank into 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.

|                        | <u>31 December 2000</u><br>CZK million | Fair value as at<br><u>31 December 2000</u><br>CZK million | <u>31 December 1999</u><br>CZK million | Fair value as at<br><u>31 December 1999</u><br>CZK million |
|------------------------|--|--|--|--|
| Watch                  | -                                      | -  | 23                                     | 22   |
| Substandard            | -                                      | -  | -                                      | -  |
| Doubtful               | 36                                     | 18   | 69                                     | 34   |
| Loss                   | <u>27,161</u>                          | <u>-</u>   | <u>27,800</u>                          | <u>-</u>   |
| Total classified loans | <u>27,197</u>                          | <u>18</u>  | <u>27,892</u>                          | <u>56</u>  |

In respect of classified loans the total specific provisions required are CZK 27,179 million as at 31 December 2000 (as at 31 December 1999: CZK 27,836 million). Specific provisions actually created totalled CZK 4,680 million (as at 31 December 1999: CZK 5,336 million) (Note 18) and the remainder is covered by a guarantee provided by the Czech Government (Note 31).

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2000

8 DOMESTIC SECURITIES AND SHARES

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

|                                       | Cost<br>31 December<br><u>2000</u><br>CZK million | Market value<br>31 December<br><u>2000</u><br>CZK million | Cost<br>31 December<br><u>1999</u><br>CZK million | Market value<br>31 December<br><u>1999</u><br>CZK million |
|---------------------------------------|---|---|---|---|
| Institut bankovního vzdělávání, a. s. | 11  | 11  | 11  | 11  |
| Česká finanční, s. r. o.              | -   | -   | 15,814  | -   |
| Other equity investments:             |   |   |   |   |
| Shares of GE Capital                  | <u>19,717</u>                                     | <u>-</u>  | <u>19,717</u>                                     | <u>-</u>  |
|                                       | 19,728  | 11  | 35,542  | 11  |
| Specific provisions (Note 18)         | <u>(19,717)</u>                                   |   | <u>(19,717)</u>                                   |   |
| Total domestic securities and shares  | <u><u>11</u></u>                                  |   | <u><u>15,825</u></u>                              |   |

Institut bankovního vzdělávání, a. s. changed its name in 2000 to Bankovní institut vysoká škola, a. s. and is registered in Prague 7, Ověnecká 9/380.

In case equity shares are not traded on the market the market value is calculated on the net asset basis.

**Investments in subsidiary undertakings**

In June 2000 the Bank sold its investment in its subsidiary undertaking Česká finanční, s. r. o. (hereinafter the "CF") to Konsolidační banka, s. p. ú for CZK 1 (Note 31).

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2000

8 DOMESTIC SECURITIES AND SHARES (continued)

Investments in associated undertakings

At 31 December 2000

| <u>Name</u>                           | <u>Cost</u> | <u>Nominal value</u> | <u>Share capital</u> | <u>Share</u> |
|---------------------------------------|-------------|----------------------|----------------------|--------------|
|                                       | CZK million | CZK million          | CZK million          | %            |
| Institut bankovního vzdělávání, a. s. | <u>11</u>   | 13                   | 44                   | 30           |

At 31 December 1999

| <u>Name</u>                           | <u>Cost</u> | <u>Nominal value</u> | <u>Share capital</u> | <u>Share</u> |
|---------------------------------------|-------------|----------------------|----------------------|--------------|
|                                       | CZK million | CZK million          | CZK million          | %            |
| Institut bankovního vzdělávání, a. s. | <u>11</u>   | 13                   | 44                   | 30           |

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> |
|   | CZK million                        | CZK million          | CZK million                      | CZK million          |
| At 1 January 1999                                     | <u>15,814</u>                      | <u>15,814</u>        | <u>1,364</u>                     | <u>1,364</u>         |
| Sale of share in Československá obchodní banka, a. s. | —                                  | —                    | (1,353)                          | (1,353)              |
| At 31 December 1999                                   | <u>15,814</u>                      | <u>15,814</u>        | <u>11</u>                        | <u>11</u>            |
| Sale of share in CF                                   | (15,814)                           | (15,814)             | —                                | —                    |
| At 31 December 2000                                   | <u>—</u>                           | <u>—</u>             | <u>11</u>                        | <u>11</u>            |

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2000

9 TANGIBLE AND INTANGIBLE FIXED ASSETS

Tangible fixed assets

|  | <u>31 December 1999</u><br>CZK million | <u>Additions</u><br>CZK million | <u>Disposals</u><br>CZK million | <u>31 December 2000</u><br>CZK million |
|--|--|---------------------------------|---------------------------------|--|
| <u>Cost</u>                              |  |                                 |                                 |  |
| Land                                     | 197                                    | -                               | -                               | 197                                    |
| Buildings                                | 2,751                                  | 4,295                           | -                               | 7,046                                  |
| Technical equipment                      | 2,003                                  | 855                             | 151                             | 2,707                                  |
| Equipment                                | 299                                    | 81                              | 13                              | 367                                    |
| Other                                    | 274                                    | 228                             | 57                              | 445                                    |
| Advances for fixed asset<br>acquisitions | <u>5,007</u>                           | <u>6,149</u>                    | <u>11,077</u>                   | <u>79</u>                              |
| Total cost                               | <u>10,531</u>                          | <u>11,608</u>                   | <u>11,298</u>                   | <u>10,841</u>                          |
| <u>Accumulated depreciation</u>          |  |                                 |                                 |  |
| Buildings                                | (387)                                  | 194                             | -                               | (581)                                  |
| Technical equipment                      | (1,549)                                | 381                             | 161                             | (1,769)                                |
| Equipment                                | (180)                                  | 47                              | 25                              | (202)                                  |
| Other                                    | <u>(248)</u>                           | <u>205</u>                      | <u>41</u>                       | <u>(412)</u>                           |
| Total accumulated depreciation           | <u>(2,364)</u>                         | <u>827</u>                      | <u>227</u>                      | <u>(2,964)</u>                         |
| Net book amount                          | <u>8,167</u>                           | <u>10,781</u>                   | <u>11,071</u>                   | <u>7,877</u>                           |

The value of low value tangible fixed assets that have been fully amortised when put into use in 2000 is CZK 205 million (1999: CZK 17 million).

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

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2000

9 TANGIBLE AND INTANGIBLE FIXED ASSETS (continued)

Intangible fixed assets

|   | <u>31 December 1999</u><br>CZK million | <u>Additions</u><br>CZK million | <u>Disposals</u><br>CZK million | <u>31 December 2000</u><br>CZK million |
|---|--|---------------------------------|---------------------------------|--|
| <u>Cost</u>                                 |  |                                 |                                 |  |
| Software                                    | 650                                    | 307                             | 1                               | 956                                    |
| Other intangible assets                     | 2                                      | -                               | -                               | 2                                      |
| Advances for intangible assets acquisitions | <u>177</u>                             | <u>192</u>                      | <u>331</u>                      | <u>38</u>                              |
| Total cost                                  | <u>829</u>                             | <u>499</u>                      | <u>332</u>                      | <u>996</u>                             |
| <u>Accumulated amortisation</u>             |  |                                 |                                 |  |
| Software                                    | (381)                                  | 162                             | -                               | (543)                                  |
| Other intangible assets                     | <u>(1)</u>                             | <u>-</u>                        | <u>-</u>                        | <u>(1)</u>                             |
| Total accumulated amortisation              | <u>(382)</u>                           | <u>162</u>                      | <u>-</u>                        | <u>(544)</u>                           |
| Net book amount                             | <u>447</u>                             | <u>337</u>                      | <u>332</u>                      | <u>452</u>                             |

The value of low value intangible fixed assets that has been fully amortised when put into use in 2000 is CZK 0.6 million (1999: CZK 2 million).

The Bank did not provide any fixed tangible or intangible assets as collateral at 31 December 2000 or at 31 December 1999.

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

**CZECH NATIONAL BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2000**

**10 OTHER ASSETS**

|                               | <u>31 December 2000</u><br>CZK million | <u>31 December 1999</u><br>CZK million |
|-------------------------------|--|--|
| Prepayments                   | 19                                     | 80                                     |
| Accrued revenue               | 412                                    | 606                                    |
| Advances                      | 2,136                                  | 5,939                                  |
| Other precious metals         | 16                                     | 14                                     |
| Other                         | <u>566</u>                             | <u>2,321</u>                           |
|                               | 3,149                                  | 8,960                                  |
| Specific provisions (Note 18) | <u>(1,477)</u>                         | <u>(1,444)</u>                         |
| Total other assets            | <u>1,672</u>                           | <u>7,516</u>                           |

**11 ISSUE OF CURRENCY**

|                         | <u>31 December 2000</u><br>CZK million | <u>31 December 1999</u><br>CZK million |
|-------------------------|--|--|
| Notes in circulation    | 191,584                                | 178,962                                |
| Coins in circulation    | <u>5,416</u>                           | <u>4,977</u>                           |
| Total currency in issue | <u>197,000</u>                         | <u>183,939</u>                         |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**12 LIABILITIES TO ABROAD INCLUDING SECURITIES**

|  | <u>31 December 2000</u><br>CZK million | <u>31 December 1999</u><br>CZK million |
|--|--|--|
| Payables from repo operations                    | 13,246                                 | 17,601                                 |
| Loans from EIB                                   | <u>169</u>                             | <u>197</u>                             |
| Total loans from abroad                          | <u>13,415</u>                          | <u>17,798</u>                          |
| Total bonds issued                               | <u>-</u>                               | <u>12,331</u>                          |
| Total other liabilities to abroad                | <u>414</u>                             | <u>416</u>                             |
| Total liabilities to abroad including securities | <u>13,829</u>                          | <u>30,545</u>                          |

**Loans from EIB and EXIM**

The Bank received loans from EIB and EXIM. From this source, the Bank granted loans in foreign currencies to commercial banks in the Czech Republic. Loans were received and provided in the same amount, have the same maturity date and are not secured. CNB earns a margin on these loans. The loan from EXIM was repaid in 2000.

**Loans from abroad**

State treasury bills and state bonds guarantee the loans from repo operations. Their market value does not materially differ from the carrying value of the operations.

**Issued bonds**

|                                      | Average<br><u>interest rate</u><br>% | <u>31 December 2000</u><br>CZK million | <u>31 December 1999</u><br>CZK million |
|--------------------------------------|--------------------------------------|--|--|
| Current portion of medium term issue | 6.6                                  | -                                      | 12,331                                 |

Bonds issued by the Bank at 31 December 1999 include one issue of bonds of CZK 12,331 million. These bonds were issued in Japan on 9 August 1993, in Japanese yen ("JPY") with 6.6 % coupon. The whole issue was repaid on 9 August 2000.



**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

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

Geographic sector risk concentrations within the liabilities to abroad including securities were as follows:

|                 | <u>31 December 2000</u> | <u>31 December 2000</u> | <u>31 December 1999</u> | <u>31 December 1999</u> |
|-----------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                 | CZK million             | %                       | CZK million             | %                       |
| Germany         | -                       | -                       | 4,828                   | 16                      |
| France          | -                       | -                       | 3,680                   | 12                      |
| Italy           | 1,796                   | 13                      | 4,416                   | 14                      |
| Other European  |                         |                         |                         |                         |
| Union countries | 177                     | 1                       | 197                     | 1                       |
| USA             | 11,856                  | 86                      | 5,093                   | 17                      |
| Japan           | —                       | —                       | <u>12,331</u>           | <u>40</u>               |
|                 | <u>13,829</u>           | <u>100</u>              | <u>30,545</u>           | <u>100</u>              |

**13 DUE TO DOMESTIC BANKS**

|                                     | <u>31 December 2000</u> | <u>31 December 1999</u> |
|-------------------------------------|-------------------------|-------------------------|
|                                     | CZK million             | CZK million             |
| Monetary reserves from banks        | <u>26,575</u>           | <u>26,279</u>           |
| Repo operations                     | 251,386                 | 209,657                 |
| Received loans                      | -                       | 4,929                   |
| Other liabilities to domestic banks | <u>17,910</u>           | <u>35,019</u>           |
| Total other liabilities             | <u>269,296</u>          | <u>249,605</u>          |
| Total liabilities to domestic banks | <u>295,871</u>          | <u>275,884</u>          |

**Monetary reserves from banks**

Obligatory minimum reserves represent interest free deposits of the banks in the Czech Republic held at the Bank. Obligatory minimum reserves should be held by banks and branches of foreign banks in the form of the fourteen day 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 %.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

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

**Repo operations**

Repo operations as at 31 December 2000 include CZK 251,386 million (31 December 1999: CZK 209,657 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.

**14 CLIENT DEPOSITS**

|                                     | <u>31 December 2000</u> | <u>31 December 1999</u> |
|-------------------------------------|-------------------------|-------------------------|
|                                     | CZK million             | CZK million             |
| Current accounts                    | 7,070                   | 19,815                  |
| Term deposits                       | 2,134                   | 2,323                   |
| Deposits of local government bodies | 5,970                   | 6,863                   |
| Other deposits                      | <u>6,399</u>            | <u>4,122</u>            |
| Total client deposits               | <u>21,573</u>           | <u>33,123</u>           |

**15 DOMESTIC SECURITIES ISSUED**

|  | <u>31 December 2000</u> | <u>31 December 1999</u> |
|--|-------------------------|-------------------------|
|  | CZK million             | CZK million             |
| CNB treasury bills                     | 400,000                 | 500,000                 |
| Deferred interest expense              | _____ -                 | _____ -                 |
|  | <u>400,000</u>          | <u>500,000</u>          |
| Less:                                  |                         |                         |
| CNB treasury bills repurchased:        |                         |                         |
| - held in the treasury bills portfolio | (148,631)               | (289,015)               |
| - in repo operations                   | (252,206)               | (210,985)               |
| - in reverse repo operations           | <u>837</u>              | _____ -                 |
|  | _____ -                 | _____ -                 |

The treasury bills included in the closing balance as at 31 December 1999 and issued during 2000 were issued at zero discount.

**CZECH NATIONAL BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2000**

**16 OTHER LIABILITIES TO STATE BUDGET**

|   | <u>31 December 2000</u><br>CZK million | <u>31 December 1999</u><br>CZK million |
|---|--|--|
| State funds accounts                    | 7,130                                  | 6,442                                  |
| Other state assets                      | <u>29,444</u>                          | <u>20,627</u>                          |
| Total other liabilities to state budget | <u>36,574</u>                          | <u>27,069</u>                          |

**17 EQUITY**

Changes of equity during 2000 and 1999 were as follows:

|   | <u>Share<br/>capital</u><br>CZK million | <u>Funds</u><br>CZK million | <u>Retained<br/>earnings/<br/>(accumulated<br/>losses)</u><br>CZK million | <u>Profit /<br/>(loss) for<br/>the year</u><br>CZK million | <u>Equity</u><br>CZK million |
|---|---|-----------------------------|---|--|------------------------------|
| Balance at 1 January 1999                             | <u>1,400</u>                            | <u>8,234</u>                | <u>-</u>  | <u>(50,740)</u>  | <u>(41,106)</u>              |
| Transfer of loss from 1998<br>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>               |
| Transfer of profit from 1999<br>to accumulated losses | -                                       | -                           | 32,347  | (32,347)   | -                            |
| Usage of social fund                                  | -                                       | (32)                        | -   | -  | (32)                         |
| Allocation to social fund<br>from profit for 1999     | -                                       | 31                          | -   | (31)   | -                            |
| Profit for the year 2000                              | <u>-</u>                                | <u>-</u>                    | <u>-</u>  | <u>2,524</u>   | <u>2,524</u>                 |
| Balance at 31 December 2000                           | <u>1,400</u>                            | <u>8,202</u>                | <u>(18,393)</u>   | <u>2,524</u>   | <u>(6,267)</u>               |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**17 EQUITY (continued)**

**Distribution of profit for the year 1999**

The profit for the year 1999 was allocated to the social fund (CZK 31 million) and the accumulated losses (CZK 32,347 million).

**18 RESERVES, SPECIFIC PROVISIONS AND WRITE OFFS**

At 31 December 2000 and 31 December 1999 the Bank created specific provisions and reserves for assets at risk:

|   | <u>31 December 2000</u> | <u>31 December 1999</u> |
|---|-------------------------|-------------------------|
|   | CZK million             | CZK million             |
| Specific provisions for non-performing loans to domestic banks (Note 6)             | 14                      | 14                      |
| Specific provisions for classified loans to clients (Note 7)                        | 4,680                   | 5,336                   |
| Total specific provisions for securities  | 20,823                  | 22,648                  |
| - Foreign securities (Note 5)   | 1,106                   | 2,931                   |
| - 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>1,477</u>            | <u>1,444</u>            |
| Total specific provisions   | <u>26,994</u>           | <u>55,252</u>           |
| Reserves for guarantees (Note 20)   | 828                     | 1,354                   |
| Reserves for standard loans (Note 6)  | 348                     | 348                     |
| Reserves for guarantee related to consolidation of the banking sector (Note 20, 31) | 11,421                  | 31,900                  |
| - out of which CF (Note 31)   | <u>10,867</u>           | <u>31,374</u>           |
| Total reserves  | <u>12,597</u>           | <u>33,602</u>           |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**18 RESERVES, SPECIFIC PROVISIONS AND WRITE OFFS (continued)**

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

|                     | Amounts due<br>from banks<br>and from abroad<br>CZK million | Classified<br>loans<br>CZK million | Securities<br>CZK million | Other<br>CZK million | Total<br>CZK million |
|---------------------|---|------------------------------------|---------------------------|----------------------|----------------------|
| At 1 January 1999   | <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>        |
| Addition            | -   | 23                                 | 1,534                     | 34                   | 1,591                |
| FX difference       | -   | -                                  | (70)                      | -                    | (70)                 |
| Usage               | <u>(25,810)</u>   | <u>(679)</u>                       | <u>(3,289)</u>            | <u>(1)</u>           | <u>(29,779)</u>      |
| At 31 December 2000 | <u>14</u>   | <u>4,680</u>                       | <u>20,823</u>             | <u>1,477</u>         | <u>26,994</u>        |

The 2000 and 1999 creation and usage of specific provisions to securities was accounted as profit / loss from financial operations (Note 22).

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**18 RESERVES, SPECIFIC PROVISIONS AND WRITE OFFS (continued)**

The movements in reserves can be analysed as follows:

|                     | <u>Standard loans</u><br>CZK million | <u>Consolidation</u><br>CZK million | <u>Other</u><br>CZK million | <u>Total</u><br>CZK million |
|---------------------|--------------------------------------|-------------------------------------|-----------------------------|-----------------------------|
| At 1 January 1999   | <u>348</u>                           | <u>37,593</u>                       | <u>16,429</u>               | <u>54,370</u>               |
| Addition            | -                                    | 3,440                               | 1,293                       | 4,733                       |
| Usage               | <u>-</u>                             | <u>(9,133)</u>                      | <u>(16,368)</u>             | <u>(25,501)</u>             |
| At 31 December 1999 | <u>348</u>                           | <u>31,900</u>                       | <u>1,354</u>                | <u>33,602</u>               |
| Addition            | -                                    | 1,317                               | 11                          | 1,328                       |
| Usage               | <u>-</u>                             | <u>(21,796)</u>                     | <u>(537)</u>                | <u>(22,333)</u>             |
| At 31 December 2000 | <u>348</u>                           | <u>11,421</u>                       | <u>828</u>                  | <u>12,597</u>               |

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

The Bank wrote off a receivable of CZK 27 million after the bankruptcy procedure had finished and did not receive any payments on debts that had been previously written off.

**19 OTHER LIABILITIES**

|  | <u>31 December 2000</u><br>CZK million | <u>31 December 1999</u><br>CZK million |
|--|--|--|
| Deferred revenue and accrued expenses              | <u>346</u>                             | <u>1,075</u>                           |
| Settlement accounts of local authorities resources | 1,127                                  | 4,130                                  |
| Other liabilities                                  | <u>968</u>                             | <u>2,162</u>                           |
| Total others                                       | <u>2,095</u>                           | <u>6,292</u>                           |
| Total other liabilities                            | <u>2,441</u>                           | <u>7,367</u>                           |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**20 CONTINGENCIES AND COMMITMENTS**

**Received and issued guarantees**

Received and issued guarantees can be divided as follows:

|   | <u>31 December 2000</u><br>CZK million | <u>31 December 1999</u><br>CZK million |
|---|--|--|
| Issued guarantees for clients   | 540                                    | 526                                    |
| Issued guarantee for CF (Note 31)   | 10,867                                 | 31,375                                 |
| Issued guarantees for the consolidation of the banking sector   | <u>67,333</u>                          | <u>5,730</u>                           |
| Total issued guarantees   | <u>78,740</u>                          | <u>37,631</u>                          |
| Guarantee received from the Czech Government for impaired assets overtaken by the Bank within the Consolidation programme (Note 31) | 22,500                                 | 22,500                                 |
| Guarantee received from the Ministry of Finance   | <u>7,945</u>                           | -                                      |
| Total guarantees received   | <u>30,445</u>                          | <u>22,500</u>                          |

The issued guarantees for the consolidation of the banking sector include the Indemnity Letter and Guarantee for deposits of IPB (Notes 31 and 33).

The identified need for reserves for expected loss on the issued guarantees was CZK 12,248 million as at 31 December 2000 (as at 31 December 1999: CZK 33,183 million).

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**20 CONTINGENCIES AND COMMITMENTS (continued)**

**Agrobanka, a. s.**

CNB issued a guarantee in favour of clients of Agrobanka, a.s. (hereinafter the "Agrobanka") in 1996 covering client deposits and other receivables of clients of Agrobanka (hereinafter 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. The CNB guarantee of CZK 562 million as at 31 December 2000 represented the amount of other receivables of creditors of Agrobanka.

**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 2000</u> | <u>31 December 1999</u> |
|---|-------------------------|-------------------------|
|   | CZK million             | CZK million             |
| Receivables   |                         |                         |
| - from spots  | 494                     | 2,023                   |
| - from swaps (Note 30)                                  | -                       | 14,003                  |
| - from forwards (Note 30)                               | 6,368                   | 20,049                  |
| - from option contracts (Note 30)                       | <u>6,832</u>            | <u>6,564</u>            |
| Total receivables from spot, term and option operations | <u>13,694</u>           | <u>42,639</u>           |
| Payables  |                         |                         |
| - from spots  | 493                     | 2,021                   |
| - from swaps (Note 30)                                  | -                       | 11,892                  |
| - from forwards (Note 30)                               | 5,944                   | 22,019                  |
| - from option contracts (Note 30)                       | <u>6,832</u>            | <u>6,564</u>            |
| Total payables from spot, term and option operations    | <u>13,269</u>           | <u>42,496</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.



**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**20 CONTINGENCIES AND COMMITMENTS (continued)**

**Investment commitments**

The Bank entered into contracts for the purchase of tangible and intangible fixed assets at 31 December 2000 of CZK 12 million (31 December 1999: CZK 257 million).

**Assets held in custody**

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

**21 INTEREST MARGIN**

|                                      | <u>2000</u>     | <u>1999</u>     |
|--------------------------------------|-----------------|-----------------|
|                                      | CZK million     | CZK million     |
| Interest income and similar income   | 28,825          | 33,361          |
| Interest expense and similar expense | <u>(17,249)</u> | <u>(28,923)</u> |
| Interest margin                      | <u>11,576</u>   | <u>4,438</u>    |

**Interest income and similar income**

|   | <u>2000</u>   | <u>1999</u>   |
|---|---------------|---------------|
|   | CZK million   | CZK million   |
| Discount on repurchased treasury bills issued by the Bank | 185           | 10,255        |
| Discount on debt securities                               | 7,322         | 5,776         |
| Interest on debt securities                               | <u>14,189</u> | <u>9,547</u>  |
| Interest from securities with fixed income                | <u>21,696</u> | <u>25,578</u> |
| Interest on inter-bank transactions                       | 5,340         | 4,224         |
| Interest on loans to clients                              | 979           | 1,803         |
| Interest on swap transactions                             | 498           | 717           |
| Other interest income                                     | <u>312</u>    | <u>1,039</u>  |
| Total other interest and similar income                   | <u>7,129</u>  | <u>7,783</u>  |
| Total interest income and similar income                  | <u>28,825</u> | <u>33,361</u> |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**21 INTEREST MARGIN (continued)**

The discount on repurchased treasury bills issued by the Bank for 1999 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 issued by the Bank is included in the Loss from sale of securities (Note 22).

Based on the estimate of the Bank's management, in 2000 total income included CZK 32 million from interest income on classified loans (1999: CZK 94 million). Unpaid interest is accrued and is taken into account when calculating the amount of specific provisions.

**Interest expense and related expense**

|  | <u>2000</u><br>CZK million | <u>1999</u><br>CZK million |
|--|----------------------------|----------------------------|
| Interest and discount from issued treasury bills and bonds | <u>495</u>                 | <u>10,522</u>              |
| Interest on liabilities to state                           | 1,020                      | 1,371                      |
| Interest on liabilities to banks                           | 14,959                     | 15,506                     |
| Interest on liabilities to clients                         | 319                        | 692                        |
| Interest on swap transactions                              | 432                        | 700                        |
| Other interest expense                                     | <u>24</u>                  | <u>132</u>                 |
| Total other interest and related expense                   | <u>16,754</u>              | <u>18,401</u>              |
| Total interest expense and other expenses                  | <u>17,249</u>              | <u>28,923</u>              |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

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

Net profit / (loss) from financial operations for the year ended 31 December 2000 and 31 December 1999 can be analysed as follows:

|  | <u>2000</u><br>CZK million | <u>1999</u><br>CZK million |
|--|----------------------------|----------------------------|
| Profit from sale of securities                 | 691                        | 356                        |
| Loss from sale of securities                   | (5,333)                    | (3,872)                    |
| FX gains / (losses)                            | (3,523)                    | 31,830                     |
| Other income                                   | 1,336                      | -                          |
| Addition to specific provisions for securities | (1,534)                    | (2,930)                    |
| Usage of specific provisions for securities    | <u>3,289</u>               | <u>282</u>                 |
| Total gain / (loss) on financial operations    | <u>(5,074)</u>             | <u>25,666</u>              |

**23 GENERAL OPERATING EXPENSES**

General operating expenses can be divided as follows:

|   | <u>2000</u><br>CZK million | <u>1999</u><br>CZK million |
|---|----------------------------|----------------------------|
| Wages and salaries                      | 484                        | 454                        |
| Social security and health insurance    | <u>182</u>                 | <u>170</u>                 |
| Personnel costs in total                | <u>666</u>                 | <u>624</u>                 |
| Depreciation of tangible fixed assets   | 812                        | 448                        |
| Amortisation of intangible fixed assets | 163                        | 106                        |
| Rent                                    | 121                        | 378                        |
| Other                                   | <u>593</u>                 | <u>739</u>                 |
| Total other operating expenses          | <u>1,689</u>               | <u>1,671</u>               |
| Total general operating expenses        | <u>2,355</u>               | <u>2,295</u>               |

**Staff statistics**

|                                       | <u>2000</u> | <u>1999</u> |
|---------------------------------------|-------------|-------------|
| Average number of employees           | 1,458       | 1,447       |
| Number of members of the Bank Council | 7           | 7           |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**24 OTHER EXPENSES**

|   | <u>2000</u><br>CZK million | <u>1999</u><br>CZK million |
|---|----------------------------|----------------------------|
| Cost of transfer of the NBS receivable (Note 5) | 25,810                     | -                          |
| Cost of transfer of the share in CF (Note 31)   | 15,814                     | -                          |
| Settlement of CF losses (Note 31)               | 7,394                      | -                          |
| Expenses for issuing bank notes and coins       | 297                        | 351                        |
| Cost of sold investment in CSOB                 | -                          | 1,353                      |
| Cost of damage incurred by Union Banka, a. s.   | -                          | 1,913                      |
| Other expenses                                  | <u>550</u>                 | <u>332</u>                 |
| Other expenses in total                         | <u>49,865</u>              | <u>3,949</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>2000</u><br>CZK million | <u>1999</u><br>CZK million |
|-----------------------------|----------------------------|----------------------------|
| Extraordinary expenses      | 3                          | 19                         |
| Other damages               | <u>-</u>                   | <u>7</u>                   |
| Total extraordinary expense | <u>3</u>                   | <u>26</u>                  |
| Total extraordinary income  | <u>280</u>                 | <u>53</u>                  |

The Bank has capitalised fees previously paid to IMF totalling CZK 279 million and has recorded this amount as a deposit with IMF.

CZECH NATIONAL BANK

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YEAR ENDED 31 DECEMBER 2000

26 LIQUIDITY RISK

| As at 31 December 2000                          | Up to<br>1 month | 1-3<br>months | 3-12<br>months | 1-5<br>years   | Over 5<br>years | Un-<br>specified | Total          |
|---|------------------|---------------|----------------|----------------|-----------------|------------------|----------------|
| <b>Assets</b>                                   |                  |               |                |                |                 |                  |                |
| Gold  | 841              | -             | -              | -              | -               | -                | 841            |
| Receivables from the IMF                        | -                | -             | -              | -              | -               | 42,802           | 42,802         |
| Treasury bills and other<br>eligible bills      | 29,972           | 63,147        | 36,977         | -              | -               | -                | 130,096        |
| Bonds and other securities with<br>fixed income | 7,752            | 7,978         | 61,665         | 185,478        | 5,277           | -                | 268,150        |
| Other receivables from abroad                   | 79,208           | 27,897        | -              | -              | -               | -                | 107,105        |
| Receivables from domestic<br>banks              | 4,571            | -             | -              | -              | 12,800          | -                | 17,371         |
| Due from clients                                | 22,519           | -             | 15,161         | 2              | 60              | -                | 37,742         |
| Domestic securities and shares                  | -                | -             | -              | -              | -               | 11               | 11             |
| Cash  | 1,898            | -             | -              | -              | -               | -                | 1,898          |
| Fixed assets                                    | -                | -             | -              | -              | -               | 8,329            | 8,329          |
| Other assets                                    | <u>1,224</u>     | <u>-</u>      | <u>432</u>     | <u>-</u>       | <u>-</u>        | <u>16</u>        | <u>1,672</u>   |
| <b>Total assets</b>                             | <u>147,985</u>   | <u>99,022</u> | <u>144,235</u> | <u>185,480</u> | <u>18,137</u>   | <u>51,158</u>    | <u>616,017</u> |
| <b>Liabilities and equity</b>                   |                  |               |                |                |                 |                  |                |
| Issue of currency                               | -                | -             | -              | -              | -               | 197,000          | 197,000        |
| Due to the IMF                                  | -                | -             | -              | -              | -               | 42,399           | 42,399         |
| Liabilities to abroad including<br>securities   | 13,660           | 12            | 12             | 96             | 49              | -                | 13,829         |
| Due to domestic banks                           | 292,971          | 2,900         | -              | -              | -               | -                | 295,871        |
| Client deposits                                 | 17,677           | -             | 2,124          | 1,772          | -               | -                | 21,573         |
| Other liabilities to state budget               | 24,191           | 7,000         | 5,328          | 55             | -               | -                | 36,574         |
| Reserves  | -                | -             | -              | -              | -               | 12,597           | 12,597         |
| Share capital                                   | -                | -             | -              | -              | -               | 1,400            | 1,400          |
| Funds   | -                | -             | -              | -              | -               | 8,202            | 8,202          |
| Accumulated profits / (losses)                  | -                | -             | -              | -              | -               | (18,393)         | (18,393)       |
| Profit / (loss) for the period                  | -                | -             | -              | -              | -               | 2,524            | 2,524          |
| Other liabilities                               | <u>2,095</u>     | <u>-</u>      | <u>346</u>     | <u>-</u>       | <u>-</u>        | <u>-</u>         | <u>2,441</u>   |
| <b>Total liabilities and equity</b>             | <u>350,594</u>   | <u>9,912</u>  | <u>7,810</u>   | <u>1,923</u>   | <u>49</u>       | <u>245,729</u>   | <u>616,017</u> |
| <b>Net liquidity gap</b>                        | <u>(202,609)</u> | <u>89,110</u> | <u>106,425</u> | <u>183,557</u> | <u>18,088</u>   | <u>(194,571)</u> | <u>-</u>       |
| <b>As at 31 December 1999</b>                   |                  |               |                |                |                 |                  |                |
| Total assets                                    | 179,989          | 109,482       | 92,796         | 169,821        | 17,509          | 52,578           | 622,175        |
| Total liabilities                               | <u>313,601</u>   | <u>27,455</u> | <u>23,606</u>  | <u>7,723</u>   | <u>1,603</u>    | <u>248,187</u>   | <u>622,175</u> |
| <b>Net liquidity gap</b>                        | <u>(133,612)</u> | <u>82,027</u> | <u>69,190</u>  | <u>162,098</u> | <u>15,906</u>   | <u>(195,609)</u> | <u>-</u>       |

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

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27 INTEREST RATE RISK

| As at 31 December 2000                               | Up to<br>1 month | 1-3<br>months  | 3-12<br>months | 1-5<br>years  | Over 5<br>years | Not<br>sensitive | Total          |
|--|------------------|----------------|----------------|---------------|-----------------|------------------|----------------|
| <b>Assets</b>  |                  |                |                |               |                 |                  |                |
| Gold   | 841              | -              | -              | -             | -               | -                | 841            |
| Receivables from the IMF                             | -                | -              | -              | -             | -               | 42,802           | 42,802         |
| Treasury bills and other<br>eligible bills           | 29,972           | 63,147         | 36,977         | -             | -               | -                | 130,096        |
| Bonds and other securities with<br>fixed income      | 53,941           | 54,495         | 159,714        | -             | -               | -                | 268,150        |
| Other receivables from abroad                        | 79,208           | 27,897         | -              | -             | -               | -                | 107,105        |
| Receivables from domestic<br>banks                   | 17,371           | -              | -              | -             | -               | -                | 17,371         |
| Due from clients                                     | 22,519           | -              | 15,161         | 2             | 60              | -                | 37,742         |
| Domestic securities and shares                       | -                | -              | -              | -             | -               | 11               | 11             |
| Cash   | 1,898            | -              | -              | -             | -               | -                | 1,898          |
| Fixed assets   | -                | -              | -              | -             | -               | 8,329            | 8,329          |
| Other assets   | <u>1,672</u>     | <u>-</u>       | <u>-</u>       | <u>-</u>      | <u>-</u>        | <u>-</u>         | <u>1,672</u>   |
| <b>Total assets</b>                                  | <u>207,422</u>   | <u>145,539</u> | <u>211,852</u> | <u>2</u>      | <u>60</u>       | <u>51,142</u>    | <u>616,017</u> |
| <b>Liabilities and equity</b>                        |                  |                |                |               |                 |                  |                |
| Issue of currency                                    | -                | -              | -              | -             | -               | 197,000          | 197,000        |
| Due to the IMF                                       | -                | -              | -              | -             | -               | 42,399           | 42,399         |
| Liabilities to abroad including<br>securities        | 13,660           | 12             | 12             | 96            | 49              | -                | 13,829         |
| Due to domestic banks                                | 292,971          | 2,900          | -              | -             | -               | -                | 295,871        |
| Client deposits                                      | 20,925           | -              | 311            | 337           | -               | -                | 21,573         |
| Other liabilities to state budget                    | 24,191           | 7,000          | 5,328          | 55            | -               | -                | 36,574         |
| Reserves   | -                | -              | -              | -             | -               | 12,597           | 12,597         |
| Share capital  | -                | -              | -              | -             | -               | 1,400            | 1,400          |
| Funds  | -                | -              | -              | -             | -               | 8,202            | 8,202          |
| Accumulated profits / (losses)                       | -                | -              | -              | -             | -               | (18,393)         | (18,393)       |
| Profit / (loss) for the period                       | -                | -              | -              | -             | -               | 2,524            | 2,524          |
| Other liabilities                                    | <u>2,441</u>     | <u>-</u>       | <u>-</u>       | <u>-</u>      | <u>-</u>        | <u>-</u>         | <u>2,441</u>   |
| <b>Total liabilities and equity</b>                  | <u>354,188</u>   | <u>9,912</u>   | <u>5,651</u>   | <u>488</u>    | <u>49</u>       | <u>245,729</u>   | <u>616,017</u> |
| <b>On balance sheet<br/>interest sensitivity gap</b> | <u>(146,766)</u> | <u>135,627</u> | <u>206,201</u> | <u>(486)</u>  | <u>11</u>       | <u>(194,587)</u> | <u>-</u>       |
| <b>As at 31 December 1999</b>                        |                  |                |                |               |                 |                  |                |
| Total assets   | 215,113          | 188,679        | 89,544         | 58,312        | 1,020           | 69,507           | 622,175        |
| Total liabilities                                    | <u>320,423</u>   | <u>27,336</u>  | <u>17,405</u>  | <u>7,358</u>  | <u>125</u>      | <u>249,528</u>   | <u>622,175</u> |
| <b>On balance sheet<br/>interest sensitivity gap</b> | <u>(105,310)</u> | <u>161,343</u> | <u>72,139</u>  | <u>50,954</u> | <u>895</u>      | <u>(180,021)</u> | <u>-</u>       |

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2000

28 CURRENCY RISK

Concentrations of assets and liabilities

| As at 31 December 2000                       | CZK              | EUR            | USD            | JPY           | DEM          | Other        | Total          |
|--|------------------|----------------|----------------|---------------|--------------|--------------|----------------|
| <b>Assets</b>                                |                  |                |                |               |              |              |                |
| Gold   | -                | -              | -              | -             | -            | 841          | 841            |
| Receivables from the IMF                     | 42,399           | -              | -              | -             | -            | 403          | 42,802         |
| Treasury bills and other eligible bills      | -                | 70,663         | 53,490         | 5,943         | -            | -            | 130,096        |
| Bonds and other securities with fixed income | -                | 199,098        | 61,122         | -             | 7,122        | 808          | 268,150        |
| Other receivables from abroad                | -                | 77,437         | 29,593         | 1             | -            | 74           | 107,105        |
| Receivables from domestic banks              | 17,202           | 169            | -              | -             | -            | -            | 17,371         |
| Due from clients                             | 37,742           | -              | -              | -             | -            | -            | 37,742         |
| Domestic securities and shares               | 11               | -              | -              | -             | -            | -            | 11             |
| Cash   | 1,898            | -              | -              | -             | -            | -            | 1,898          |
| Fixed assets                                 | 8,319            | -              | -              | -             | -            | 10           | 8,329          |
| Other assets                                 | <u>1,261</u>     | <u>353</u>     | <u>58</u>      | <u>-</u>      | <u>-</u>     | <u>-</u>     | <u>1,672</u>   |
| <b>Total assets</b>                          | <u>108,832</u>   | <u>347,720</u> | <u>144,263</u> | <u>5,944</u>  | <u>7,122</u> | <u>2,136</u> | <u>616,017</u> |
| <b>Liabilities and equity</b>                |                  |                |                |               |              |              |                |
| Issue of currency                            | 197,000          | -              | -              | -             | -            | -            | 197,000        |
| Due to the IMF                               | 42,399           | -              | -              | -             | -            | -            | 42,399         |
| Liabilities to abroad including securities   | 413              | 1,965          | 11,451         | -             | -            | -            | 13,829         |
| Due to domestic banks                        | 295,871          | -              | -              | -             | -            | -            | 295,871        |
| Client deposits                              | 20,074           | 1,435          | 64             | -             | -            | -            | 21,573         |
| Other liabilities to state budget            | 35,811           | 763            | -              | -             | -            | -            | 36,574         |
| Reserves                                     | 12,597           | -              | -              | -             | -            | -            | 12,597         |
| Share capital                                | 1,400            | -              | -              | -             | -            | -            | 1,400          |
| Funds  | 8,202            | -              | -              | -             | -            | -            | 8,202          |
| Accumulated profits / (losses)               | (18,393)         | -              | -              | -             | -            | -            | (18,393)       |
| Profit / (loss) for the period               | 2,524            | -              | -              | -             | -            | -            | 2,524          |
| Other liabilities                            | <u>2,422</u>     | <u>11</u>      | <u>8</u>       | <u>-</u>      | <u>-</u>     | <u>-</u>     | <u>2,441</u>   |
| <b>Total liabilities and equity</b>          | <u>600,320</u>   | <u>4,174</u>   | <u>11,523</u>  | <u>-</u>      | <u>-</u>     | <u>-</u>     | <u>616,017</u> |
| <b>Net assets</b>                            | <u>(491,488)</u> | <u>343,546</u> | <u>132,740</u> | <u>5,944</u>  | <u>7,122</u> | <u>2,136</u> | <u>-</u>       |
| <b>As at 31 December 1999</b>                |                  |                |                |               |              |              |                |
| Total assets                                 | 139,356          | 301,556        | 144,877        | 24,733        | 1,519        | 10,134       | 622,175        |
| Total liabilities                            | <u>589,684</u>   | <u>25,197</u>  | <u>4,739</u>   | <u>2,348</u>  | <u>5</u>     | <u>202</u>   | <u>622,175</u> |
| <b>Net assets</b>                            | <u>(450,328)</u> | <u>276,359</u> | <u>140,138</u> | <u>22,385</u> | <u>1,514</u> | <u>9,932</u> | <u>-</u>       |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**29 CREDIT RISK**

**Geographical concentrations of assets and liabilities**

|                                | <u>Total assets</u><br>CZK million | Total liabilities<br><u>and equity</u><br>CZK million |
|--------------------------------|------------------------------------|---|
| <b>As at 31 December 2000</b>  |                                    |   |
| Czech Republic                 | 67,974                             | 559,789   |
| Germany                        | 49,807                             | -   |
| Switzerland                    | 56,237                             | -   |
| France                         | 63,780                             | -   |
| Italy                          | 116,437                            | 1,796   |
| Great Britain                  | 52,833                             | -   |
| Other European Union countries | 80,469                             | 177   |
| Other European countries       | 4                                  | -   |
| Canada and USA                 | 110,456                            | 54,255  |
| Japan                          | 5,944                              | -   |
| Other countries                | <u>12,076</u>                      | <u>-</u>  |
|                                | <u>616,017</u>                     | <u>616,017</u>  |
| <b>As at 31 December 1999</b>  |                                    |   |
| Czech Republic                 | 103,531                            | 552,641   |
| Germany                        | 60,969                             | 4,828   |
| Switzerland                    | 60,908                             | -   |
| France                         | 67,006                             | 3,680   |
| Italy                          | 68,706                             | 4,416   |
| Great Britain                  | 28,864                             | -   |
| Other European Union countries | 87,368                             | 197   |
| Other European countries       | 13,396                             | -   |
| Canada and USA                 | 100,303                            | 44,082  |
| Japan                          | 22,021                             | 12,331  |
| Other countries                | <u>9,103</u>                       | <u>-</u>  |
|                                | <u>622,175</u>                     | <u>622,175</u>  |



**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**30 DERIVATIVE FINANCIAL INSTRUMENTS**

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

|                                   | <u>31 December 2000</u><br>CZK million | <u>31 December 1999</u><br>CZK million |
|-----------------------------------|--|--|
| <u>Currency derivatives</u>       |  |  |
| Receivables from swaps            | -                                      | 14,003                                 |
| Payables from swaps               | -                                      | 11,892                                 |
| Receivables from forwards         | 6,368                                  | 20,049                                 |
| Payables from forwards            | 5,944                                  | 22,019                                 |
| <u>Option contracts on shares</u> |  |  |
| Receivables from option contracts | 6,832                                  | 6,564                                  |
| Payables from option contracts    | 6,832                                  | 6,564                                  |

The fair value of the forward operations as at 31 December 2000 was CZK 424 million.

**31 CONSOLIDATION OF THE BANKING SECTOR**

**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 commercial banks. The Czech Government issued a guarantee of CZK 22,500 million in favour of the Bank (hereinafter 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 resulting from the Consolidation programme not covered by the Guarantee. In line with the agreement with the Czech Government regarding compensation of losses arising as a result of the transfer of the NBS receivable to the state the Czech Government confirmed by its resolution dated 12 January 2000 its full commitment to the Guarantee. As a result CNB reflected the Guarantee as at 31 December 2000 and 31 December 1999 when creating the provisions.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**31 CONSOLIDATION OF THE BANKING SECTOR (continued)**

**Consolidation of the banking sector (continued)**

The assets taken over and specific provisions and reserves created as at 31 December 2000 and as at 31 December 1999 can be summarised as follows:

|   | <u>31 December 2000</u> | <u>31 December 1999</u> |
|---|-------------------------|-------------------------|
|   | CZK million             | CZK million             |
| Receivables from banks  | 27,851                  | 28,471                  |
| Purchased receivables of banks  | 410                     | 437                     |
| Guarantees and commitments  | <u>553</u>              | <u>525</u>              |
|   | 28,814                  | 29,433                  |
| Specific provisions and reserves (analysis of specific provisions and reserves from a different point of view is included in Note 18) | <u>(6,314)</u>          | <u>(6,933)</u>          |
| Total net book value covered by the Guarantee   | <u>22,500</u>           | <u>22,500</u>           |

**Česká finanční, s. r. o.**

CF was 100% 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 Czech Government 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. (hereinafter the "KoB") 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 unaudited net book value of the Stabilisation programme assets administered by CF was CZK 8,085 million as at 31 December 2000 (audited amount as at 31 December 1999: CZK 8,412 million).

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**31 CONSOLIDATION OF THE BANKING SECTOR (continued)**

**Česká finanční (continued)**

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 the CNB. The program was started in 1997. During 1998 the Bank increased the share capital of CF by CZK 13,333 million. The unaudited book amount of the Consolidation programme assets administered by CF (net of provisions created by CF) was CZK 28,990 million as at 31 December 2000 (audited amount as at 31 December 1999: CZK 33,734 million).

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 (hereinafter the "Guarantee agreement"). Pursuant to the Guarantee agreement the Bank has created a reserve of CZK 10,867 million as at 31 December 2000 (31 December 1999: CZK 31,374 million) and CNB took into consideration the expected recoverability of assets at risk covered by the Guarantee agreement when arriving at this reserve. Operational costs of CF settled by CNB are included in CNB's Other expenses (Note 24).

Further to the resolution of the Czech Government number 1162 dated 8 November 1999, by which the Czech Government approved the restructuring of certain transformation institutions, CNB sold its 100% ownership interest in CF for an agreed price of CZK 1 to KoB based on an agreement for the transfer of the ownership interest in a company concluded between CNB and KoB in June 2000. CNB has undertaken to cover all CF losses resulting from the Consolidation Programme as at the date of the ownership interest transfer and concluded an agreement with CF on the settlement of operating costs and losses from assumed assets incurred in relation to the implementation of the Consolidation Programme. In compliance with this agreement CF operating costs will be settled on a quarterly basis and the agreement also specifies CF's reporting duties to CNB on a regular basis. The mechanism whereby CNB retains a certain level of control over CF activities relating to the Consolidation Programme was agreed by CNB and KoB in the agreement on the settlement of operating costs and losses from assumed assets incurred in relation to the implementation of the Consolidation Programme.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

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31 CONSOLIDATION OF THE BANKING SECTOR (continued)

Česká finanční (continued)

The calculation of the reserve as at 31 December 2000 and as at 31 December 1999 can be summarised as follows:

|  | <u>31 December 2000</u> | <u>31 December 1999</u> |
|--|-------------------------|-------------------------|
|  | CZK'000                 | CZK'000                 |
| Provided loans                           | 15,161                  | 17,324                  |
| Investment in subsidiary undertaking     | -                       | 15,814                  |
| Losses covered in line with Agreement    | <u>-</u>                | <u>5,982</u>            |
|  | 15,161                  | 39,120                  |
| Less expected recoverability of          |                         |                         |
| - receivables in Consolidation programme | 4,173                   | 7,637                   |
| - securities in Consolidation programme  | <u>121</u>              | <u>109</u>              |
|  | <u>4,294</u>            | <u>7,746</u>            |
| Created reserves (Note 18)               | <u>10,867</u>           | <u>31,374</u>           |

**Investiční a poštovní banka, a. s.**

In June 2000 CNB declared forced administration in Investiční a poštovní banka, a. s. (hereinafter the "IPB"). On 16 June 2000 CNB issued a guarantee for deposits (hereinafter the "Guarantee for Deposits") covering all commitments resulting from deposits received by IPB and from bonds issued by IPB including accrued interest as at 16 June 2000. Liabilities with a fixed maturity date were guaranteed until the maturity date and liabilities without a fixed maturity date were guaranteed until the end of the 12 month period after the forced administration of the IPB is terminated.

In 2000 CNB recorded the Guarantee for Deposits in the off balance sheet on the basis of the balances of deposits received by IPB and bonds issued by IPB including accrued interest recorded in the IPB accounts as at 16 June 2000 obtained from IPB (CZK 218,923 million). The balance of the Guarantee for Deposits as at 31 December 2000 was updated to CZK 54,200 million based on an assessment made by Československá obchodní banka, a. s. (hereinafter the "CSOB").

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2000**

**31 CONSOLIDATION OF THE BANKING SECTOR (continued)**

**Investiční a poštovní banka (continued)**

CSOB concluded with the forced administrator of IPB a contract about the sale of the business on 19 June 2000 and based on this agreement CSOB took over assets and liabilities of IPB. On 19 June 2000 the CNB issued an Agreement and Indemnity Letter (hereinafter the "Indemnity Letter") in which it irrevocably and unconditionally undertook to pay to the CSOB certain losses and it indemnifies CSOB for certain costs related to the transaction.

On 23 June 2000 the Czech Government issued a Government guarantee in which it undertook that it will refund certain losses incurred by the CNB in connection with CSOB indemnification based on the Indemnity Letter. This guarantee covers only losses incurred by CNB resulting from indemnification of CSOB's losses arising from any unrecorded liabilities relating to IPB, which were not recorded in the IPB accounting records.

CSOB listed and quantified the individual items under the Indemnity Letter as at 31 December 2000. Because all the listed items are also covered by the State guarantee, CNB recorded in its off balance sheet the issued Indemnity Letter and the received State guarantee as at 31 December 2000 in the same amount (CZK 7,945 million).

**32 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 31. CNB sold the ownership interest in CF in 2000.

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.

**33 SUBSEQUENT EVENTS**

There are negotiations which are ongoing to sell the Bank's share in the Institut bankovního vzdělávání, a. s. in 2001.

Before the date of the approval of these Financial Statements CSOB updated the amount of deposits covered by the Guarantee for deposits to CZK 63,238 million and the quantification of the individual items under the Indemnity Letter to CZK 13,550 million. The Bank does not expect any impact on its financial result from these two guarantees.