

REPORT OF INDEPENDENT AUDITORS

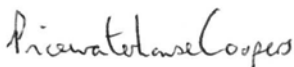
TO THE BANK COUNCIL OF THE CZECH NATIONAL BANK

We have audited the accompanying balance sheet of the Czech National Bank (hereinafter "the CNB") as at 31 December 2002, the related statements of income and notes for the year then ended (hereinafter "the financial statements"). The financial statements and underlying accounting records are the responsibility of the management of the 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 the management of the CNB, 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 give a true and fair view, in all material respects, of the assets, liabilities and equity of the CNB as at 31 December 2002, 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.

24 March 2003



PricewaterhouseCoopers Audit, s.r.o.
represented by



Paul Cunningham
Partner



Petr Kříž
Auditor, Licence No. 1140

CZECH NATIONAL BANK

BALANCE SHEET

AS AT 31 DECEMBER 2002

	Note	Current accounting period			31 December	31 December
		Gross	Provisions	Net	2001	2000
		CZK million	CZK million	CZK million	CZK million	CZK million
ASSETS						
1. Gold	3	833	-	833	837	841
2. Receivables from International Monetary Fund	4	35,319	-	35,319	39,800	42,802
3. Receivables from foreign countries including securities	5	707,238	-	707,238	528,619	505,301
3.1. Deposits at foreign banks		90,539	-	90,539	117,446	92,805
3.2. Loans provided to foreign banks		20,350	-	20,350	14,384	14,240
3.3. Securities		596,300	-	596,300	396,740	398,196
3.4. Other receivables against foreign countries		49	-	49	49	60
4. Receivables from domestic banks	6	129	14	115	793	17,371
5. Receivables from clients	7	49,209	9,389	39,820	48,263	37,742
6. Domestic securities and shares	8	-	-	-	-	11
7. Fixed assets	9	11,723	4,526	7,197	7,769	8,329
7.1. Tangible fixed assets		10,574	3,656	6,918	7,419	7,877
7.2. Intangible fixed assets		1,149	870	279	350	452
8. Other assets	10	5,657	1,988	3,669	1,419	1,722
8.1. Deferred revenue and accrued expenses		16	-	16	388	431
8.2. Others		<u>5,641</u>	<u>1,988</u>	<u>3,653</u>	<u>1,031</u>	<u>1,291</u>
TOTAL ASSETS		<u>810,108</u>	<u>15,917</u>	<u>794,191</u>	<u>627,500</u>	<u>614,119</u>

CZECH NATIONAL BANK

BALANCE SHEET (continued)

AS AT 31 DECEMBER 2002

	Note	31 December <u>2002</u> CZK million	31 December <u>2001</u> CZK million	31 December <u>2000</u> CZK million
LIABILITIES				
1. Currency in circulation	11	224,402	205,861	195,102
2. Liabilities to International Monetary Fund	4	27,869	34,033	42,399
3. Liabilities to foreign countries	12	4,735	14,743	13,829
3.1. Loans from foreign banks		4,289	14,275	13,415
3.2. Other liabilities to foreign countries		446	468	414
4. Liabilities to domestic banks	13	488,233	309,247	295,871
4.1. Bank monetary reserves		28,359	30,273	26,575
4.2. Repo operations		455,419	264,847	251,386
4.3. Other liabilities		4,455	14,127	17,910
5. Deposits from clients	14	35,937	27,916	21,573
6. Domestic treasury bills issued	15	-	-	-
7. Other liabilities to state budget	16	49,968	57,737	36,574
8. Reserves	18	6,210	11,935	12,597
9. Share capital	17	1,400	1,400	1,400
10. Funds	17	8,156	8,198	8,202
11. Accumulated losses from previous periods	17	(44,531)	(15,903)	(18,392)
12. Profit / (loss) for accounting period	17	(9,468)	(28,628)	2,524
13. Other liabilities	19	1,280	961	2,440
13.1. Deferred revenue and accrued expenses		8	186	346
13.2. Others		<u>1,272</u>	<u>775</u>	<u>2,094</u>
TOTAL LIABILITIES		<u>794,191</u>	<u>627,500</u>	<u>614,119</u>

CZECH NATIONAL BANK

OFF BALANCE SHEET

AS AT 31 DECEMBER 2002

	<u>Note</u>	31 December <u>2002</u> CZK million	31 December <u>2001</u> CZK million	31 December <u>2000</u> CZK million	
OFF BALANCE SHEET					
1.	Contingent liabilities	20	199,962	103,787	78,740
2.	Receivables from spot, term and option operations	25	101,673	10,867	13,694
3.	Liabilities from spot, term and option operations	25	101,453	10,861	13,269
4.	Guarantees received	20	182,500	62,340	30,445

CZECH NATIONAL BANK

PROFIT AND LOSS FOR YEAR ENDED 31 DECEMBER 2002

	Note	<u>2002</u>	<u>2001</u>	<u>2000</u>
		CZK million	CZK million	CZK million
1. Interest income and similar income	21	22,104	28,106	28,291
1.1. Interest from securities bearing fixed income		16,717	22,381	21,696
1.2. Other		5,387	5,725	6,595
2. Interest expense and similar expense	21	17,032	17,092	16,821
2.1. Interest from securities bearing fixed income		-	-	523
2.2. Other		17,032	17,092	16,298
3. Income from securities with variable income		40	43	41
4. Income from fees and charges		510	555	450
5. Expenses from fees and charges		49	53	53
6. Loss from financial operations	22	(13,864)	(37,745)	(4,721)
7. Other income		444	454	121
7.1. Income from money issue		20	17	8
7.2. Other		424	437	113
8. Administration expenses	23	2,015	2,002	2,355
8.1. Personnel expenses		751	677	666
8.1.1. Wages and salaries		554	501	484
8.1.2. Social and health security		197	176	182
8.2. Other operating expenses		1,264	1,325	1,689
9. Other expenses	24	1,119	1,776	49,868
9.1. Expenses for issuing bank notes and coinage		371	309	297
9.2. Other		748	1,467	49,571
10. Charge for specific and general provisions for loans and guarantees	18	5,876	325	1,351
11. Release of specific and general provisions for loans and guarantees	18	5,997	1,245	33,008
12. Release of specific and general provisions for shares and other financial investments		-	-	15,814
13. Charge for other specific and general provisions	18	23	38	33
14. Release of other specific and general provisions	18	184	-	1
15. Ordinary (loss) / profit after taxation		(10,699)	(28,628)	2,524
16. Extraordinary income	24	22,521	-	-
17. Extraordinary expenses	24	21,290	-	-
18. Extraordinary profit / (loss) after taxation		1,231	-	-
19. (Loss) / profit for accounting period		(9,468)	(28,628)	2,524

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

1 GENERAL INFORMATION

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

The primary objective of the Bank is to maintain price stability. Without prejudice to its primary objective, the Bank also aims to support the general economic policies of the Government leading to sustainable economic growth. The Bank acts in accordance with the principle of an open market economy.

In accordance with its primary objective, the Bank sets the monetary rules, issues bank notes and coins, manages the money supply and clearing for interbank settlements, maintains the interbank settlement systems to ensure its fluency and efficiency, supervises the activities of banks and sees to the safe functioning and development of the banking system in the CR. The Bank also performs other activities as defined by the CNB Act and by other legislation.

When pursuing its objectives, the Bank cooperates with the central banks of other countries, the authorities supervising the banks and financial markets of other countries, and with international financial organizations and international organizations involved in the supervision of banks and financial markets.

When carrying out its tasks, the Bank is independent of any instruction given by the Czech Government, the President of the CR, the Czech Parliament or other administrative or regional authorities and reports directly to the Czech Parliament. Matters concerning the exchange rate regime and the setting of the inflation target are discussed with the Czech Government and the Bank submits to the Czech Government upon request reports on such matters. The Bank and the Government inform each other about the principles and measures of monetary and general economic policy.

The highest-ranking management body of the Bank is the Bank Council of the CNB. The Bank Council has seven members. The members include the governor of the Bank, two vice-governors of the Bank, and four other Bank Council members. The members of the Bank Council are appointed and recalled by the President of the CR. The members of the Bank Council are appointed for a period of six years. The Bank Council sets the monetary rules and instruments for their implementation and decides about the primary monetary-political measures of the Bank.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

1 GENERAL INFORMATION (continued)

The members of the Bank Council as at 31 December 2002, 2001 and 2000 were as follows (including information regarding the end of their term):

Mr. Zdeněk Tůma	Governor	Until 12 February 2005
Mr. Oldřich Dědek	Vice-Governor	Until 12 February 2005
Mr. Luděk Niedermayer	Vice-Governor	Until 26 February 2008
Mrs. Michaela Erbenová	member	Until 30 November 2006
Mr. Jan Frait	member	Until 30 November 2006
Mr. Pavel Štěpánek	member	Until 12 February 2005
Mr. Pavel Racoča	member	Until 12 February 2005

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 uses its income to cover necessary operational costs of its operations. The Bank's profit, if any, is allocated to its reserve fund and other funds created from profit, and for other uses within the Bank's budget. Any remaining profit is transferred to the state budget. Accumulated losses are expected to be covered by future profits, however this depends on a number of factors, the outcome of which are not certain. The Bank Council is monitoring the situation, so that appropriate action, consistent with the Bank's statutory objectives, can be taken should this be necessary.

The CNB submits its annual report on its operations to the Czech Parliament within three months after the calendar year end.

2 ACCOUNTING POLICIES

(a) Basis of preparation

The accounting records are prepared in compliance with the Act on accounting (Act No. 563/1991 Col. as amended) and the Chart of accounts and accounting rules for banks, issued by the Ministry of Finance of the CR under the reference No. 282/73 390/2001 as at 15 November 2001. The financial statements are prepared in compliance with the Act on accounting under the historical cost convention as modified by the revaluation of financial instruments held for trading and available-for-sale to fair values. The financial statements are prepared according to principles of presentation and disclosure determined by the management of the CNB to be appropriate bearing in mind the needs and requirements for the reporting of a central bank. The financial statements are rounded to millions of Czech Crowns (hereinafter "CZK") unless otherwise stated. The Bank does not prepare consolidated financial statements because the Bank has no investments in subsidiary and associated undertakings.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

2 ACCOUNTING POLICIES (continued)

(b) Foreign currencies

Transactions in foreign currencies are translated to CZK at the foreign exchange (hereinafter "FX") 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 CZK 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 in the net profit or loss from financial operations.

(c) Gold and other precious metals

Gold and other precious metals are valued at historic cost. Gold deposits are accounted for on the gold account and related interest income is accrued.

(d) Securities

The Bank classified all its fixed income securities as available-for-sale securities. Since 2002, shares, other than investments in subsidiary or associated undertakings are included in other assets. Comparative financial information has been reclassified.

Securities transactions are recorded on a settlement date basis.

Foreign securities are purchased in relation to foreign currency reserves administration in accordance with predefined rules. They consist of money market and capital market securities. Part of the bonds portfolio was managed by external managers until 31 May 2002.

Treasury bills and other discounted securities are originally recorded at cost, which is further increased by related accrued interest income (amortised cost). They are subsequently re-measured to their fair value on a quarterly basis.

Bonds are valued at cost, which is further increased by related accrued coupon interest income (amortised cost). The difference between the purchase price and the nominal value of bonds is amortised to interest income. Re-measurement of bonds at their fair value is performed on a quarterly basis.

Transaction costs are not included in cost of purchased securities.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

2 ACCOUNTING POLICIES (continued)

(d) Securities (continued)

The fair value of a security is determined as the market value quoted by a relevant stock exchange or other active public market. In other cases the fair value is estimated by:

- the share of the investee's equity for equities;
- the risk adjusted net present value for debt securities and notes.

Changes in the fair values of securities are included in profit (loss) from financial operations.

Dividends received are included in income from securities with variable income.

Disposals of securities are valued at weighted average cost.

The Bank does not have any investments in subsidiary or associated undertakings.

(e) Securities financing arrangements

Securities borrowed or purchased under agreements to resell (reverse repo agreements) are not recognised on the balance sheet. Securities lent or sold under agreements to repurchase (repo agreements) are retained in their original portfolio. The underlying cashflows are recorded as loans and borrowings respectively on a settlement date basis.

(f) Currency in circulation

Notes and coins in circulation represent the liability of the Bank from the issue of currency. Since 1 January 2002 the amount of currency in issue is decreased by the cash in hand denominated in CZK. Comparative financial information has been reclassified.

(g) Membership quota at the International Monetary Fund

The membership quota at 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.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

2 ACCOUNTING POLICIES (continued)

(h) Issued securities

The amount of treasury bills issued by the Bank is presented in the balance sheet after offsetting against 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.

(i) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments. The Bank enters into derivative transactions only for the purpose of hedging against foreign currency risk and in 2002 carried out only currency forward transactions. The Bank does not apply hedge accounting. Derivative financial instruments are initially recognised on balance sheet at cost and subsequently are re-measured at their fair value. Fair values are obtained from discounted cash-flow models. All derivatives are presented in other assets or in other liabilities when their fair value is positive or negative respectively. Changes in the fair value of derivatives are included in foreign exchange losses from financial operations.

(j) Interest income and expense

Interest income and expense are accrued using usually a linear yield method. Accrued interest is recorded together with the underlying assets and liabilities.

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 interest earned on securities. Penalty interest income is suspended in case of a debtor's default and excluded from interest income until received.

Interest expense includes interest expense from loans and deposits received.

(k) Fee and commission income

Fee income from the maintenance of current accounts and other activities is accrued. One-off fees are recognised immediately in the income statement.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

2 ACCOUNTING POLICIES (continued)

(l) Specific provisions and reserves

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

When creating reserves for issued guarantees related to the consolidation of the banking sector, the guarantee issued by the Czech Government that covers the related risks was taken into consideration (see also Note 30). The received and issued guarantees related to the consolidation of the banking sector are recorded in the off balance sheet of the CNB.

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 that covers these assets was taken into consideration (see also Note 30). 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.

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

When a loan is deemed to be not collectable, 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.

(m) Tangible and intangible fixed assets

Tangible and intangible fixed assets are recorded at cost, which, with the exception of vehicles, excludes value added tax (hereinafter "VAT").

Tangible fixed assets are depreciated by applying the straight-line basis of depreciation over the estimated useful lives. Intangible fixed assets are amortised over four years unless their usage is limited by contract; in such cases 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.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

2 ACCOUNTING POLICIES (continued)

(m) Tangible and intangible fixed assets (continued)

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 the annual depreciation or amortisation rate or classification or valuation of the property, the depreciation charge is modified in the month of the change; 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.

(n) Value added tax

The Bank is registered for VAT. In accordance with the VAT Act, the CNB claims the full amount of input VAT in respect of received taxable supplies used to effect taxable supplies liable to VAT or to generate income or proceeds from output which is not taxable (i.e. the production of Czech coins and notes for circulation and support of the information system for the credit register maintained by the CNB according to Bank Act no. 21/1992 as amended).

(o) 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. As a result the Bank does not account for current and deferred tax. The income of the Bank is used to cover necessary operating expenses. Remaining profit is transferred to the state budget.

(p) Pensions

The Bank does not administer its own pension fund but operates defined contribution schemes for its employees administrated by commercial pension funds. Regular contributions are made to the state budget to fund the national pension plan.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

2 ACCOUNTING POLICIES (continued)

(q) Cash flow statement

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

(r) Extraordinary items and changes in accounting policy

Since 1 January 2002 extraordinary items include one-off effects of events outside the scope of the Bank's activities and effects of changes in accounting policies. Comparative financial information has been reclassified.

As at 1 January 2002 the CNB remeasured available-for-sale securities at fair value and released the provision to available-for-sale securities to extraordinary income.

Any resulting difference is presented as extraordinary income or expense.

Comparative financial information has not been reclassified.

In 2002, the difference between the purchase price and the nominal value of bonds became material and therefore the Bank started amortisation of the difference.

The changes in accounting policies affected the income statement for the year 2002 as follows:

	<u>2002</u>
	CZK million
Release of provisions to securities	22,521
Re-measurement of securities at fair value	<u>(21,290)</u>
Effects of changes in accounting policies included in extraordinary items:	<u>1,231</u>

Changes in disclosure of assets and liabilities in 2002 are described in Notes 2(d) and 2(f).

As at 1 January 2001 the CNB implemented new definitions of securities portfolios (trading securities, held-to-maturity securities and available-for-sale securities). This change had no impact on the income statement.

There were no significant changes in accounting policies as at 1 January 2000.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

2 ACCOUNTING POLICIES (continued)

(s) 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 but prior to signing of the financial statements that 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.

3 GOLD

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK million	CZK million	CZK million
Gold in total	<u>833</u>	<u>837</u>	<u>841</u>

The market value of gold as at 31 December 2002 was CZK 4,654 million (31 December 2001: CZK 4,470 million, 31 December 2000: CZK 4,640 million).

4 RECEIVABLES AND PAYABLES WITH THE IMF

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK million	CZK million	CZK million
Membership quota at IMF	28,006	34,064	42,406
Deposits in IMF	<u>7,313</u>	<u>5,736</u>	<u>396</u>
Total receivables from IMF	<u>35,319</u>	<u>39,800</u>	<u>42,802</u>
Liability to IMF	(27,761)	(33,925)	(42,291)
Current account IMF	<u>(108)</u>	<u>(108)</u>	<u>(108)</u>
Total payables to IMF	<u>(27,869)</u>	<u>(34,033)</u>	<u>(42,399)</u>
Total position with IMF	<u>7,450</u>	<u>5,767</u>	<u>403</u>

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

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

5 RECEIVABLES FROM FOREIGN COUNTRIES INCLUDING SECURITIES

	<u>31 December 2002</u> CZK million	<u>31 December 2001</u> CZK million	<u>31 December 2000</u> CZK million
Current accounts with banks	825	555	1,134
Deposits	<u>89,714</u>	<u>116,891</u>	<u>91,671</u>
Total deposits at foreign banks	90,539	117,446	92,805
Total loans provided to foreign banks	20,350	14,384	14,240
Treasury bills and other discounted securities	226,651	79,083	130,125
Bonds and other coupon securities	366,763	319,230	269,177
Unrealised profit (loss) from revaluation to fair value (Note 2(r))	2,886	*	*
Provision when market value lower than accrued cost (Note 18)	<u>*</u>	<u>(1,573)</u>	<u>(1,106)</u>
Total securities	596,300	396,740	398,196
Cash in foreign currencies	49	37	60
Other receivables from abroad	<u>-</u>	<u>12</u>	<u>-</u>
Total other receivables from foreign countries	49	49	60
Total receivables from foreign countries including securities	<u>707,238</u>	<u>528,619</u>	<u>505,301</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

5 RECEIVABLES FROM FOREIGN COUNTRIES 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 state treasury bills, other short-term treasury bills and government and other coupon bonds. Their market value does not materially differ from the carrying value of the agreements.

Reverse repo operations at 31 December 2002 include foreign bonds purchased from counter parties of CZK 20,344 million (31 December 2001: CZK 14,384 million, 31 December 2000: CZK 14,240 million). The maturity of these operations is less than 60 days.

Geographic sector risk concentrations within receivables from foreign countries, excluding securities (Assets Balance sheet lines 3.1., 3.2., 3.4.)

	<u>31 December 2002</u>		<u>31 December 2001</u>		<u>31 December 2000</u>	
	CZK million	%	CZK million	%	CZK million	%
Euro zone	55,219	50	88,433	67	53,098	49
Great Britain	42,618	38	42,871	33	48,819	46
Other European countries	846	1	49	-	4	-
USA	812	1	522	-	5,119	5
Japan	11,438	10	1	-	1	-
Other countries	<u>5</u>	<u>-</u>	<u>3</u>	<u>-</u>	<u>64</u>	<u>-</u>
	<u>110,938</u>	<u>100</u>	<u>131,879</u>	<u>100</u>	<u>107,105</u>	<u>100</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

5 RECEIVABLES FROM FOREIGN COUNTRIES INCLUDING SECURITIES (continued)

Treasury bills and other discounted securities (Assets Balance sheet line 3.3.)

Treasury bills and other discounted securities can be analysed as follows:

	Fair value 31 December <u>2002</u> CZK million	Accrued cost 31 December <u>2001</u> CZK million	Fair value 31 December <u>2001</u> CZK million	Accrued cost 31 December <u>2000</u> CZK million	Fair value 31 December <u>2000</u> CZK million
Treasury bills	107,452	32,793	32,805	48,823	48,846
Other discounted securities	<u>119,215</u>	<u>46,290</u>	<u>46,289</u>	<u>81,302</u>	<u>81,278</u>
		79,083		130,125	
Provision against securities		<u>(6)</u>		<u>(29)</u>	
Total treasury bills and other discounted securities	<u>226,667</u>	<u>79,077</u>	<u>79,094</u>	<u>130,096</u>	<u>130,124</u>

Geographic sector risk concentrations within treasury bills and other discounted securities

	<u>31 December 2002</u>		<u>31 December 2001</u>		<u>31 December 2000</u>	
	CZK million	%	CZK million	%	CZK million	%
Euro zone	90,662	40	39,137	50	40,962	32
Great Britain	3,285	2	-	-	4,014	3
Switzerland	27,451	12	18,516	23	56,237	43
USA	9,291	4	10,798	14	11,820	9
Japan	79,762	35	-	-	5,943	4
Other countries	<u>16,216</u>	<u>7</u>	<u>10,632</u>	<u>13</u>	<u>11,149</u>	<u>9</u>
	<u>226,667</u>	<u>100</u>	<u>79,083</u>	<u>100</u>	<u>130,125</u>	<u>100</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

5 RECEIVABLES FROM FOREIGN COUNTRIES INCLUDING SECURITIES (continued)

Bonds and other coupon securities (Assets Balance sheet line 3.3.)

Bonds and other coupon securities can be analysed as follows:

	Fair value	Cost	Fair value	Cost	Fair value
	31 December	31 December	31 December	31 December	31 December
	<u>2002</u>	<u>2001</u>	<u>2001</u>	<u>2000</u>	<u>2000</u>
	CZK million	CZK million	CZK million	CZK million	CZK million
State bonds	300,462	257,676	256,930	237,953	238,300
Other foreign bonds	61,028	43,584	43,916	14,431	14,586
Bonds managed by external manager	-	11,695	11,758	11,219	11,219
Accrued interest from bonds	<u>8,143</u>	<u>6,275</u>	<u>6,275</u>	<u>5,574</u>	<u>5,573</u>
		319,230		269,177	
Provision against securities		<u>(1,567)</u>		<u>(1,077)</u>	
Bonds and other coupon securities	<u>369,633</u>	<u>317,663</u>	<u>318,879</u>	<u>268,100</u>	<u>269,678</u>

Bonds and other securities with fixed income reported as trading securities as at 31 December 2002, 2001 and 2000 include solely fixed income securities.

Geographic sector risk concentrations within bonds and other coupon securities

	<u>31 December 2002</u>		<u>31 December 2001</u>		<u>31 December 2000</u>	
	CZK million	%	CZK million	%	CZK million	%
Euro zone	285,654	78	255,387	80	217,526	81
Great Britain	8,488	2	-	-	-	-
USA	74,278	20	62,697	20	50,728	19
Other countries	<u>1,213</u>	<u>-</u>	<u>1,146</u>	<u>-</u>	<u>923</u>	<u>-</u>
	<u>369,633</u>	<u>100</u>	<u>319,230</u>	<u>100</u>	<u>269,177</u>	<u>100</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

6 RECEIVABLES FROM DOMESTIC BANKS

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK million	CZK million	CZK million
Redistribution loans	-	-	12,800
Non-performing loans	14	14	14
Loans provided from European Investment Bank (the "EIB") funds (Note 12)	115	133	169
Other receivables	<u>-</u>	<u>660</u>	<u>4,402</u>
	129	807	17,385
Specific provisions against receivables from domestic banks (Note 18)	<u>(14)</u>	<u>(14)</u>	<u>(14)</u>
Total receivables from domestic banks	<u>115</u>	<u>793</u>	<u>17,371</u>

Redistribution loans

Long-term redistribution loans were provided to Konsolidační banka Praha, s.p.ú. (now Česká konsolidační agentura) in 1990 and 1991. A redistribution loan, under special conditions, was provided to fund the co-operative housing scheme. It is repayable by annual installments based on payments received from clients and its final maturity has not been specified. Since Konsolidační Banka Praha, s.p.ú., was transformed into Česká konsolidační agentura in 2001, this receivable is included in receivables from clients in 2002 and 2001.

Non-performing loans

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

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

7 DUE FROM CLIENTS

	<u>31 December 2002</u> CZK million	<u>31 December 2001</u> CZK million	<u>31 December 2000</u> CZK million
Standard loans	5,723	14,109	15,225
Redistribution loans (Note 6)	10,610	11,651	-
Classified loans gross	<u>32,876</u>	<u>26,658</u>	<u>27,197</u>
	49,209	52,418	42,422
Specific provisions for classified loans (Note 18)	<u>(9,389)</u>	<u>(4,155)</u>	<u>(4,680)</u>
Total due from clients	<u>39,820</u>	<u>48,263</u>	<u>37,742</u>

Classified loans

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

	<u>31 December 2002</u>		<u>31 December 2001</u>		<u>31 December 2000</u>	
	Net book value CZK million	Fair value CZK million	Net book value CZK million	Fair value CZK million	Net book value CZK million	Fair value CZK million
Watch	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	2	1	4	2	36	18
Loss	<u>32,874</u>	<u>986</u>	<u>26,654</u>	-	<u>27,161</u>	-
Total classified loans	<u>32,876</u>	<u>987</u>	<u>26,658</u>	<u>2</u>	<u>27,197</u>	<u>18</u>

The difference between net book value and fair value of the classified loans is covered by the guarantee issued by the Czech Government (Note 30).

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

7 DUE FROM CLIENTS (continued)

Classified loans include a portfolio of receivables against Agrobanka Praha, a.s., v likvidaci in the total gross amount of CZK 6,534 million. A specific provision of CZK 5,548 million was created against these receivables and the reserve for exposure to Česká finanční, s.r.o. (hereinafter the "CF") (Notes 18 and 30) was decreased by the same amount.

Except for specific provisions for classified loans the Bank created a reserve for standard loans of CZK 348 million as at 31 December 2002, 2001 and 2000. The reserve must be utilised or written back to income in compliance with Czech accounting rules for banks by 31 December 2005.

8 DOMESTIC SECURITIES AND SHARES

Domestic securities and shares include shares issued by subsidiary or associated undertakings of the Bank in the Czech Republic as follows:

Fair value	Cost	Fair value	Cost	Fair value
31 December	31 December	31 December	31 December	31 December
<u>2002</u>	<u>2001</u>	<u>2001</u>	<u>2000</u>	<u>2000</u>
CZK million	CZK million	CZK million	CZK million	CZK million

Bankovní institut vysoká

škola, a.s.

≡

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11

11

Investments in subsidiary undertakings

The Bank had no investments in subsidiary undertakings as at 31 December 2002, 2001 and 2000. In June 2000 the Bank sold its investment in its subsidiary undertaking the CF to Konsolidační banka Praha, s.p.ú. (now Česká konsolidační agentura) for CZK 1 (Note 30).

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

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	%
Bankovní institut vysoká škola, a.s.	<u>11</u>	<u>13</u>	<u>44</u>	<u>30</u>

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 2000	15,814	15,814	11	13
Sale of share in the CF	<u>(15,814)</u>	<u>(15,814)</u>	-	-
At 31 December 2000	-	-	11	13
Sale of share in Bankovní institut vysoká škola, a.s.	<u>-</u>	<u>-</u>	<u>(11)</u>	<u>(13)</u>
At 31 December 2002 and 2001	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

9 TANGIBLE AND INTANGIBLE FIXED ASSETS

Tangible fixed assets

	31 December <u>2000</u> CZK million	31 December <u>2001</u> CZK million	<u>Additions</u> CZK million	<u>Disposals</u> CZK million	31 December <u>2002</u> CZK million
<u>Cost</u>					
Land	197	202	1	(29)	174
Buildings	7,046	7,081	10	(51)	7,040
Technical equipment	2,707	2,554	135	(163)	2 526
Equipment	367	355	6	(12)	349
Other	445	447	5	(10)	442
Advances for fixed asset acquisitions	<u>79</u>	<u>74</u>	<u>126</u>	<u>(157)</u>	<u>43</u>
Total cost	<u>10,841</u>	<u>10,713</u>	<u>283</u>	<u>(422)</u>	<u>10,574</u>
<u>Accumulated depreciation</u>					
Buildings	(581)	(817)	(277)	50	(1,044)
Technical equipment	(1,769)	(1,830)	(276)	165	(1,941)
Equipment	(202)	(235)	(48)	19	(264)
Other	<u>(412)</u>	<u>(412)</u>	<u>(8)</u>	<u>13</u>	<u>(407)</u>
Total accumulated depreciation	<u>(2,964)</u>	<u>(3,294)</u>	<u>(609)</u>	<u>247</u>	<u>(3,656)</u>
Net book amount	<u>7,877</u>	<u>7,419</u>			<u>6,918</u>

The original cost of low value tangible fixed assets that have been fully amortised when put into use in 2002 is CZK 4.9 million (2001: CZK 15 million, 2000: CZK 205 million).

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

9 TANGIBLE AND INTANGIBLE FIXED ASSETS (continued)

Intangible fixed assets

	31 December <u>2000</u> CZK million	31 December <u>2001</u> CZK million	<u>Additions</u> CZK million	<u>Disposals</u> CZK million	31 December <u>2002</u> CZK million
<u>Cost</u>					
Software	956	1,026	63	-	1,089
Other intangible assets	2	2	-	-	2
Advances for intangible assets acquisitions	<u>38</u>	<u>39</u>	<u>82</u>	<u>(63)</u>	<u>58</u>
Total cost	<u>996</u>	<u>1,067</u>	<u>145</u>	<u>(63)</u>	<u>1,149</u>
<u>Accumulated amortisation</u>					
Software	(543)	(715)	(153)	-	(868)
Other intangible assets	<u>(1)</u>	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>(2)</u>
Total accumulated amortisation	<u>(544)</u>	<u>(717)</u>	<u>(153)</u>	<u>=</u>	<u>(870)</u>
Net book amount	<u>452</u>	<u>350</u>			<u>279</u>

The original cost of low value intangible fixed assets that has been fully amortised when put into use in 2002 is CZK 1.4 million (2001: 1 million, 2000: CZK 0.6 million).

The Bank did not provide any fixed tangible or intangible assets as collateral and does not hold any fixed assets under finance lease contracts.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

10 OTHER ASSETS

	<u>31 December 2002</u> CZK million	<u>31 December 2001</u> CZK million	<u>31 December 2000</u> CZK million
Prepayments	16	16	19
Accrued revenue	-	372	412
Advances	4,321	2,407	2,136
Other financial assets foreign	50	50	50
Other financial assets domestic	-	19,717	19,717
Other precious metals	11	18	16
Foreign currency derivative financial instruments	653	-	415
Other	<u>606</u>	<u>337</u>	<u>151</u>
	5,657	22,917	22,916
Specific provisions to advances and other assets (Note 18)	<u>(1,988)</u>	<u>(21,498)</u>	<u>(21,194)</u>
Total other assets	<u>3,669</u>	<u>1,419</u>	<u>1,722</u>

CNB's investments in the Bank for International Settlement (BIS) and SWIFT are recorded in other assets. The shares of BIS and SWIFT are non-tradable and their holding results from the participation of the CNB in these institutions.

Within other financial assets domestic the Bank discloses its share in GE Capital Bank, a.s. with a fair value of about nil. In 2001 and 2000 this share was disclosed at cost of CZK 19,717 million together with a provision of the same amount.

In 2002 CSOB transferred to the CNB, in compliance with the Agreement and Indemnity Letter (hereinafter the "Indemnity Letter"), free of charge the shares of Agrobanka Praha, a.s. v likvidaci, Kreditní banka Plzeň, a.s. – v likvidaci and BH CAPITAL, a.s. (Note 30). In the opinion of the representatives of the Bank their fair value is about nil.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

11 CURRENCY IN CIRCULATION

	<u>31 December 2002</u> CZK million	<u>31 December 2001</u> CZK million	<u>31 December 2000</u> CZK million
Notes in circulation	219,360	201,793	191,584
Coins in circulation	6,114	5,782	5,416
Cash in hand denominated in CZK	<u>(1,072)</u>	<u>(1,714)</u>	<u>(1,898)</u>
Total currency in circulation	<u>224,402</u>	<u>205,861</u>	<u>195,102</u>

12 LIABILITIES TO FOREIGN COUNTRIES

	<u>31 December 2002</u> CZK million	<u>31 December 2001</u> CZK million	<u>31 December 2000</u> CZK million
Repo operations	4,174	14,141	13,246
Loans from the EIB	<u>115</u>	<u>134</u>	<u>169</u>
Total loans from foreign banks	4,289	14,275	13,415
Other liabilities to foreign countries	<u>446</u>	<u>468</u>	<u>414</u>
Total liabilities to foreign countries	<u>4,735</u>	<u>14,743</u>	<u>13,829</u>

Loans from the EIB

The Bank received loans from the EIB. From this source, the Bank granted loans in foreign currencies to commercial banks in the CR (Note 6). Loans were received and provided in the same amount, have the same maturity date and are not secured. The CNB earns a margin on these loans.

Repo operations

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

CZECH NATIONAL BANK**NOTES TO FINANCIAL STATEMENTS**

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

12 LIABILITIES TO FOREIGN COUNTRIES (continued)**Geographic sector risk concentrations within liabilities to foreign countries:**

	<u>31 December 2002</u>		<u>31 December 2001</u>		<u>31 December 2000</u>	
	CZK million	%	CZK million	%	CZK million	%
Euro zone	4,325	91	3,461	23	1,973	14
Other European countries	8	-	5	-	-	-
USA	<u>402</u>	<u>9</u>	<u>11,277</u>	<u>77</u>	<u>11,856</u>	<u>86</u>
	<u>4,735</u>	<u>100</u>	<u>14,743</u>	<u>100</u>	<u>13,829</u>	<u>100</u>

13 DUE TO DOMESTIC BANKS

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK million	CZK million	CZK million
Monetary reserves from banks	28,359	30,273	26,575
Repo operations	455,419	264,847	251,386
Other liabilities to domestic banks	<u>4,455</u>	<u>14,127</u>	<u>17,910</u>
Total liabilities to domestic banks	<u>488,233</u>	<u>309,247</u>	<u>295,871</u>

Monetary reserves from banks

Obligatory minimum reserves represent deposits of the banks in the CR held at the CNB. Since 12 July 2001 the CNB pays interest equal to the CZK two-week repo interest rate on these deposits. Obligatory minimum reserves are defined as 2% of deposits with maturity less than two years.

Repo operations

Repo operations as at 31 December 2002 include CZK 455,419 million (31 December 2001: CZK 264,847 million, 31 December 2000: CZK 251,386 million) of loans received from banks in the CR. Repurchased treasury bills of the Bank guarantee these loans. Their market value does not materially differ from the carrying value of the operations.

Other liabilities to domestic banks

Other liabilities to domestic banks represent deposits used for interbank money transfers.

CZECH NATIONAL BANK**NOTES TO FINANCIAL STATEMENTS****AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED****14 CLIENT DEPOSITS**

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK million	CZK million	CZK million
Current accounts	8,990	9,730	7,070
Term deposits	11,083	2,046	2,134
Deposits of local government bodies	12,025	11,092	5,970
Other deposits	<u>3,839</u>	<u>5,048</u>	<u>6,399</u>
Total client deposits	<u>35,937</u>	<u>27,916</u>	<u>21,573</u>

15 DOMESTIC SECURITIES ISSUED

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK million	CZK million	CZK million
CNB treasury bills	700,000	400,000	400,000
CNB treasury bills repurchased:			
- held in the treasury bills portfolio	(250,582)	(136,826)	(148,631)
- in repo operations	(449,418)	(263,175)	(252,206)
- in reverse repo operations	<u>-</u>	<u>1</u>	<u>837</u>
	<u>-</u>	<u>-</u>	<u>-</u>

The treasury bills were issued at zero discount during 2002, 2001 and 2000.

16 OTHER LIABILITIES TO STATE BUDGET

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK million	CZK million	CZK million
State funds' accounts	23,111	12,033	7,130
Other state assets denominated in CZK	25,011	24,435	28,681
Other state assets denominated in foreign currency	<u>1,846</u>	<u>21,269</u>	<u>763</u>
Total other liabilities to state budget	<u>49,968</u>	<u>57,737</u>	<u>36,574</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

17 EQUITY

Changes of equity during 2002, 2001 and 2000 were as follows:

	Share <u>capital</u> CZK million	<u>Funds</u> CZK million	Accumulated <u>losses</u> CZK million	Profit / (loss) for <u>the year</u> CZK million	<u>Equity</u> CZK million
Balance at 1 January 2000	1,400	8,203	(50,739)	32,378	(8,758)
Transfer of profit from 1999					
to accumulated losses	0	0	32,347	(32,347)	0
Usage of social fund	0	(32)	0	0	(32)
Allocation to social fund from profit	0	31	0	(31)	0
Profit for the year 2000	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,524</u>	<u>2,524</u>
Balance at 31 December 2000	1,400	8,202	(18,392)	2,524	(6,266)
Transfer of profit from 2000					
to accumulated losses	-	0	2489	(2,489)	0
Usage of social fund	-	(39)	0	0	(39)
Allocation to social fund from profit	-	35	0	(35)	0
Loss for the year 2001	<u>-</u>	<u>0</u>	<u>0</u>	<u>(28,628)</u>	<u>(28,628)</u>
Balance at 31 December 2001	1,400	8,198	(15,903)	(28,628)	(34,933)
Transfer of loss from 2001					
to accumulated losses	-	-	(28,628)	28,628	0
Usage of social fund	-	(42)	0	0	(42)
Loss for the year 2002	<u>-</u>	<u>0</u>	<u>0</u>	<u>(9,468)</u>	<u>(9,468)</u>
Balance at 31 December 2002	<u>1,400</u>	<u>8,156</u>	<u>(44,531)</u>	<u>(9,468)</u>	<u>(44,443)</u>

CZECH NATIONAL BANK**NOTES TO FINANCIAL STATEMENTS**

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

17 EQUITY (continued)**Funds**

The major part of funds is represented by the General reserve fund of CZK 7,773 million existing in all reporting periods, which can be used to cover accumulated losses, increase share capital or for any other purpose approved by Bank Council of the CNB.

In compliance with Czech accounting principals the Social fund of CZK 6 million as at 31 December 2002 (31 December 2001: CZK 8 million and 31 December 2000: CZK 13 million) used for coverage of the social needs of employees and employees' programme of the CNB is also included within funds. Allocations to the Social fund are performed each year from the profit of the prior year. If the CNB achieved a loss in the prior year, the allocation to Social fund is done from the Special reserve fund.

18 RESERVES, SPECIFIC PROVISIONS AND WRITE OFFS

At 31 December 2002, 2001 and 2000 the Bank created specific provisions and reserves for assets at risk:

	31 December <u>2002</u> CZK million	31 December <u>2001</u> CZK million	31 December <u>2000</u> CZK million
Specific provisions for non-performing loans due from domestic banks (Note 6)	14	14	14
Specific provisions for classified loans to clients (Note 7)	9,389	4,155	4,680
Specific provisions for securities			
- Foreign securities (Note 5)	-	1,573	1,106
- Domestic securities (Note 10)	-	19,717	19,717
Other specific provisions (Note 10)	<u>1,988</u>	<u>1,781</u>	<u>1,477</u>
Total specific provisions	<u>11,391</u>	<u>27,240</u>	<u>26,994</u>
Reserves for guarantees (Note 20)	348	418	828
Reserves for standard loans (Note 6)	348	348	348
Reserves for guarantee CF (Note 30)	4,916	10,587	10,867
Reserves for guarantee related to consolidation of the banking sector (Note 20 and 30)	<u>598</u>	<u>582</u>	<u>554</u>
Total reserves	<u>6,210</u>	<u>11,935</u>	<u>12,597</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

18 RESERVES, SPECIFIC PROVISIONS AND WRITE OFFS (continued)

Write-offs and recovery of amounts written off previously

The CNB wrote off receivables of CZK 11 million in 2002 (2001: CZK 128 million, 2000: CZK 27 million) and did not receive any payments on debts that had been previously written off in 2002, 2001 and 2000.

Specific provisions

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

	Amounts due from banks and <u>from foreign banks</u> CZK million	Classified <u>loans</u> CZK million	<u>Securities</u> CZK million	<u>Other</u> CZK million	<u>Total</u> CZK million
At 1 January 2000	25,824	5,336	22,648	1,444	55,252
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	14	4,680	20,823	1,477	26,994
Addition	-	18	1,190	305	1,513
FX difference	-	-	(84)	-	(84)
Usage	<u>-</u>	<u>(543)</u>	<u>(639)</u>	<u>(1)</u>	<u>(1,183)</u>
At 31 December 2001	14	4,155	21,290	1,781	27,240
Addition	-	5,560	-	312	5,872
Change in accounting policy (Note 2r)	-	-	(21,290)	-	(21,290)
Usage	<u>-</u>	<u>(326)</u>	<u>-</u>	<u>(105)</u>	<u>(431)</u>
At 31 December 2002	<u>14</u>	<u>9,389</u>	<u>-</u>	<u>1,988</u>	<u>11,391</u>

The 2001 and 2000 creation and usage of specific provisions for securities were presented as profit or loss from financial operations (Note 22).

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

18 RESERVES, SPECIFIC PROVISIONS AND WRITE OFFS (continued)

Reserves

The movements in reserves can be analysed as follows:

	<u>Standard loans</u> CZK million	<u>Consolidation</u> CZK million	<u>Other</u> CZK million	<u>Total</u> CZK million
At 1 January 2000	348	31,900	1,354	33,602
Addition	-	1,317	11	1,328
Usage	<u>-</u>	<u>(21,796)</u>	<u>(537)</u>	<u>(22,333)</u>
At 31 December 2000	348	11,421	828	12,597
Addition	-	28	11	39
Usage	<u>-</u>	<u>(280)</u>	<u>(421)</u>	<u>(701)</u>
At 31 December 2001	348	11,169	418	11,935
Addition	-	16	9	25
Usage	<u>-</u>	<u>(5,671)</u>	<u>(79)</u>	<u>(5,750)</u>
At 31 December 2002	<u>348</u>	<u>5,514</u>	<u>348</u>	<u>6,210</u>

19 OTHER LIABILITIES

	<u>31 December</u> <u>2002</u> CZK million	<u>31 December</u> <u>2001</u> CZK million	<u>31 December</u> <u>2000</u> CZK million
Deferred revenue and accrued expenses	<u>8</u>	<u>186</u>	<u>346</u>
Derivative financial instruments	844	-	-
Settlement accounts of local authorities resources	-	-	1,127
Other liabilities	<u>428</u>	<u>775</u>	<u>967</u>
Total others	<u>1,272</u>	<u>775</u>	<u>2,094</u>
Total other liabilities	<u>1,280</u>	<u>961</u>	<u>2,440</u>

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20 CONTINGENCIES AND COMMITMENTS

Received and issued guarantees

Received and issued guarantees can be divided as follows:

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK million	CZK million	CZK million
Issued guarantees for clients	426	514	540
Issued guarantee for CF (Note 30)	4,916	10,587	10,867
Issued guarantees for the consolidation of the banking sector	<u>194,620</u>	<u>92,686</u>	<u>67,333</u>
Total issued guarantees	<u>199,962</u>	<u>103,787</u>	<u>78,740</u>
Guarantee received from the Czech Government for impaired assets taken over by the Bank within the Consolidation Programme (Note 30)	22,500	22,500	22,500
Guarantee received from the Ministry of Finance (Note 30)	<u>160,000</u>	<u>39,840</u>	<u>7,945</u>
Total guarantees received	<u>182,500</u>	<u>62,340</u>	<u>30,445</u>

The issued guarantees for the consolidation of the banking sector include the Indemnity Letter and Guarantee for deposits of IPB (Note 30). The guarantees received included the guarantee provided by the Czech Government in connection with the consolidation of the banking sector (Note 30).

The identified need for reserves for expected losses on the issued guarantees was CZK 5,862 million as at 31 December 2002 (31 December 2001: CZK 11,587 million, 31 December 2000: CZK 12,248 million).

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

20 CONTINGENCIES AND COMMITMENTS (continued)

Receivables and payables from unsettled transactions with securities

	31 December <u>2002</u> CZK million	31 December <u>2001</u> CZK million	31 December <u>2000</u> CZK million
Receivables from unsettled transactions with securities	51,490	11,851	98,251
Payables from unsettled transactions with securities	<u>46,164</u>	<u>9,493</u>	<u>94,418</u>
Net position	<u>5,326</u>	<u>2,358</u>	<u>3,833</u>

All receivables and payables from unsettled transactions with securities as at 31 December 2002, 2001 and 2000 matured in January of the following year.

Legal suits

The Bank participates in a legal suit with one of domestic commercial banks about compensation for an alleged claim of about CZK 1,800 million resulting from a transaction performed by the CNB within the consolidation of Czech banking sector. Based on independent analysis and the Bank's own opinion, the management of the CNB does not consider any compensation to be paid by the CNB as probable and therefore did not create any reserve for such compensation.

Investment commitments

The Bank has not entered into any contracts for the purchase of tangible and intangible fixed assets as at 31 December 2002 and 2001 (31 December 2000: CZK 12 million).

Assets held in custody

The Bank has not received any assets from third parties to be held in custody in 2002, 2001 and 2000.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

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21 INTEREST MARGIN

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK million	CZK million	CZK million
Interest income and similar income	22,104	28,106	28,291
Interest expense and similar expense	<u>(17,032)</u>	<u>(17,092)</u>	<u>(16,821)</u>
Interest margin	<u>5,072</u>	<u>11,014</u>	<u>11,470</u>

Interest income and similar income

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK million	CZK million	CZK million
Discount on repurchased treasury bills issued by the Bank	-	53	185
Interest on treasury bills and other discounted securities	3,134	3,952	7,322
Interest on bonds and other coupon securities	<u>13,583</u>	<u>18,376</u>	<u>14,189</u>
Total interest from securities with fixed income	<u>16,717</u>	<u>22,381</u>	<u>21,696</u>
Interest on inter-bank transactions	4,320	4,250	5,341
Interest on loans to clients	956	1,450	979
Other interest income	<u>111</u>	<u>25</u>	<u>275</u>
Total other interest and similar income	<u>5,387</u>	<u>5,725</u>	<u>6,595</u>
Total interest income and similar income	<u>22,104</u>	<u>28,106</u>	<u>28,291</u>

Based on the estimate of the Bank's management, in 2002 total income included CZK 7 million from interest income on classified loans (2001: CZK 14 million, 2000: CZK 32 million). Unpaid interest is accrued and is taken into account when calculating the amount of specific provisions.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

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21 INTEREST MARGIN (continued)

Interest expense and related expense

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK million	CZK million	CZK million
Interest and discount from issued treasury bills and bonds	<u>-</u>	<u>-</u>	<u>523</u>
Interest on liabilities to state	391	429	1,020
Interest on liabilities to banks	16,081	16,348	14,959
Interest on liabilities to clients	<u>560</u>	<u>315</u>	<u>319</u>
Total other interest and related expense	<u>17,032</u>	<u>17,092</u>	<u>16,298</u>
Total interest expense and related expense	<u>17,032</u>	<u>17,092</u>	<u>16,821</u>

22 LOSS FROM FINANCIAL OPERATIONS

Loss from financial operations for the year 2002, 2001 and 2000 can be analysed as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK million	CZK million	CZK million
Profit from sale of securities	2,097	3,927	691
Loss from sale of securities	(1,762)	(2,117)	(5,333)
Foreign exchange losses	(26,170)	(40,113)	(3,523)
Other income	7,342	1,101	1,336
Result on swap transactions	-	-	66
Other interest	(197)	8	287
Decrease in fair value of securities	(1,469)	-	-
Increase in fair value of securities	6,295	-	-
Addition to specific provisions for securities	-	(1,190)	(1,534)
Usage of specific provisions for securities	<u>-</u>	<u>639</u>	<u>3,289</u>
	<u>(13,864)</u>	<u>(37,745)</u>	<u>(4,721)</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

23 ADMINISTRATION EXPENSES

The administration expenses for the year 2002, 2001 and 2000 can be analysed as follows:

	<u>2002</u> CZK million	<u>2001</u> CZK million	<u>2000</u> CZK million
Wages and salaries	554	501	484
Social security and health insurance	<u>197</u>	<u>176</u>	<u>182</u>
Total personnel costs	<u>751</u>	<u>677</u>	<u>666</u>
Depreciation of tangible fixed assets	556	604	812
Amortisation of intangible fixed assets	152	175	163
Rent	12	16	121
Other	<u>544</u>	<u>530</u>	<u>593</u>
Total other administration expenses	<u>1,264</u>	<u>1,325</u>	<u>1,689</u>
Total administration expenses	<u>2,015</u>	<u>2,002</u>	<u>2,355</u>

Staff statistics

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Average number of employees	1,479	1,448	1,458
Number of members of the Bank Council	7	7	7

CZECH NATIONAL BANK**NOTES TO FINANCIAL STATEMENTS**

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

24 OTHER OPERATING EXPENSES AND EXTRAORDINARY EXPENSES**Other operating expenses**

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK million	CZK million	CZK million
Cost of transfer of the Slovak National Bank receivable	-	-	25,810
Cost of transfer of the share in the CF (Note 30)	-	13	15,814
Settlement of CF losses (Note 30)	565	864	7,394
Expenses for issuing bank notes and coins	371	309	297
Other expenses and damages	<u>183</u>	<u>590</u>	<u>553</u>
Other expenses in total	<u>1,119</u>	<u>1,776</u>	<u>49,868</u>

Due to a change in accounting policy, other damages and selected extraordinary expenses of CZK 11 million in 2001 (2000: CZK 3 million) are included in other operating expenses in 2002.

Transfer of receivable from Národní banka Slovenska

Until 2000 other receivables included receivables towards Slovak National Bank of CZK 25,810 million resulting from the split of the assets and liabilities of the former Státní banka Československá between the central banks of the CR and Slovak Republic and from the losses resulting from the split of federal currency as at 31 December 1992. The agreement concerning the transfer of this receivable to the Czech state for CZK 1 became effective in 2000 and the CNB recognized a loss of CZK 25,810 million and released the established provision of CZK 25,810 million at the same time.

Extraordinary expenses and incomes

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK million	CZK million	CZK million
Total extraordinary expenses	<u>21,290</u>	=	=
Total extraordinary incomes	<u>22,521</u>	=	=

Extraordinary expense and income in 2002 result from the change in accounting policy of the re-measurement of securities to fair value (Note 2 (r)).

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

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25 FINANCIAL RISKS

Liquidity risk

The Bank monitors and manages the structure and duration of its foreign currency reserves in compliance with the mission of the Bank. The table in Note 26 analyses assets and liabilities of the Bank into relevant maturity bands based on the remaining period at the balance sheet date to the contractual maturity date.

Interest rate risk

The Bank takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Changes in interest rates result in the change in market value of securities held in the portfolio of the Bank. Rules for investing foreign currency reserves are targeted to keep down the significant risk of a change in interest rates. The table in Note 27 summarizes the Bank's exposure to interest rate risks. Included in the table are the Bank's interest bearing assets and liabilities at carrying amounts, categorized by the earlier of contractual, repricing or maturity dates.

Currency risk

The Bank takes on exposure resulting from fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The structure of foreign currency reserves is targeted to keep down the significant risk of the movement of mutual foreign exchange rates of single currencies. The table in Note 28 summarizes the Bank's exposure to the currency risk. Included in the table are the Bank's foreign currency denominated assets and liabilities at carrying amounts, categorized by currency.

Credit risk

The Bank manages the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers and to geographical segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. Geographical concentrations of assets and liabilities are stated in Note 29.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

25 FINANCIAL RISKS (continued)

Spot operations and derivative financial instruments

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

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK million	CZK million	CZK million
Receivables			
- from unsettled spot operations	1,355	2,877	494
- from forward operations	91,420	5	6,368
- from option operations	<u>8,898</u>	<u>7,985</u>	<u>6,832</u>
	<u>101,673</u>	<u>10,867</u>	<u>13,694</u>
Payables			
- from unsettled spot operations	1,359	2,871	493
- from forward operations	91,196	5	5,944
- from option operations	<u>8,898</u>	<u>7,985</u>	<u>6,832</u>
	<u>101,453</u>	<u>10,861</u>	<u>13,269</u>

The Bank has outstanding derivative contracts at the balance sheet date hedging the movement of foreign exchange rates:

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK million	CZK million	CZK million
Off balance sheet receivables from forward operations	91,420	5	6,368
Off balance sheet payables from forward operations	91,196	5	5,944
Fair value positive	844	-	-
Fair value negative	653	-	415

The nominal amounts in off balance sheet provide a basis for volume comparison with instruments recognised on the balance sheet but do not indicate the Bank's exposure to credit or price risk.

Despite the fact that these foreign currency forwards provide efficient financial hedging of the Bank's position from a risk management point of view, they do not fulfill the criteria for hedge accounting required by the Czech accounting rules, so that they are treated as trading derivatives. Gains and losses from the change of the fair value of these foreign currency forwards are recorded in the income statement.

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NOTES TO FINANCIAL STATEMENTS

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26 LIQUIDTY RISK

As at 31 December 2002	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Un- specified	Total
Assets							
Gold	833	-	-	-	-	-	833
Receivables from IMF	-	-	-	-	-	35,319	35,319
Treasury bills and other discounted securities	39,045	129,177	58,445	-	-	-	226,667
Bonds and other coupon Securities	4,189	3,236	22,558	330,083	9,567	-	369,633
Other receivables against foreign countries	92,873	18,065	-	-	-	-	110,938
Receivables from domestic bank	-	12	12	91	-	-	115
Receivables from clients	23,574	-	5,542	94	-	10,610	39,820
Fixed assets	-	-	-	-	-	7,197	7,197
Other assets	<u>3,603</u>	<u>-</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>50</u>	<u>3,669</u>
Total assets	<u>164,117</u>	<u>150,490</u>	<u>86,573</u>	<u>330,268</u>	<u>9,567</u>	<u>53,176</u>	<u>794,191</u>
Liabilities and equity							
Currency in circulation	-	-	-	-	-	224,402	224,402
Liabilities to IMF	-	-	-	-	-	27,869	27,869
Liabilities to foreign banks including securities	4,621	12	12	90	-	-	4,735
Liabilities to domestic banks	488,233	-	-	-	-	-	488,233
Deposits from clients	35,288	-	341	308	-	-	35,937
Other liabilities to state budget	45,217	4,485	266	-	-	-	49,968
Reserves	-	-	-	-	-	6,210	6,210
Equity	-	-	-	-	-	(44,443)	(44,443)
Other liabilities	<u>1,272</u>	<u>-</u>	<u>8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,280</u>
Total liabilities and equity	<u>574,631</u>	<u>4,497</u>	<u>627</u>	<u>398</u>	<u>-</u>	<u>214,038</u>	<u>794,191</u>
Net liquidity gap	<u>(410,514)</u>	<u>145,993</u>	<u>85,946</u>	<u>329,870</u>	<u>9,567</u>	<u>(160,862)</u>	<u>-</u>
As at 31 December 2001							
Total assets	168,615	41,520	123,919	232,035	1,619	59,792	627,500
Total liabilities	<u>403,488</u>	<u>12</u>	<u>1,917</u>	<u>5,174</u>	<u>13</u>	<u>216,896</u>	<u>627,500</u>
Net liquidity gap	<u>(234,873)</u>	<u>41,508</u>	<u>122,002</u>	<u>226,861</u>	<u>1,606</u>	<u>(157,104)</u>	<u>-</u>
As at 31 December 2000							
Total assets	146,087	99,022	114,235	185,480	18,137	51,158	614,119
Total liabilities	<u>350,593</u>	<u>9,912</u>	<u>7,810</u>	<u>1,923</u>	<u>49</u>	<u>243,832</u>	<u>614,119</u>
Net liquidity gap	<u>(204,506)</u>	<u>89,110</u>	<u>106,425</u>	<u>183,557</u>	<u>18,088</u>	<u>(192,674)</u>	<u>-</u>

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27 INTEREST RATE RISK

As at 31 December 2002	Up to <u>1 month</u>	1-3 <u>months</u>	3-12 <u>months</u>	1-5 <u>years</u>	Over <u>5 years</u>	Not <u>sensitive</u>	<u>Total</u>
Assets							
Gold	-	-	-	-	-	833	833
Receivables from IMF	-	-	-	-	-	35,319	35,319
Treasury bills and other discounted securities	39,045	129,177	58,445	-	-	-	226,667
Bonds and other coupon securities	4,524	3,418	23,129	328,995	9,567	-	369,633
Other receivables against foreign countries	92,873	18,065	-	-	-	-	110,938
Receivables from domestic bank	-	12	12	91	-	-	115
Receivables from clients	23,574	-	5,542	94	-	10,610	39,820
Fixed assets	-	-	-	-	-	7,197	7,197
Other assets	<u>3,619</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50</u>	<u>3,669</u>
Total assets	<u>163,635</u>	<u>150,672</u>	<u>87,128</u>	<u>329,180</u>	<u>9,567</u>	<u>54,009</u>	<u>794,191</u>
Liabilities and equity							
Currency in circulation	-	-	-	-	-	224,402	224,402
Liabilities to IMF	-	-	-	-	-	27,869	27,869
Liabilities to foreign banks including securities	4,621	12	12	90	-	-	4,735
Liabilities to domestic banks	488,233	-	-	-	-	-	488,233
Deposits from clients	35,937	-	-	-	-	-	35,937
Other liabilities to state budget	45,217	4,485	266	-	-	-	49,968
Reserves	-	-	-	-	-	6,210	6,210
Equity	-	-	-	-	-	(44,443)	(44,443)
Other liabilities	<u>1,280</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,280</u>
Total liabilities and equity	<u>575,288</u>	<u>4,497</u>	<u>278</u>	<u>90</u>	<u>-</u>	<u>214,038</u>	<u>794,191</u>
Net interest sensitivity gap	<u>(411,653)</u>	<u>146,175</u>	<u>86,850</u>	<u>329,090</u>	<u>9,567</u>	<u>(160,029)</u>	<u>-</u>
As at 31 December 2001							
Total assets	173,782	54,159	119,640	219,277	13	60,629	627,500
Total liabilities	<u>405,720</u>	<u>12</u>	<u>12</u>	<u>4,847</u>	<u>13</u>	<u>216,896</u>	<u>627,500</u>
Net interest sensitivity gap	<u>(231,938)</u>	<u>54,147</u>	<u>119,628</u>	<u>214,430</u>	<u>-</u>	<u>(156,267)</u>	<u>-</u>
As at 31 December 2000							
Total assets	207,422	145,539	211,852	2	60	49,244	614,119
Total liabilities	<u>354,187</u>	<u>9,912</u>	<u>5,651</u>	<u>488</u>	<u>49</u>	<u>243,832</u>	<u>614,119</u>
Net interest sensitivity gap	<u>(146,765)</u>	<u>135,627</u>	<u>206,201</u>	<u>(486)</u>	<u>11</u>	<u>(194,588)</u>	<u>-</u>

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28 CURRENCY RISK

As at 31 December 2002	<u>CZK</u>	<u>EUR</u>	<u>USD</u>	<u>JPY</u>	<u>Other</u>	<u>Total</u>
Assets						
Gold	-	-	-	-	833	833
Receivables from IMF	27,869	-	-	-	7,450	35,319
Treasury bills and other discounted securities	-	90,108	56,798	79,761	-	226,667
Bonds and other coupon securities	-	290,824	78,809	-	-	369,633
Other receivables against foreign countries	-	75,181	24,248	11,438	71	110,938
Receivables from domestic banks	-	115	-	-	-	115
Receivables from clients	39,820	-	-	-	-	39,820
Fixed assets	7,187	-	-	-	10	7,197
Other assets	3,525	95	-	-	49	3,669
Total assets	<u>78,401</u>	<u>456,323</u>	<u>159,855</u>	<u>91,199</u>	<u>8,413</u>	<u>794,191</u>
Liabilities and equity						
Currency in circulation	224,402	-	-	-	-	224,402
Liabilities to IMF	27,869	-	-	-	-	27,869
Liabilities to foreign banks including securities	446	4,289	-	-	-	4,735
Liabilities to domestic banks	488,233	-	-	-	-	488,233
Deposits from clients	25,479	10,362	96	-	-	35,937
Other liabilities to state budget	48,122	1,846	-	-	-	49,968
Reserves	6,210	-	-	-	-	6,210
Equity	(44,443)	-	-	-	-	(44,443)
Other liabilities	1,279	-	-	-	1	1,280
Total liabilities and equity	<u>777,597</u>	<u>16,497</u>	<u>96</u>	<u>-</u>	<u>1</u>	<u>794,191</u>
Net foreign exchange position	<u>(699,196)</u>	<u>439,826</u>	<u>159,759</u>	<u>91,199</u>	<u>8,412</u>	<u>-</u>
As at 31 December 2001						
Total assets	91,712	363,581	164,402	1	7,804	627,500
Total liabilities	<u>590,423</u>	<u>6,617</u>	<u>30,459</u>	<u>-</u>	<u>1</u>	<u>627,500</u>
Net foreign exchange position	<u>(498,711)</u>	<u>356,964</u>	<u>133,943</u>	<u>1</u>	<u>7,803</u>	<u>-</u>
As at 31 December 2000						
Total assets	106,934	354,842	144,263	5,944	2,136	614,119
Total liabilities	<u>598,422</u>	<u>4,174</u>	<u>11,523</u>	<u>-</u>	<u>-</u>	<u>614,119</u>
Net foreign exchange position	<u>(491,488)</u>	<u>350,668</u>	<u>132,740</u>	<u>5,944</u>	<u>2,136</u>	<u>-</u>

CZECH NATIONAL BANK**NOTES TO FINANCIAL STATEMENTS**

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

28 CURRENCY RISK

Long position in JPY in 2002 and 2000 was converted to EUR and USD with the help of foreign exchange forwards.

29 CREDIT RISK AND CONCENTRATION OF LIABILITIES**Geographical concentrations of assets**

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK million	CZK million	CZK million
Czech Republic	51,683	59,031	66,076
Germany	123,883	83,298	49,807
France	46,568	82,318	63,780
Italy	140,758	111,309	116,437
Other Euro zone countries	120,326	104,711	80,469
Switzerland	27,456	18,516	56,237
Great Britain	54,391	42,871	52,833
Other European countries	2,005	99	4
Canada and USA	119,700	113,565	110,456
Japan	91,200	1	5,944
Other countries	<u>16,221</u>	<u>11,781</u>	<u>12,076</u>
	<u>794,191</u>	<u>627,500</u>	<u>614,119</u>

Geographical concentrations of liabilities

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK million	CZK million	CZK million
Czech Republic	761,587	578,724	557,891
Italy	-	-	1,796
Other Euro zone countries	4,325	3,461	177
Other European countries	8	5	-
Canada and USA	<u>28,271</u>	<u>45,310</u>	<u>54,255</u>
	<u>794,191</u>	<u>627,500</u>	<u>614,119</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

30 CONSOLIDATION OF THE BANKING SECTOR

Consolidation of the banking sector

Pursuant to its role in supporting and maintaining the stability of the banking sector and monitoring the security of client's deposits 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. The CNB has fully provided for the estimated losses resulting from the consolidation of the banking sector not covered by the Guarantee.

The assets taken over and specific provisions and reserves created as at 31 December 2002, 2001 and 2000 can be summarised as follows:

	<u>31 December 2002</u> CZK million	<u>31 December 2001</u> CZK million	<u>31 December 2000</u> CZK million
Receivables from banks	27,175	27,481	27,851
Purchased receivables of banks	308	308	410
Guarantees and commitments	<u>598</u>	<u>581</u>	<u>553</u>
	28,081	28,370	28,814
Specific provisions and reserves for assets related to the consolidation of the banking sector	<u>(5,581)</u>	<u>(5,870)</u>	<u>(6,314)</u>
Total net book value covered by the Guarantee	<u>22,500</u>	<u>22,500</u>	<u>22,500</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

30 CONSOLIDATION OF THE BANKING SECTOR (continued)

Česká finanční, s.r.o.

The 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. 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, the CNB sold its 100% ownership interest in the CF for an agreed price of CZK 1 to Konsolidační Banka Praha, s.p.ú., now Česká Konsolidační Agentura (hereinafter "CKA") based on an agreement for the transfer of the ownership interest in a company concluded between the CNB and CKA in June 2000. The CNB has undertaken to cover all CF losses resulting from the Consolidation Programme and concluded an agreement with the CF on the settlement of operating costs and losses from assumed assets incurred in relation to the implementation of the Consolidation Programme, which would not be set off against the CF share capital of CZK 13,833 million which the CNB had increased in 1997 and 1998.

The Consolidation Programme involved transfers of some doubtful assets of certain banks taking part in this programme to the CF in exchange for an irrecoverable cash advance from the CF. The aim of this programme was to assist certain small banks to regain financial stability. The programme was started in 1997. The CF ceded the portfolio of three receivables against Agrobanka Praha, a.s., v likvidaci included in the Consolidation Programme back to the CNB in 2002. The unaudited book amount of the Consolidation Programme assets administered by the CF (net of provisions created by the CF) was CZK 5,631 million as at 31 December 2002 (audited amount as at 31 December 2001: CZK 26,304 million, 31 December 2000: CZK 28,990 million).

In compliance with this agreement CF's operating costs will be settled on a quarterly basis and the agreement also specifies CF's reporting duties to the CNB on a regular basis. The mechanism whereby the CNB retains a certain level of control over the CF activities relating to the Consolidation Programme was agreed by CNB and CKA 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

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

30 CONSOLIDATION OF THE BANKING SECTOR (continued)

Česká finanční, s.r.o. (continued)

The calculation of the reserve as at 31 December 2002, 2001 and 2000 can be summarised as follows:

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK'000	CZK'000	CZK'000
Provided loans	5,542	14,026	15,161
Less expected recoverability of			
- receivables in Consolidation Programme	510	3,334	4,173
- securities in Consolidation Programme	<u>116</u>	<u>105</u>	<u>121</u>
	626	3,439	4,294
Created reserves (Note 18)	<u>4,916</u>	<u>10,587</u>	<u>10,867</u>

Investiční a Poštovní banka, a.s.

In June 2000 the CNB declared the forced administration on Investiční a Poštovní banka, a.s. (hereinafter "IPB"). On 16 June 2000 the 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 IPB is terminated.

The Guarantee for Deposits is regularly updated in the CNB off balance sheet based on an assessment of the liabilities covered by the Guarantee for Deposits performed by Československá obchodní banka, a.s. (hereinafter "CSOB"). The balance of the Guarantee for Deposits as at 31 December 2002 was CZK 32,780 million (31 December 2001: CZK 48,707 million, 31 December 2000: CZK 54,200 million).

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

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

30 CONSOLIDATION OF THE BANKING SECTOR (continued)

Investiční a Poštovní banka, a.s. (continued)

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 the CSOB indemnification based on the Indemnity Letter (hereinafter the “State Guarantee”). This guarantee covers only losses incurred by the 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.

During 2001 the CNB granted two advances to CSOB relating to the Indemnity Letter totalling CZK 478 million. Both these advances relate to compensations paid by CSOB resulting from liabilities unrecorded in the IPB accounting records. In 2002 the CNB paid out further advance payments in the total amount of CZK 2,200 million and EUR 3 million. These advance payments are not provided for, since they are considered to be covered by the State Guarantee.

The amounts covered under the Indemnity Letter, advances paid to CSOB and the received State Guarantee can be analysed as follows:

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK'000	CZK'000	CZK'000
Potential claims under the Indemnity Letter	157,227	39,362	7,945
Advances paid to CSOB	<u>2,773</u>	<u>478</u>	<u>-</u>
Received State Guarantee	<u>160,000</u>	<u>39,840</u>	<u>7,945</u>

CSOB regularly lists and quantifies the other items under the Indemnity Letter, which may lead to a potential claim, although the final outcome of any potential claim currently cannot be exactly determined by the CNB. The maximum amount of the compensation resulting from the Obligatory declaration from CSOB, which the CNB obtained on 6 November 2002, is CZK 160,000 million. The right of CSOB for compensation from the Indemnity Letter will expire on 31 December 2016. The potential claims from the Indemnity Letter, decreased by the amount of the advances paid and also recoverable under the State Guarantee as at 31 December 2002 quantified by CSOB, was CZK 160,000 million (31 December 2001: CZK 39,840 million, 31 December 2000: CZK 7,945 million).

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2002 AND FOR THE YEAR THEN ENDED

30 CONSOLIDATION OF THE BANKING SECTOR (continued)

Investiční a Poštovní banka, a.s. (continued)

In case CSOB will ask the CNB to settle any claim under the Indemnity Letter, the CNB will make the related payment within five working days after the receipt of the CSOB request. The payment calendar related to the State Guarantee is as follows:

<u>Amount claimed by the CNB</u>	<u>Maturity</u>
Below or equal to CZK 2 billion	in the same calendar year
Greater than CZK 2 billion and less than or equal to CZK 5 billion	CZK 2 billion in the same calendar year; the rest in the following calendar year
Over CZK 5 billion	CZK 2 billion in the same calendar year; CZK 3 billion in the following calendar year; the rest in the third calendar year

31 RELATED PARTY TRANSACTIONS

Related party transactions, including transactions with the management and employees of the CNB arose under the same conditions and interest rates as for unrelated parties under the same terms. In the opinion of the management of the Bank, a common interest rate was used in all cases and the deposits do not have different liquidity risk or other unfavourable features.

Related parties include the CF. The objectives and basic activities of the CF are described in Note 30. Transactions were entered into with the CF when performing the Bank's role in stabilisation of the banking sector. Loans were provided on arm's length interest rate terms.

32 SUBSEQUENT EVENTS

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