

## REPORT OF INDEPENDENT AUDITORS

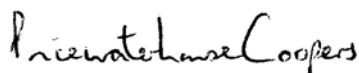
### TO THE BANK COUNCIL OF THE CZECH NATIONAL BANK

We have audited the accompanying balance sheet of the Czech National Bank (hereinafter "the CNB") as at 31 December 2003, 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.

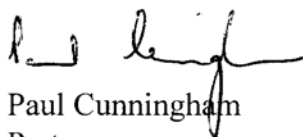
We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. 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 2003, 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 2004



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 2003

|   | Note     | 31 December 2003      |                      |                       | 31 December           | 31 December           |
|---|----------|-----------------------|----------------------|-----------------------|-----------------------|-----------------------|
|   |          | Gross                 | Provisions           | Net                   | 2002                  | 2001                  |
|   |          | CZK million           | CZK million          | CZK million           | CZK million           | CZK million           |
| <b>ASSETS</b>   |          |                       |                      |                       |                       |                       |
| <b>1. Gold</b>  | <b>3</b> | <b>833</b>            | <b>-</b>             | <b>833</b>            | <b>833</b>            | <b>837</b>            |
| <b>2. Receivables from International Monetary Fund</b>            | <b>4</b> | <b>32,193</b>         | <b>-</b>             | <b>32,193</b>         | <b>35,319</b>         | <b>39,800</b>         |
| <b>3. Receivables from foreign countries including securities</b> | <b>5</b> | <b>677,158</b>        | <b>-</b>             | <b>677,158</b>        | <b>707,238</b>        | <b>528,619</b>        |
| 3.1. Deposits at foreign banks                                    |          | 76,414                | -                    | 76,414                | 90,539                | 117,446               |
| 3.2. Loans provided to foreign banks                              |          | -                     | -                    | -                     | 20,350                | 14,384                |
| 3.3. Securities   |          | 600,654               | -                    | 600,654               | 596,300               | 396,740               |
| 3.4. Other receivables against foreign countries                  |          | 90                    | -                    | 90                    | 49                    | 49                    |
| <b>4. Receivables from domestic banks</b>                         | <b>6</b> | <b>110</b>            | <b>14</b>            | <b>96</b>             | <b>115</b>            | <b>793</b>            |
| <b>5. Receivables from clients</b>                                | <b>7</b> | <b>46,568</b>         | <b>9,101</b>         | <b>37,467</b>         | <b>39,820</b>         | <b>48,263</b>         |
| <b>6. Fixed assets</b>  | <b>8</b> | <b>11,769</b>         | <b>5,030</b>         | <b>6,739</b>          | <b>7,197</b>          | <b>7,769</b>          |
| 6.1. Tangible fixed assets  |          | 10,590                | 4,008                | 6,582                 | 6,918                 | 7,419                 |
| 6.2. Intangible fixed assets                                      |          | 1,179                 | 1,022                | 157                   | 279                   | 350                   |
| <b>7. Other assets</b>  | <b>9</b> | <b>9,358</b>          | <b>2,012</b>         | <b>7,346</b>          | <b>3,669</b>          | <b>1,419</b>          |
| 7.1. Prepayments and accrued income                               |          | 34                    | -                    | 34                    | 16                    | 388                   |
| 7.2. Other  |          | <u>9,324</u>          | <u>2,012</u>         | <u>7,312</u>          | <u>3,653</u>          | <u>1,031</u>          |
| <b>TOTAL ASSETS</b>   |          | <b><u>777,989</u></b> | <b><u>16,157</u></b> | <b><u>761,832</u></b> | <b><u>794,191</u></b> | <b><u>627,500</u></b> |

CZECH NATIONAL BANK

BALANCE SHEET (continued)

AS AT 31 DECEMBER 2003

|  | Note      | 31 December<br><u>2003</u><br>CZK million | 31 December<br><u>2002</u><br>CZK million | 31 December<br><u>2001</u><br>CZK million |
|--|-----------|---|---|---|
| <b>LIABILITIES</b>                                   |           |   |   |   |
| <b>1. Currency in circulation</b>                    | <b>10</b> | <b>247,361</b>                            | <b>224,402</b>                            | <b>205,861</b>                            |
| <b>2. Liabilities to International Monetary Fund</b> | <b>4</b>  | <b>19,790</b>                             | <b>27,869</b>                             | <b>34,033</b>                             |
| <b>3. Liabilities to foreign countries</b>           | <b>11</b> | <b>3,089</b>                              | <b>4,735</b>                              | <b>14,743</b>                             |
| 3.1. Loans from foreign banks                        |           | 2,665                                     | 4,289                                     | 14,275                                    |
| 3.2. Other liabilities to foreign countries          |           | 424                                       | 446                                       | 468                                       |
| <b>4. Liabilities to domestic banks</b>              | <b>12</b> | <b>470,311</b>                            | <b>488,233</b>                            | <b>309,247</b>                            |
| 4.1. Bank monetary reserves                          |           | 21,237                                    | 28,359                                    | 30,273                                    |
| 4.2. Repo operations                                 |           | 439,609                                   | 455,419                                   | 264,847                                   |
| 4.3. Other liabilities                               |           | 9,465                                     | 4,455                                     | 14,127                                    |
| <b>5. Deposits from clients</b>                      | <b>13</b> | <b>29,249</b>                             | <b>35,937</b>                             | <b>27,916</b>                             |
| <b>6. Domestic treasury bills issued</b>             | <b>14</b> | <b>-</b>                                  | <b>-</b>                                  | <b>-</b>                                  |
| <b>7. Liabilities to the state</b>                   | <b>15</b> | <b>45,708</b>                             | <b>49,968</b>                             | <b>57,737</b>                             |
| <b>8. Reserves</b>                                   | <b>17</b> | <b>5,881</b>                              | <b>6,210</b>                              | <b>11,935</b>                             |
| <b>9. Share capital</b>                              | <b>16</b> | <b>1,400</b>                              | <b>1,400</b>                              | <b>1,400</b>                              |
| <b>10. Funds</b>                                     | <b>16</b> | <b>8,109</b>                              | <b>8,156</b>                              | <b>8,198</b>                              |
| <b>11. Accumulated losses from previous periods</b>  | <b>16</b> | <b>(53,780)</b>                           | <b>(44,531)</b>                           | <b>(15,903)</b>                           |
| <b>12. Loss for the accounting period</b>            | <b>16</b> | <b>(18,173)</b>                           | <b>(9,468)</b>                            | <b>(28,628)</b>                           |
| <b>13. Other liabilities</b>                         | <b>18</b> | <b>2,887</b>                              | <b>1,280</b>                              | <b>961</b>                                |
| 13.1. Accruals and deferred income                   |           | -   | 8   | 186                                       |
| 13.2. Other  |           | <u>2,887</u>                              | <u>1,272</u>                              | <u>775</u>                                |
| <b>TOTAL LIABILITIES</b>                             |           | <b><u>761,832</u></b>                     | <b><u>794,191</u></b>                     | <b><u>627,500</u></b>                     |

**CZECH NATIONAL BANK**

**OFF BALANCE SHEET**

**AS AT 31 DECEMBER 2003**

|                          | <u>Note</u>  | 31 December<br><u>2003</u><br>CZK million | 31 December<br><u>2002</u><br>CZK million | 31 December<br><u>2001</u><br>CZK million |         |
|--------------------------|--|---|---|---|---------|
| <b>OFF BALANCE SHEET</b> |  |   |   |   |         |
| 1.                       | Guarantees issued                                      | 19  | 170,440                                   | 199,962                                   | 103,787 |
| 2.                       | Receivables from spot, term<br>and option transactions | 24  | 122,293                                   | 101,673                                   | 10,867  |
| 3.                       | Liabilities from spot, term<br>and option transactions | 24  | 118,516                                   | 101,453                                   | 10,861  |
| 4.                       | Guarantees received                                    | 19  | 180,500                                   | 182,500                                   | 62,340  |

CZECH NATIONAL BANK

INCOME STATEMENT

AS AT 31 DECEMBER 2003

|  | Note      | <u>2003</u>     | <u>2002</u>     | <u>2001</u>     |
|--|-----------|-----------------|-----------------|-----------------|
|  |           | CZK million     | CZK million     | CZK million     |
| <b>1. Interest income and similar income</b>                                   | <b>20</b> | <b>19,192</b>   | <b>22,104</b>   | <b>28,106</b>   |
| 1.1. Interest from fixed income securities                                     |           | 16,530          | 16,717          | 22,381          |
| 1.2. Other   |           | 2,662           | 5,387           | 5,725           |
| <b>2. Interest expense and similar expense</b>                                 | <b>20</b> | <b>12,598</b>   | <b>17,032</b>   | <b>17,092</b>   |
| 2.1. Interest from fixed income securities                                     |           | -               | -               | -               |
| 2.2. Other   |           | 12,598          | 17,032          | 17,092          |
| <b>3. Income from securities with variable income</b>                          |           | <b>43</b>       | <b>40</b>       | <b>43</b>       |
| <b>4. Fee and commission income</b>  |           | <b>447</b>      | <b>510</b>      | <b>555</b>      |
| <b>5. Fee and commission expense</b>   |           | <b>41</b>       | <b>49</b>       | <b>53</b>       |
| <b>6. Loss from financial operations</b>                                       | <b>21</b> | <b>(23,232)</b> | <b>(13,864)</b> | <b>(37,745)</b> |
| <b>7. Other income</b>   |           | <b>120</b>      | <b>444</b>      | <b>454</b>      |
| 7.1. Income from money issue   |           | 23              | 20              | 17              |
| 7.2. Other   |           | 97              | 424             | 437             |
| <b>8. Administration expenses</b>  | <b>22</b> | <b>2,042</b>    | <b>2,015</b>    | <b>2,002</b>    |
| 8.1. Personnel expenses  |           | 785             | 751             | 675             |
| 8.1.1. Wages and salaries  |           | 579             | 554             | 499             |
| 8.1.2. Social and health security  |           | 206             | 197             | 176             |
| 8.2. Other operating expenses  |           | 1,257           | 1,264           | 1,327           |
| <b>9. Other expenses</b>   | <b>23</b> | <b>655</b>      | <b>1,119</b>    | <b>1,776</b>    |
| 9.1. Expenses for issuing bank notes and coinage                               |           | 285             | 371             | 309             |
| 9.2. Other   |           | 370             | 748             | 1,467           |
| <b>10. Charge for specific and general provisions for loans and guarantees</b> | <b>17</b> | <b>33</b>       | <b>5,876</b>    | <b>325</b>      |
| <b>11. Release of specific and general provisions for loans and guarantees</b> | <b>17</b> | <b>576</b>      | <b>5,997</b>    | <b>1,245</b>    |
| <b>12. Charge for other specific and general provisions</b>                    | <b>17</b> | <b>10</b>       | <b>23</b>       | <b>38</b>       |
| <b>13. Release of other specific and general provisions</b>                    | <b>17</b> | <b>60</b>       | <b>184</b>      | <b>-</b>        |
| <b>14. Ordinary loss</b>   |           | <b>(18,173)</b> | <b>(10,699)</b> | <b>(28,628)</b> |
| <b>15. Extraordinary income</b>  | <b>23</b> | <b>-</b>        | <b>22,521</b>   | <b>-</b>        |
| <b>16. Extraordinary expenses</b>  | <b>23</b> | <b>-</b>        | <b>21,290</b>   | <b>-</b>        |
| <b>17. Extraordinary profit</b>  |           | <b>-</b>        | <b>1,231</b>    | <b>-</b>        |
| <b>18. Loss for the period</b>   |           | <b>(18,173)</b> | <b>(9,468)</b>  | <b>(28,628)</b> |

## **CZECH NATIONAL BANK**

### **NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 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 branches of foreign 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 business, the Bank is independent of any instruction given by the President of the CR, the Czech Parliament, the Czech Government and administrative or other authorities and its relationship to the Chamber of Deputies of the Czech Parliament is defined by the law. The Bank and the Government communicate with 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 2003 AND FOR THE YEAR THEN ENDED

#### 1 GENERAL INFORMATION (continued)

The members of the Bank Council as at 31 December 2003, 2002 and 2001 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 Racoča       | member        | Until 12 February 2005 |
| Mr. Pavel Štěpánek     | 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 is 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, accounting rules for banks and other financial institutions and decrees issued by the Ministry of Finance of the CR. 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 2003 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 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. Deposits and securities denominated and payable in gold, that the CNB intends to hold to maturity, are included in the gold balance and valued at historical cost. The related interest income is accrued and included in the gold balance.

**(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.

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 to their fair value is performed on a monthly basis.

Transaction costs are not included in cost of purchased securities.



**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 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, in the absence of any other measure the historical cost less impairment;
- 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 of the amortised costs.

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 received or provided 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 (hereinafter the "SDR") and is translated to CZK at the rate advised by the IMF on a yearly basis.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 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 as a collateral in repo operations with domestic banks.

**(i) Derivative financial instruments**

Derivative financial instruments including foreign exchange contracts, futures, currency and interest rate swaps and other derivative financial instruments are initially recognised on balance sheet at cost and subsequently are re-measured at their fair value or market value (futures). Fair values approximate the market value through a calculation of foreign exchange differences and accruals of the difference between spot and forward rate. All derivatives are presented in other assets or in other liabilities when their fair value is positive or negative respectively. The Bank does not apply hedge accounting. Changes in the fair value of derivatives are included in loss from financial operations.

**(j) Interest income and expense**

Interest income and expense are accrued using 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 recognition 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 2003 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 29). 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. When creating specific provisions for assets at risk related to the consolidation of the banking sector, the guarantees issued by the Czech Government that covers these assets were taken into consideration (see also Note 29). 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. 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 2003 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 (for example 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 the Banking 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. Profit after allocations to funds and other budgeted usage is transferred to the state budget.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED**

**2 ACCOUNTING POLICIES (continued)**

**(p) Pensions and social fund**

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.

The CNB creates a social fund to finance the social needs of its employees and employees' programme. In compliance with the Czech accounting requirements the allocation to the social fund is not recognised in the income statement but as a transfer between funds. Similarly, the usage of the social fund is not recognised in the income statement but as a decrease of the fund.

**(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. Comparative financial information has been reclassified.

Since 1 January 2003, the effects of changes in accounting policies are recognised in the equity.

The CNB's investments in the Bank for International Settlement (hereinafter the "BIS") were denominated in Gold francs until 30 March 2003. Under Czech accounting rules, all equity investments which are denominated in foreign currency have to be retranslated at the year end exchange rate. The revaluation of the shares for the foreign currency impact was not possible previously, as the foreign exchange rate for Gold francs was not quoted. As of 1 April 2003, the BIS shares are denominated in SDR and the CNB re-measured the shares using the current foreign exchange rate.

The impact of the re-measurement of CZK 219 million was recognised in the equity (Note 16) and decreased the Accumulated losses from previous periods.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED**

**2 ACCOUNTING POLICIES (continued)**

**(r) Extraordinary items and changes in accounting policy (continued)**

As at 1 January 2002 the CNB re-measured 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 compliance with the accounting principles.

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

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

**(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.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED**

**3 GOLD**

|               | <u>31 December 2003</u><br>CZK million | <u>31 December 2002</u><br>CZK million | <u>31 December 2001</u><br>CZK million |
|---------------|--|--|--|
| Gold in total | <u>833</u>                             | <u>833</u>                             | <u>837</u>                             |

The gold as at 31 December 2003 includes a gold bond issued by the International bank for Reconstruction and Development with maturity on 15 December 2007, in the book value of CZK 283 million (2002 and 2001: nil). The nominal value of the purchased bond was 150,115 oz of gold and the market value of this gold as at 31 December 2003 was CZK 1,626 million.

The total market value of gold as at 31 December 2003 was CZK 4,784 million (31 December 2002: CZK 4,654 million, 31 December 2001: CZK 4,470 million).

**4 RECEIVABLES AND PAYABLES WITH THE IMF**

|                            | <u>31 December 2003</u><br>CZK million | <u>31 December 2002</u><br>CZK million | <u>31 December 2001</u><br>CZK million |
|----------------------------|--|--|--|
| Membership quota at IMF    | 20,028                                 | 28,006                                 | 34,064                                 |
| Deposits in IMF            | <u>12,165</u>                          | <u>7,313</u>                           | <u>5,736</u>                           |
| Total receivables from IMF | <u>32,193</u>                          | <u>35,319</u>                          | <u>39,800</u>                          |
| Liability to IMF           | 19,653                                 | 27,761                                 | 33,925                                 |
| Current account IMF        | <u>137</u>                             | <u>108</u>                             | <u>108</u>                             |
| Total payables to IMF      | <u>19,790</u>                          | <u>27,869</u>                          | <u>34,033</u>                          |

Membership quota at IMF is denominated in SDR and financed by bills of exchange payable on request issued by the Czech Government and co-accepted by the CNB.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED

**5 RECEIVABLES FROM FOREIGN COUNTRIES INCLUDING SECURITIES**

|  | <u>31 December 2003</u><br>CZK million | <u>31 December 2002</u><br>CZK million | <u>31 December 2001</u><br>CZK million |
|--|--|--|--|
| Current accounts with banks  | 678                                    | 825                                    | 555                                    |
| Deposits   | <u>75,736</u>                          | <u>89,714</u>                          | <u>116,891</u>                         |
| <b>Total deposits at foreign banks</b>                                   | <b>76,414</b>                          | <b>90,539</b>                          | <b>117,446</b>                         |
| <b>Total loans provided to foreign banks</b>                             | <b>-</b>                               | <b>20,350</b>                          | <b>14,384</b>                          |
| Treasury bills and other discounted securities                           | 217,879                                | 226,667                                | 79,083                                 |
| Bonds and other coupon securities  | 382,775                                | 369,633                                | 319,230                                |
| Provision when market value lower<br>than accrued cost (Note 17)         | <u>*</u>                               | <u>*</u>                               | <u>(1,573)</u>                         |
| <b>Total securities</b>  | <b>600,654</b>                         | <b>596,300</b>                         | <b>396,740</b>                         |
| Cash in foreign currencies   | 90                                     | 49                                     | 37                                     |
| Other receivables from abroad  | <u>-</u>                               | <u>-</u>                               | <u>12</u>                              |
| <b>Total other receivables from foreign countries</b>                    | <b>90</b>                              | <b>49</b>                              | <b>49</b>                              |
| <b>Total receivables from foreign countries<br/>including securities</b> | <b><u>677,158</u></b>                  | <b><u>707,238</u></b>                  | <b><u>528,619</u></b>                  |



CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2003 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.

The CNB had no reverse repo operations as at 31 December 2003. 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). The maturity of these operations was 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 2003</u> |            | <u>31 December 2002</u> |            | <u>31 December 2001</u> |            |
|--------------------------|-------------------------|------------|-------------------------|------------|-------------------------|------------|
|                          | CZK million             | %          | CZK million             | %          | CZK million             | %          |
| Euro zone                | 35,110                  | 46         | 55,219                  | 50         | 88,433                  | 67         |
| Great Britain            | 40,637                  | 53         | 42,618                  | 38         | 42,871                  | 33         |
| Other European countries | 99                      | -          | 846                     | 1          | 49                      | -          |
| USA                      | 653                     | 1          | 812                     | 1          | 522                     | -          |
| Japan                    | 2                       | -          | 11,438                  | 10         | 1                       | -          |
| Other countries          | <u>3</u>                | <u>-</u>   | <u>5</u>                | <u>-</u>   | <u>3</u>                | <u>-</u>   |
|                          | <u>76,504</u>           | <u>100</u> | <u>110,938</u>          | <u>100</u> | <u>131,879</u>          | <u>100</u> |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 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<br>31 December<br><u>2003</u><br>CZK million | Fair value<br>31 December<br><u>2002</u><br>CZK million | Accrued cost<br>31 December<br><u>2001</u><br>CZK million | Fair value<br>31 December<br><u>2001</u><br>CZK million |
|---|---|---|---|---|
| Treasury bills  | 114,913   | 107,452   | 32,793  | 32,805  |
| Other discounted securities                             | <u>102,966</u>  | <u>119,215</u>  | <u>46,290</u>   | <u>46,289</u>   |
|   |   |   | 79,083  |   |
| Provision against securities                            |   |   | <u>(6)</u>  |   |
| Total treasury bills and other<br>discounted securities | <u>217,879</u>  | <u>226,667</u>  | <u>79,077</u>   | <u>79,094</u>   |

**Geographic sector risk concentrations within treasury bills and other discounted securities**

|                 | <u>31 December 2003</u> |            | <u>31 December 2002</u> |            | <u>31 December 2001</u> |            |
|-----------------|-------------------------|------------|-------------------------|------------|-------------------------|------------|
|                 | CZK million             | %          | CZK million             | %          | CZK million             | %          |
| Euro zone       | 13,714                  | 6          | 90,662                  | 40         | 39,137                  | 50         |
| Great Britain   | 2,694                   | 1          | 3,285                   | 2          | -                       | -          |
| Switzerland     | 30,128                  | 14         | 27,451                  | 12         | 18,516                  | 23         |
| USA             | 60,671                  | 28         | 9,291                   | 4          | 10,798                  | 14         |
| Japan           | 99,570                  | 46         | 79,762                  | 35         | -                       | -          |
| Other countries | <u>11,102</u>           | <u>5</u>   | <u>16,216</u>           | <u>7</u>   | <u>10,632</u>           | <u>13</u>  |
|                 | <u>217,879</u>          | <u>100</u> | <u>226,667</u>          | <u>100</u> | <u>79,083</u>           | <u>100</u> |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 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<br>31 December<br><u>2003</u><br>CZK million | Fair value<br>31 December<br><u>2002</u><br>CZK million | Cost<br>31 December<br><u>2001</u><br>CZK million | Fair value<br>31 December<br><u>2001</u><br>CZK million |
|-----------------------------------|---|---|---|---|
| State bonds                       | 175,459   | 300,462   | 257,676   | 256,930   |
| Other foreign bonds               | 198,902   | 61,028  | 43,584  | 43,916  |
| Bonds managed by external manager | -   | -   | 11,695  | 11,758  |
| Accrued interest from bonds       | <u>8,414</u>  | <u>8,143</u>  | <u>6,275</u>                                      | <u>6,275</u>  |
|                                   |   |   | 319,230   |   |
| Provision against securities      |   |   | <u>(1,567)</u>                                    |   |
| Bonds and other coupon securities | <u>382,775</u>  | <u>369,633</u>  | <u>317,663</u>                                    | <u>318,879</u>  |

Bonds and other securities with fixed income reported as trading securities as at 31 December 2003, 2002 and 2001 include solely fixed income securities.

**Geographic sector risk concentrations within bonds and other coupon securities**

|                 | <u>31 December 2003</u> |            | <u>31 December 2002</u> |            | <u>31 December 2001</u> |            |
|-----------------|-------------------------|------------|-------------------------|------------|-------------------------|------------|
|                 | CZK million             | %          | CZK million             | %          | CZK million             | %          |
| Euro zone       | 266,327                 | 70         | 285,654                 | 78         | 255,387                 | 80         |
| Great Britain   | 11,815                  | 3          | 8,488                   | 2          | -                       | -          |
| USA             | 104,633                 | 27         | 74,278                  | 20         | 62,697                  | 20         |
| Other countries | <u>-</u>                | <u>-</u>   | <u>1,213</u>            | <u>-</u>   | <u>1,146</u>            | <u>-</u>   |
|                 | <u>382,775</u>          | <u>100</u> | <u>369,633</u>          | <u>100</u> | <u>319,230</u>          | <u>100</u> |

**CZECH NATIONAL BANK****NOTES TO FINANCIAL STATEMENTS****AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED****6 RECEIVABLES FROM DOMESTIC BANKS**

|   | <u>31 December 2003</u><br>CZK million | <u>31 December 2002</u><br>CZK million | <u>31 December 2001</u><br>CZK million |
|---|--|--|--|
| Non-performing loans  | 14                                     | 14                                     | 14                                     |
| Loans provided from European Investment<br>Bank (the "EIB") funds (Note 11) | 96                                     | 115                                    | 133                                    |
| Other receivables   | <u>—</u>                               | <u>—</u>                               | <u>660</u>                             |
|   | 110                                    | 129                                    | 807                                    |
| Specific provisions against receivables<br>from domestic banks (Note 17)    | <u>(14)</u>                            | <u>(14)</u>                            | <u>(14)</u>                            |
|   | <u>96</u>                              | <u>115</u>                             | <u>793</u>                             |

**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.

**7 DUE FROM CLIENTS**

|  | <u>31 December 2003</u><br>CZK million | <u>31 December 2002</u><br>CZK million | <u>31 December 2001</u><br>CZK million |
|--|--|--|--|
| Standard loans                                     | 5,218                                  | 5,723                                  | 14,109                                 |
| Redistribution loans                               | 9,623                                  | 10,610                                 | 11,651                                 |
| Classified loans                                   | <u>31,727</u>                          | <u>32,876</u>                          | <u>26,658</u>                          |
|  | 46,568                                 | 49,209                                 | 52,418                                 |
| Specific provisions for classified loans (Note 17) | <u>(9,101)</u>                         | <u>(9,389)</u>                         | <u>(4,155)</u>                         |
|  | <u>37,467</u>                          | <u>39,820</u>                          | <u>48,263</u>                          |

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED

7 DUE FROM CLIENTS (continued)

**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.

**Classified loans**

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

|                         | 31 December 2003                   |                              | 31 December 2002                   |                              | 31 December 2001                   |                              |
|-------------------------|------------------------------------|------------------------------|------------------------------------|------------------------------|------------------------------------|------------------------------|
|                         | Accounting<br>value<br>CZK million | Fair<br>value<br>CZK million | Accounting<br>value<br>CZK million | Fair<br>value<br>CZK million | Accounting<br>value<br>CZK million | Fair<br>value<br>CZK million |
| Doubtful                | -                                  | -                            | 2                                  | 1                            | 4                                  | 3                            |
| Loss                    | <u>31,727</u>                      | <u>22,626</u>                | <u>32,874</u>                      | <u>23,486</u>                | <u>26,654</u>                      | <u>22,500</u>                |
| Classified loans brutto | 31,727                             |                              | 32,876                             |                              | 26,658                             |                              |
| Specific provisions     | <u>(9,101)</u>                     |                              | <u>(9,389)</u>                     |                              | <u>(4,155)</u>                     |                              |
| Net book value          | <u>22,626</u>                      | <u>22,626</u>                | <u>23,487</u>                      | <u>23,487</u>                | <u>22,503</u>                      | <u>22,503</u>                |

The net book value and fair value of classified loans reflect the guarantee received from the Czech Government (Note 29).

Classified loans include a portfolio of receivables against Agrobanka Praha, a.s., v likvidaci in the total gross amount of CZK 5,674 million. In 2002 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 17 and 29) 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 2003, 2002 and 2001. The reserve must be utilised or written back to income in compliance with Czech accounting rules for banks by 31 December 2005.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED

**8 TANGIBLE AND INTANGIBLE FIXED ASSETS**

**Tangible fixed assets**

|  | 31 December<br><u>2001</u><br>CZK million | 31 December<br><u>2002</u><br>CZK million | <u>Additions</u><br>CZK million | <u>Disposals</u><br>CZK million | 31 December<br><u>2003</u><br>CZK million |
|--|---|---|---------------------------------|---------------------------------|---|
| <u>Cost</u>                              |   |   |                                 |                                 |   |
| Land                                     | 202                                       | 174                                       | 2                               | -                               | 176                                       |
| Buildings                                | 7,081                                     | 7,040                                     | 14                              | (18)                            | 7,036                                     |
| Technical equipment                      | 2,554                                     | 2 526                                     | 190                             | (164)                           | 2,552                                     |
| Equipment                                | 355                                       | 349                                       | 15                              | (23)                            | 341                                       |
| Other                                    | 447                                       | 442                                       | 9                               | (6)                             | 445                                       |
| Advances for fixed asset<br>acquisitions | <u>74</u>                                 | <u>43</u>                                 | <u>300</u>                      | <u>(303)</u>                    | <u>40</u>                                 |
| Total cost                               | <u>10,713</u>                             | <u>10,574</u>                             | <u>530</u>                      | <u>(514)</u>                    | <u>10,590</u>                             |
| <u>Accumulated depreciation</u>          |   |   |                                 |                                 |   |
| Buildings                                | (817)                                     | (1,044)                                   | (253)                           | 18                              | (1,279)                                   |
| Technical equipment                      | (1,830)                                   | (1,941)                                   | (270)                           | 164                             | (2,047)                                   |
| Equipment                                | (235)                                     | (264)                                     | (30)                            | 23                              | (271)                                     |
| Other                                    | <u>(412)</u>                              | <u>(407)</u>                              | <u>(9)</u>                      | <u>5</u>                        | <u>(411)</u>                              |
| Total accumulated depreciation           | <u>(3,294)</u>                            | <u>(3,656)</u>                            | <u>(562)</u>                    | <u>210</u>                      | <u>(4,008)</u>                            |
| Net book amount                          | <u>7,419</u>                              | <u>6,918</u>                              |                                 |                                 | <u>6,582</u>                              |

The original cost of low value tangible fixed assets that have been fully depreciated when put into use in 2003 is CZK 9.0 million (2002: CZK 4.9 million, 2001: CZK 15.0 million).

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED

**8 TANGIBLE AND INTANGIBLE FIXED ASSETS (continued)**

**Intangible fixed assets**

|  | 31 December<br><u>2001</u><br>CZK million | 31 December<br><u>2002</u><br>CZK million | <u>Additions</u><br>CZK million | <u>Disposals</u><br>CZK million | 31 December<br><u>2003</u><br>CZK million |
|--|---|---|---------------------------------|---------------------------------|---|
| <u>Cost</u>                                    |   |   |                                 |                                 |   |
| Software                                       | 1,026                                     | 1,089                                     | 82                              | -                               | 1,171                                     |
| Other intangible assets                        | 2   | 2   | -                               | -                               | 2   |
| Advances for intangible assets<br>acquisitions | <u>39</u>                                 | <u>58</u>                                 | <u>29</u>                       | <u>(81)</u>                     | <u>6</u>                                  |
| Total cost                                     | <u>1,067</u>                              | <u>1,149</u>                              | <u>111</u>                      | <u>(81)</u>                     | <u>1,179</u>                              |
| <u>Accumulated amortisation</u>                |   |   |                                 |                                 |   |
| Software                                       | (715)                                     | (868)                                     | (152)                           | -                               | (1,020)                                   |
| Other intangible assets                        | <u>(2)</u>                                | <u>(2)</u>                                | <u>-</u>                        | <u>-</u>                        | <u>(2)</u>                                |
| Total accumulated amortisation                 | <u>(717)</u>                              | <u>(870)</u>                              | <u>(152)</u>                    | <u>-</u>                        | <u>(1,022)</u>                            |
| Net book amount                                | <u>350</u>                                | <u>279</u>                                |                                 |                                 | <u>157</u>                                |

The original cost of low value intangible fixed assets that has been fully amortised when put into use in 2003 is CZK 0.9 million (2002: 1.4 million, 2001: CZK 1.0 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 2003 AND FOR THE YEAR THEN ENDED**

**9 OTHER ASSETS**

|  | <u>31 December 2003</u><br>CZK million | <u>31 December 2002</u><br>CZK million | <u>31 December 2001</u><br>CZK million |
|--|--|--|--|
| Prepayments  | 34                                     | 16                                     | 16                                     |
| Accrued income   | -                                      | -                                      | 372                                    |
| Advances in relation to the Indemnity<br>letter (Note 29)                          | 2,785                                  | 2,773                                  | 478                                    |
| Other advances in relation to the consolidation<br>of the banking sector (Note 29) | 1,496                                  | 1,520                                  | 1,928                                  |
| Other foreign financial assets   | 253                                    | 50                                     | 50                                     |
| Other domestic financial assets  | -                                      | -                                      | 19,717                                 |
| Other precious metals  | 21                                     | 11                                     | 18                                     |
| Positive fair value of foreign currency forwards                                   | 4,122                                  | 653                                    | -                                      |
| Other  | <u>647</u>                             | <u>634</u>                             | <u>338</u>                             |
|  | 9,358                                  | 5,657                                  | 22,917                                 |
| Specific provisions to advances and<br>other assets (Note 17)                      | <u>(2,012)</u>                         | <u>(1,988)</u>                         | <u>(21,498)</u>                        |
| Total other assets   | <u>7,346</u>                           | <u>3,669</u>                           | <u>1,419</u>                           |

The CNB's investments in BIS and SWIFT are disclosed in other foreign financial assets. The shares of BIS and SWIFT are non-tradable and their holding results from the participation of the CNB in these institutions. In 2003, the accounting value of the shares of BIS increased due to the revaluation of shares upon re-denomination of these shares into SDR (Note 2 (r) and 16).

Within other domestic financial assets the Bank disclosed its share in GE Capital Bank, a.s. with a fair value estimated to be approximately nil in 2002 and 2001. In 2001, this share was disclosed at cost of CZK 19,717 million together with a provision of the same amount. The share was sold in 2003.

Within other domestic financial assets as at 31 December 2003 and 2002, the Bank disclosed its shares in Agrobanka Praha, a.s. v likvidaci, Kreditní banka Plzeň, a.s. – v likvidaci and BH CAPITAL, a.s., transferred free of charge from Československá obchodní banka, a.s. (hereinafter “CSOB”) to the CNB, in compliance with the Agreement and Indemnity Letter (hereinafter the “Indemnity Letter”) in 2002 (Note 29). In the opinion of the representatives of the Bank the fair value of these shares is approximately nil.



**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED**

**10 CURRENCY IN CIRCULATION**

|                                 | <u>31 December 2003</u><br>CZK million | <u>31 December 2002</u><br>CZK million | <u>31 December 2001</u><br>CZK million |
|---------------------------------|--|--|--|
| Notes in circulation            | 242,102                                | 219,360                                | 201,793                                |
| Coins in circulation            | 6,338                                  | 6,114                                  | 5,782                                  |
| Cash in hand denominated in CZK | <u>(1,079)</u>                         | <u>(1,072)</u>                         | <u>(1,714)</u>                         |
| Total currency in circulation   | <u>247,361</u>                         | <u>224,402</u>                         | <u>205,861</u>                         |

**11 LIABILITIES TO FOREIGN COUNTRIES**

|  | <u>31 December 2003</u><br>CZK million | <u>31 December 2002</u><br>CZK million | <u>31 December 2001</u><br>CZK million |
|--|--|--|--|
| Repo operations                        | 2,569                                  | 4,174                                  | 14,141                                 |
| Loans from the EIB                     | <u>96</u>                              | <u>115</u>                             | <u>134</u>                             |
| Total loans from foreign countries     | 2,665                                  | 4,289                                  | 14,275                                 |
| Other liabilities to foreign countries | <u>424</u>                             | <u>446</u>                             | <u>468</u>                             |
| Total liabilities to foreign countries | <u>3,089</u>                           | <u>4,735</u>                           | <u>14,743</u>                          |

**Loans from the EIB**

From the loans received from the EIB, 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 2003 AND FOR THE YEAR THEN ENDED

**11 LIABILITIES TO FOREIGN COUNTRIES (continued)**

**Geographic sector risk concentrations within liabilities to foreign countries:**

|                          | <u>31 December 2003</u> |            | <u>31 December 2002</u> |            | <u>31 December 2001</u> |            |
|--------------------------|-------------------------|------------|-------------------------|------------|-------------------------|------------|
|                          | CZK million             | %          | CZK million             | %          | CZK million             | %          |
| Euro zone                | 2,684                   | 87         | 4,325                   | 91         | 3,461                   | 23         |
| Other European countries | 4                       | -          | 8                       | -          | 5                       | -          |
| USA                      | <u>401</u>              | <u>13</u>  | <u>402</u>              | <u>9</u>   | <u>11,277</u>           | <u>77</u>  |
|                          | <u>3,089</u>            | <u>100</u> | <u>4,735</u>            | <u>100</u> | <u>14,743</u>           | <u>100</u> |

**12 DUE TO DOMESTIC BANKS**

|                                     | <u>31 December 2003</u> | <u>31 December 2002</u> | <u>31 December 2001</u> |
|-------------------------------------|-------------------------|-------------------------|-------------------------|
|                                     | CZK million             | CZK million             | CZK million             |
| Monetary reserves from banks        | 21,237                  | 28,359                  | 30,273                  |
| Repo operations                     | 439,609                 | 455,419                 | 264,847                 |
| Other liabilities to domestic banks | <u>9,465</u>            | <u>4,455</u>            | <u>14,127</u>           |
| Total liabilities to domestic banks | <u>470,311</u>          | <u>488,233</u>          | <u>309,247</u>          |

**Monetary reserves from banks**

Obligatory minimum reserves represent deposits of the banks in the CR held at the CNB. 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 2003 include CZK 439,609 million (31 December 2002: CZK 455,419 million, 31 December 2001: CZK 264,847 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 2003 AND FOR THE YEAR THEN ENDED****13 CLIENT DEPOSITS**

|                                     | <u>31 December 2003</u> | <u>31 December 2002</u> | <u>31 December 2001</u> |
|-------------------------------------|-------------------------|-------------------------|-------------------------|
|                                     | CZK million             | CZK million             | CZK million             |
| Current accounts                    | 9,836                   | 8,990                   | 9,730                   |
| Term deposits                       | 2,020                   | 11,083                  | 2,046                   |
| Deposits of local government bodies | 13,699                  | 12,025                  | 11,092                  |
| Other deposits                      | <u>3,694</u>            | <u>3,839</u>            | <u>5,048</u>            |
| Total client deposits               | <u>29,249</u>           | <u>35,937</u>           | <u>27,916</u>           |

**14 DOMESTIC SECURITIES ISSUED**

|  | <u>31 December 2003</u> | <u>31 December 2002</u> | <u>31 December 2001</u> |
|--|-------------------------|-------------------------|-------------------------|
|  | CZK million             | CZK million             | CZK million             |
| CNB treasury bills                     | 700,000                 | 700,000                 | 400,000                 |
| CNB treasury bills repurchased:        |                         |                         |                         |
| - held in the treasury bills portfolio | (267,867)               | (250,582)               | (136,826)               |
| - in repo operations                   | (432,133)               | (449,418)               | (263,175)               |
| - in reverse repo operations           | <u>-</u>                | <u>-</u>                | <u>1</u>                |
|  | <u>-</u>                | <u>-</u>                | <u>-</u>                |

The treasury bills were issued at zero discount.

**15 LIABILITIES TO THE STATE**

|  | <u>31 December 2003</u> | <u>31 December 2002</u> | <u>31 December 2001</u> |
|--|-------------------------|-------------------------|-------------------------|
|  | CZK million             | CZK million             | CZK million             |
| State funds' accounts                        | 23,182                  | 23,111                  | 12,033                  |
| State assets denominated in CZK              | 19,025                  | 25,011                  | 24,435                  |
| State assets denominated in foreign currency | <u>3,501</u>            | <u>1,846</u>            | <u>21,269</u>           |
| Total liabilities to the state               | <u>45,708</u>           | <u>49,968</u>           | <u>57,737</u>           |

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED

16 EQUITY

Changes of equity during 2003, 2002 and 2001 were as follows:

|   | <u>Share<br/>capital</u><br>CZK million | <u>Funds</u><br>CZK million | <u>Accumulated<br/>losses</u><br>CZK million | <u>Profit / (loss)<br/>for the year</u><br>CZK million | <u>Equity</u><br>CZK million |
|---|---|-----------------------------|--|--|------------------------------|
| Balance at 1 January 2001   | 1,400                                   | 8,202                       | (18,392)                                     | 2,524  | (6,266)                      |
| Transfer of profit from 2000<br>to accumulated losses                           | -                                       | -                           | 2,489  | (2,489)  | -                            |
| Usage of social fund  | -                                       | (39)                        | -  | -  | (39)                         |
| Allocation to social fund from profit   | -                                       | 35                          | -  | (35)   | -                            |
| Loss for the year 2001  | <u>-</u>                                | <u>-</u>                    | <u>-</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 accumulated losses  | -                                       | -                           | (28,628)                                     | 28,628   | -                            |
| Usage of social fund  | -                                       | (42)                        | -  | -  | (42)                         |
| Loss for the year 2002  | <u>-</u>                                | <u>-</u>                    | <u>-</u>                                     | <u>(9,468)</u>   | <u>(9,468)</u>               |
| Balance at 31 December 2002   | 1,400                                   | 8,156                       | (44,531)                                     | (9,468)  | (44,443)                     |
| Transfer of accumulated losses  | -                                       | -                           | (9,468)                                      | 9,468  | -                            |
| Revaluation of BIS shares (Note 2 (r))  | -                                       | -                           | 219  | -  | 219                          |
| Decrease of valuation fund upon sale<br>of fixed assets acquired free of charge | -                                       | (2)                         | -  | -  | (2)                          |
| Usage of social fund  | -                                       | (45)                        | -  | -  | (45)                         |
| Loss for the year 2003  | <u>-</u>                                | <u>-</u>                    | <u>-</u>                                     | <u>(18,173)</u>  | <u>(18,173)</u>              |
| Balance at 31 December 2003   | <u>1,400</u>                            | <u>8,109</u>                | <u>(53,780)</u>                              | <u>(18,173)</u>  | <u>(62,444)</u>              |

**CZECH NATIONAL BANK****NOTES TO FINANCIAL STATEMENTS**

AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED

**16 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 and Special reserve fund.

The Social fund of CZK 3 million as at 31 December 2003 (31 December 2002: CZK 6 million and 31 December 2001: CZK 8 million) is used for coverage of the social needs of employees and employees' programme of the CNB. 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 the Social fund is made from the Special reserve fund.

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

The Bank created specific provisions and reserves for assets at risk:

|   | 31 December<br><u>2003</u><br>CZK million | 31 December<br><u>2002</u><br>CZK million | 31 December<br><u>2001</u><br>CZK million |
|---|---|---|---|
| <b>Specific provisions</b>  |   |   |   |
| Non-performing loans due from domestic banks (Note 6)                   | 14  | 14  | 14  |
| Classified loans to clients (Note 7)                                    | 9,101                                     | 9,389                                     | 4,155                                     |
| Foreign securities (Note 5)   | -   | -   | 1,573                                     |
| Domestic securities (Note 9)  | -   | -   | 19,717                                    |
| Other (Note 9)  | <u>2,012</u>                              | <u>1,988</u>                              | <u>1,781</u>                              |
| Total specific provisions   | <u>11,127</u>                             | <u>11,391</u>                             | <u>27,240</u>                             |
| <b>Reserves</b>   |   |   |   |
| Standard loans (Note 7)   | 348                                       | 348                                       | 348                                       |
| Guarantee for CF (Note 29)  | 4,770                                     | 4,916                                     | 10,587                                    |
| Guarantees for the consolidation of the banking sector (Note 19 and 29) | 467                                       | 598                                       | 582                                       |
| Other guarantees (Note 19)  | <u>296</u>                                | <u>348</u>                                | <u>418</u>                                |
| Total reserves  | <u>5,881</u>                              | <u>6,210</u>                              | <u>11,935</u>                             |

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED

17 RESERVES, SPECIFIC PROVISIONS AND WRITE OFFS (continued)

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

The CNB wrote off receivables of CZK 75 million in 2003 (2002: CZK 11 million, 2001: CZK 128 million) and did not receive any payments on debts that had been previously written off in 2003, 2002 and 2001.

**Specific provisions**

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

|  | Amounts due<br>from banks and from<br><u>foreign countries</u><br>CZK million | Classified<br><u>loans</u><br>CZK million | <u>Securities</u><br>CZK million | <u>Other</u><br>CZK million | <u>Total</u><br>CZK million |
|--|---|---|----------------------------------|-----------------------------|-----------------------------|
| At 1 January 2001                        | 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 2 (r)) | -   | -   | (21,290)                         | -                           | (21,290)                    |
| Usage                                    | <u>-</u>  | <u>(326)</u>                              | <u>-</u>                         | <u>(105)</u>                | <u>(431)</u>                |
| At 31 December 2002                      | 14  | 9,389                                     | -                                | 1,988                       | 11,391                      |
| Addition                                 | -   | 9   | -                                | 27                          | 36                          |
| Usage                                    | <u>-</u>  | <u>(297)</u>                              | <u>-</u>                         | <u>(3)</u>                  | <u>(300)</u>                |
| At 31 December 2003                      | <u>14</u>   | <u>9,101</u>                              | <u>-</u>                         | <u>2,012</u>                | <u>11,127</u>               |

The 2001 creation and usage of specific provisions for securities were presented as profit or loss from financial operations (Note 21).

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED**

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

**Reserves**

The movements in reserves can be analysed as follows:

|                     | <u>Standard loans</u><br>CZK million | <u>Consolidation</u><br>CZK million | Other<br><u>guarantees</u><br>CZK million | <u>Total</u><br>CZK million |
|---------------------|--------------------------------------|-------------------------------------|---|-----------------------------|
| At 1 January 2001   | 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 | 348                                  | 5,514                               | 348                                       | 6,210                       |
| Addition            | -                                    | -                                   | 7   | 7                           |
| Usage               | <u>-</u>                             | <u>(277)</u>                        | <u>(59)</u>                               | <u>(336)</u>                |
| At 31 December 2003 | <u>348</u>                           | <u>5,237</u>                        | <u>296</u>                                | <u>5,881</u>                |

**18 OTHER LIABILITIES**

|   | <u>31 December</u><br><u>2003</u><br>CZK million | <u>31 December</u><br><u>2002</u><br>CZK million | <u>31 December</u><br><u>2001</u><br>CZK million |
|---|--|--|--|
| Accruals and deferred income                                  | -  | 8  | 186  |
| Negative fair value of foreign currency forwards              | 586  | 844  | -  |
| Advance received in relation to the State guarantee (Note 29) | 2,000  | -  | -  |
| Other liabilities   | <u>301</u>                                       | <u>428</u>                                       | <u>775</u>                                       |
| Total other liabilities                                       | <u>2,887</u>                                     | <u>1,280</u>                                     | <u>961</u>                                       |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED**

**19 CONTINGENCIES AND COMMITMENTS**

| <b>Issued guarantees</b>   | <u>31 December 2003</u><br>CZK million | <u>31 December 2002</u><br>CZK million | <u>31 December 2001</u><br>CZK million |
|--|--|--|--|
| Clients  | 330                                    | 426                                    | 514                                    |
| CF (Note 29)   | 4,770                                  | 4,916                                  | 10,587                                 |
| Consolidation of the banking sector (Note 29)  | <u>165,340</u>                         | <u>194,620</u>                         | <u>92,686</u>                          |
| Total issued guarantees  | <u>170,440</u>                         | <u>199,962</u>                         | <u>103,787</u>                         |
| <b>Received guarantees</b>   |  |  |  |
| From the Czech Government for impaired assets taken over<br>by the Bank within the Consolidation Programme (Note 29) | 22,500                                 | 22,500                                 | 22,500                                 |
| From the Ministry of Finance in relation to the Indemnity<br>Letter (Note 29)  | <u>158,000</u>                         | <u>160,000</u>                         | <u>39,840</u>                          |
| Total guarantees received  | <u>180,500</u>                         | <u>182,500</u>                         | <u>62,340</u>                          |

The issued guarantees for the consolidation of the banking sector include primarily the Indemnity Letter and the Guarantee for deposits of IPB (Note 29).

The identified need for reserves for expected losses (Note 17) on the issued guarantees was as follows:

|  | <u>31 December 2003</u><br>CZK million | <u>31 December 2002</u><br>CZK million | <u>31 December 2001</u><br>CZK million |
|--|--|--|--|
| Guarantees for clients   | 296                                    | 348                                    | 418                                    |
| Guarantee for CF (Note 29)                                       | 4,770                                  | 4,916                                  | 10,587                                 |
| Guarantees for the Consolidation of the banking sector (Note 29) | <u>467</u>                             | <u>598</u>                             | <u>582</u>                             |
|  | <u>5,533</u>                           | <u>5,862</u>                           | <u>11,587</u>                          |



**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED**

**19 CONTINGENCIES AND COMMITMENTS (continued)**

**Receivables and payables from unsettled transactions with securities**

|   | 31 December<br><u>2003</u><br>CZK million | 31 December<br><u>2002</u><br>CZK million | 31 December<br><u>2001</u><br>CZK million |
|---|---|---|---|
| Receivables from unsettled transactions with securities | 31,835                                    | 51,490                                    | 11,851                                    |
| Payables from unsettled transactions with securities    | <u>30,130</u>                             | <u>46,164</u>                             | <u>9,493</u>                              |
| Net position  | <u>1,705</u>                              | <u>5,326</u>                              | <u>2,358</u>                              |

All receivables and payables from unsettled transactions with securities matured in January of the following year.

**Legal suits**

The Bank is participating in a legal suit against Union banka, a.s. "v likvidaci" relating to compensation for an alleged claim of approximately CZK 1,800 million resulting from a transaction performed by the CNB during the consolidation of the Czech banking sector. Based on the Bank's own opinion resulting from cooperation with an external law firm and the result of arbitration, the management of the CNB does not consider it to be probable that any compensation will have to be paid by the CNB and therefore has not created 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 2003, 2002 and 2001.

**Assets held in custody**

The Bank has not received any assets from third parties to be held in custody in 2003, 2002 and 2001.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED**

**20 INTEREST MARGIN**

|                                      | <u>2003</u>         | <u>2002</u>         | <u>2001</u>          |
|--------------------------------------|---------------------|---------------------|----------------------|
|                                      | CZK million         | CZK million         | CZK million          |
| Interest income and similar income   | 19,192              | 22,104              | 28,106               |
| Interest expense and similar expense | <u>(12,598)</u>     | <u>(17,032)</u>     | <u>(17,092)</u>      |
| Interest margin                      | <u><u>6,594</u></u> | <u><u>5,072</u></u> | <u><u>11,014</u></u> |

**Interest income and similar income**

|  | <u>2003</u>   | <u>2002</u>   | <u>2001</u>   |
|--|---------------|---------------|---------------|
|  | CZK million   | CZK million   | CZK million   |
| Repurchased treasury bills issued by the Bank    | -             | -             | 53            |
| Treasury bills and other discounted securities   | 2,602         | 3,134         | 3,952         |
| Coupon bonds                                     | <u>13,928</u> | <u>13,583</u> | <u>18,376</u> |
| Total interest from securities with fixed income | <u>16,530</u> | <u>16,717</u> | <u>22,381</u> |
| Inter-bank deposits                              | 2,165         | 4,320         | 4,250         |
| Receivables from the clients                     | 384           | 956           | 1,450         |
| Other  | <u>113</u>    | <u>111</u>    | <u>25</u>     |
| Total other interest income                      | <u>2,662</u>  | <u>5,387</u>  | <u>5,725</u>  |
| Total interest income and similar income         | <u>19,192</u> | <u>22,104</u> | <u>28,106</u> |

Based on the estimate of the Bank's management, in 2003 total income included CZK 1 million from interest income on classified loans (2002: CZK 7 million, 2001: CZK 14 million). Unpaid interest is accrued and is taken into account when calculating the amount of specific provisions.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED**

**20 INTEREST MARGIN (continued)**

**Interest expense and similar expense**

|  | <u>2003</u>   | <u>2002</u>   | <u>2001</u>   |
|--|---------------|---------------|---------------|
|  | CZK million   | CZK million   | CZK million   |
| Liabilities to state                       | 143           | 391           | 429           |
| Liabilities to banks                       | 12,320        | 16,081        | 16,348        |
| Liabilities to clients                     | <u>135</u>    | <u>560</u>    | <u>315</u>    |
| Total interest expense and similar expense | <u>12,598</u> | <u>17,032</u> | <u>17,092</u> |

**21 LOSS FROM FINANCIAL OPERATIONS**

Loss from financial operations can be analysed as follows:

|  | <u>2003</u>     | <u>2002</u>     | <u>2001</u>     |
|--|-----------------|-----------------|-----------------|
|  | CZK million     | CZK million     | CZK million     |
| Profit from sale of securities                           | 5,910           | 2,097           | 3,927           |
| Loss from sale of securities                             | (3,297)         | (1,762)         | (2,117)         |
| Foreign exchange losses                                  | (29,715)        | (26,170)        | (40,113)        |
| Other income   | 1,387           | 7,342           | 1,101           |
| Result on swap transactions (Note 24)                    | 5,096           | -               | -               |
| Other interest   | (307)           | (197)           | 8               |
| Decrease in fair value of securities                     | (18,451)        | (1,469)         | -               |
| Increase in fair value of securities                     | 16,145          | 6,295           | -               |
| Addition to specific provisions for securities (Note 17) | -               | -               | (1,190)         |
| Usage of specific provisions for securities (Note 17)    | <u>-</u>        | <u>-</u>        | <u>639</u>      |
|  | <u>(23,232)</u> | <u>(13,864)</u> | <u>(37,745)</u> |

**CZECH NATIONAL BANK****NOTES TO FINANCIAL STATEMENTS**

AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED

**22 ADMINISTRATION EXPENSES**

The administration expenses can be analysed as follows:

|   | <u>2003</u>  | <u>2002</u>  | <u>2001</u>  |
|---|--------------|--------------|--------------|
|   | CZK million  | CZK million  | CZK million  |
| Wages and salaries                      | 579          | 554          | 499          |
| Social security and health insurance    | <u>206</u>   | <u>197</u>   | <u>176</u>   |
| Total personnel costs                   | <u>785</u>   | <u>751</u>   | <u>675</u>   |
| Depreciation of tangible fixed assets   | 547          | 556          | 604          |
| Amortisation of intangible fixed assets | 152          | 152          | 175          |
| Rent                                    | 14           | 12           | 16           |
| Other                                   | <u>544</u>   | <u>544</u>   | <u>532</u>   |
| Total other administration expenses     | <u>1,257</u> | <u>1,264</u> | <u>1,327</u> |
| Total administration expenses           | <u>2,042</u> | <u>2,015</u> | <u>2,002</u> |

**Staff statistics**

|   | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|-------------|-------------|-------------|
| Average number of employees                       | 1,477       | 1,479       | 1,455       |
| From which: Number of members of the Bank Council | 7           | 7           | 7           |

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

|   | <u>2003</u> | <u>2002</u>  | <u>2001</u>  |
|---|-------------|--------------|--------------|
|   | CZK million | CZK million  | CZK million  |
| Cost of transfer of the share in the CF (Note 29) | -           | -            | 13           |
| Settlement of CF losses (Note 29)                 | 172         | 565          | 864          |
| Expenses for issuing bank notes and coins         | 285         | 371          | 309          |
| Other expenses and damages                        | <u>198</u>  | <u>183</u>   | <u>590</u>   |
| Other expenses in total                           | <u>655</u>  | <u>1,119</u> | <u>1,776</u> |

Due to a change in accounting policy (Note 2 (r)), other damages and extraordinary expenses of CZK 11 million in 2001 were included in other operating expenses.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED

**23 OTHER OPERATING EXPENSES AND EXTRAORDINARY EXPENSES  
(continued)**

**Extraordinary expenses and incomes**

|                        | <u>2003</u><br>CZK million | <u>2002</u><br>CZK million | <u>2001</u><br>CZK million |
|------------------------|----------------------------|----------------------------|----------------------------|
| Extraordinary expenses | =                          | <u>21,290</u>              | =                          |
| Extraordinary incomes  | =                          | <u>22,521</u>              | =                          |

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

**24 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 25 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 a change in market value of securities held in the portfolio of the Bank. Rules for investing foreign currency reserves are targeted to limit the significant risk of a change in interest rates. The table in Note 26 summarises 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 limit the significant risk of a movement in mutual foreign exchange rates of single currencies. The CNB cannot reduce the risk of the strengthening of the Czech currency against foreign currencies, as it is responsible for the administration of the foreign exchange reserves. The table in Note 27 summarises 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.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED**

**24 FINANCIAL RISKS (continued)**

**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 28.

**Spot transactions and derivative financial instruments**

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

|                                    | <u>31 December 2003</u> | <u>31 December 2002</u> | <u>31 December 2001</u> |
|------------------------------------|-------------------------|-------------------------|-------------------------|
|                                    | CZK million             | CZK million             | CZK million             |
| Receivables                        |                         |                         |                         |
| - from futures transactions        | 3,964                   | -                       | -                       |
| - from unsettled spot transactions | -                       | 1,355                   | 2,877                   |
| - from forward transactions        | 103,348                 | 91,420                  | 5                       |
| - from option transactions         | <u>14,981</u>           | <u>8,898</u>            | <u>7,985</u>            |
|                                    | <u>122,293</u>          | <u>101,673</u>          | <u>10,867</u>           |
| Payables                           |                         |                         |                         |
| - from futures transactions        | 3,964                   | -                       | -                       |
| - from unsettled spot transactions | -                       | 1,359                   | 2,871                   |
| - from forward transactions        | 99,571                  | 91,196                  | 5                       |
| - from option transactions         | <u>14,981</u>           | <u>8,898</u>            | <u>7,985</u>            |
|                                    | <u>118,516</u>          | <u>101,453</u>          | <u>10,861</u>           |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED**

**24 FINANCIAL RISKS (continued)**

**Spot transactions and derivative financial instruments (continued)**

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

|   | <u>31 December 2003</u> | <u>31 December 2002</u> | <u>31 December 2001</u> |
|---|-------------------------|-------------------------|-------------------------|
|   | CZK million             | CZK million             | CZK million             |
| Off balance sheet receivables from forward transactions | 103,348                 | 91,420                  | 5                       |
| Off balance sheet payables from forward transactions    | 99,571                  | 91,196                  | 5                       |
| Positive fair value (Note 9)                            | 4,122                   | 653                     | -                       |
| Negative fair value (Note 18)                           | 586                     | 844                     | -                       |

The nominal or notional amounts reported 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 risk.

Despite the fact that these foreign currency forwards provide efficient financial hedging of the Bank's position from a foreign exchange reserves administration 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 loss from financial operations (Note 21).

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED

25 LIQUIDITY RISK

| <b>As at 31 December 2003</b>                     | <u>Up to</u><br><u>1 month</u><br>CZK m | <u>1-3</u><br><u>months</u><br>CZK m | <u>3-12</u><br><u>months</u><br>CZK m | <u>1-5</u><br><u>years</u><br>CZK m | <u>Over</u><br><u>5 years</u><br>CZK m | <u>Un-</u><br><u>specified</u><br>CZK m | <u>Total</u><br>CZK m |
|---|---|--------------------------------------|---------------------------------------|-------------------------------------|--|---|-----------------------|
| <b>Assets</b>                                     |   |                                      |                                       |                                     |  |   |                       |
| Gold  | 550                                     | -                                    | -                                     | 283                                 | -                                      | -                                       | 833                   |
| Receivables from IMF                              | -                                       | -                                    | -                                     | -                                   | -                                      | 32,193                                  | 32,193                |
| Treasury bills and other<br>discounted securities | 66,328                                  | 68,570                               | 82,981                                | -                                   | -                                      | -                                       | 217,879               |
| Bonds and other coupon securities                 | 23,326                                  | 13,705                               | 88,486                                | 174,671                             | 82,587                                 | -                                       | 382,775               |
| Deposits, loans and other receivables             |   |                                      |                                       |                                     |  |   |                       |
| from foreign countries                            | 69,108                                  | 7,396                                | -                                     | -                                   | -                                      | -                                       | 76,504                |
| Receivables from domestic banks                   | -                                       | 12                                   | 12                                    | 72                                  | -                                      | -                                       | 96                    |
| Receivables from clients                          | 22,783                                  | -                                    | 5,061                                 | -                                   | -                                      | 9,623                                   | 37,467                |
| Fixed assets                                      | -                                       | -                                    | -                                     | -                                   | -                                      | 6,739                                   | 6,739                 |
| Other assets                                      | <u>7,059</u>                            | <u>-</u>                             | <u>34</u>                             | <u>-</u>                            | <u>-</u>                               | <u>253</u>                              | <u>7,346</u>          |
| <b>Total assets</b>                               | <u>189,154</u>                          | <u>89,683</u>                        | <u>176,574</u>                        | <u>175,026</u>                      | <u>82,587</u>                          | <u>48,808</u>                           | <u>761,832</u>        |
| <b>Liabilities and equity</b>                     |   |                                      |                                       |                                     |  |   |                       |
| Currency in circulation                           | -                                       | -                                    | -                                     | -                                   | -                                      | 247,361                                 | 247,361               |
| Liabilities to IMF                                | -                                       | -                                    | -                                     | -                                   | -                                      | 19,790                                  | 19,790                |
| Liabilities to foreign countries                  | 2,993                                   | 12                                   | 12                                    | 72                                  | -                                      | -                                       | 3,089                 |
| Liabilities to domestic banks                     | 470,311                                 | -                                    | -                                     | -                                   | -                                      | -                                       | 470,311               |
| Deposits from clients                             | 28,622                                  | -                                    | 342                                   | 285                                 | -                                      | -                                       | 29,249                |
| Liabilities to the state                          | 45,708                                  | -                                    | -                                     | -                                   | -                                      | -                                       | 45,708                |
| Reserves  | -                                       | -                                    | -                                     | -                                   | -                                      | 5,881                                   | 5,881                 |
| Equity  | -                                       | -                                    | -                                     | -                                   | -                                      | (62,444)                                | (62,444)              |
| Other liabilities                                 | <u>2,887</u>                            | <u>-</u>                             | <u>-</u>                              | <u>-</u>                            | <u>-</u>                               | <u>-</u>                                | <u>2,887</u>          |
| <b>Total liabilities and equity</b>               | <u>550,521</u>                          | <u>12</u>                            | <u>354</u>                            | <u>357</u>                          | <u>-</u>                               | <u>210,588</u>                          | <u>761,832</u>        |
| <b>Net liquidity gap</b>                          | <u>(361,367)</u>                        | <u>89,671</u>                        | <u>176,220</u>                        | <u>174,669</u>                      | <u>82,587</u>                          | <u>(161,780)</u>                        | <u>-</u>              |



CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED

**25 LIQUIDITY RISK (continued)**

| <b>As at 31 December 2002</b> | <u>Up to<br/>1 month</u><br>CZK m | <u>1-3<br/>months</u><br>CZK m | <u>3-12<br/>months</u><br>CZK m | <u>1-5<br/>years</u><br>CZK m | <u>Over<br/>5 years</u><br>CZK m | <u>Un-<br/>specified</u><br>CZK m | <u>Total</u><br>CZK m |
|-------------------------------|-----------------------------------|--------------------------------|---------------------------------|-------------------------------|----------------------------------|-----------------------------------|-----------------------|
| <b>Total assets</b>           | 164,117                           | 150,490                        | 86,573                          | 330,268                       | 9,567                            | 53,176                            | 794,191               |
| <b>Total liabilities</b>      | <u>574,631</u>                    | <u>4,497</u>                   | <u>627</u>                      | <u>398</u>                    | <u>-</u>                         | <u>214,038</u>                    | <u>794,191</u>        |
| <b>Net liquidity gap</b>      | <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>              |
| <b>As at 31 December 2001</b> |                                   |                                |                                 |                               |                                  |                                   |                       |
| <b>Total assets</b>           | 168,615                           | 41,520                         | 123,919                         | 232,035                       | 1,619                            | 59,792                            | 627,500               |
| <b>Total liabilities</b>      | <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>        |
| <b>Net liquidity gap</b>      | <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>              |

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED

26 INTEREST RATE RISK

| <b>As at 31 December 2003</b>                                   | <u>Up to</u><br><u>1 month</u><br>CZK m | <u>1-3</u><br><u>months</u><br>CZK m | <u>3-12</u><br><u>months</u><br>CZK m | <u>1-5</u><br><u>years</u><br>CZK m | <u>Over</u><br><u>5 years</u><br>CZK m | <u>Un-</u><br><u>specified</u><br>CZK m | <u>Total</u><br>CZK m |
|---|---|--------------------------------------|---------------------------------------|-------------------------------------|--|---|-----------------------|
| <b>Assets</b>   |   |                                      |                                       |                                     |  |   |                       |
| Gold  | -                                       | -                                    | -                                     | -                                   | -                                      | 833                                     | 833                   |
| Receivables from IMF  | -                                       | -                                    | -                                     | -                                   | -                                      | 32,193                                  | 32,193                |
| Treasury bills and other<br>discounted securities               | 66,328                                  | 68,570                               | 82,981                                | -                                   | -                                      | -                                       | 217,879               |
| Bonds and other coupon securities                               | 20,650                                  | 12,806                               | 86,626                                | 178,021                             | 84,672                                 | -                                       | 382,775               |
| Deposits, loans and other receivables<br>from foreign countries | 69,108                                  | 7,396                                | -                                     | -                                   | -                                      | -                                       | 76,504                |
| Receivables from domestic banks                                 | -                                       | 12                                   | 12                                    | 72                                  | -                                      | -                                       | 96                    |
| Receivables from clients  | 22,783                                  | -                                    | 5,061                                 | -                                   | -                                      | 9,623                                   | 37,467                |
| Fixed assets  | -                                       | -                                    | -                                     | -                                   | -                                      | 6,739                                   | 6,739                 |
| Other assets  | <u>7,093</u>                            | <u>-</u>                             | <u>-</u>                              | <u>-</u>                            | <u>-</u>                               | <u>253</u>                              | <u>7,346</u>          |
| <b>Total assets</b>   | <u>185,962</u>                          | <u>88,784</u>                        | <u>174,680</u>                        | <u>178,093</u>                      | <u>84,672</u>                          | <u>49,641</u>                           | <u>761,832</u>        |
| <b>Liabilities and equity</b>                                   |   |                                      |                                       |                                     |  |   |                       |
| Currency in circulation   | -                                       | -                                    | -                                     | -                                   | -                                      | 247,361                                 | 247,361               |
| Liabilities to IMF  | -                                       | -                                    | -                                     | -                                   | -                                      | 19,790                                  | 19,790                |
| Liabilities to foreign countries                                | 2,993                                   | 12                                   | 12                                    | 72                                  | -                                      | -                                       | 3,089                 |
| Liabilities to domestic banks                                   | 470,311                                 | -                                    | -                                     | -                                   | -                                      | -                                       | 470,311               |
| Deposits from clients   | 29,249                                  | -                                    | -                                     | -                                   | -                                      | -                                       | 29,249                |
| Liabilities to the state  | 45,708                                  | -                                    | -                                     | -                                   | -                                      | -                                       | 45,708                |
| Reserves  | -                                       | -                                    | -                                     | -                                   | -                                      | 5,881                                   | 5,881                 |
| Equity  | -                                       | -                                    | -                                     | -                                   | -                                      | (62,444)                                | (62,444)              |
| Other liabilities   | <u>2,887</u>                            | <u>-</u>                             | <u>-</u>                              | <u>-</u>                            | <u>-</u>                               | <u>-</u>                                | <u>2,887</u>          |
| <b>Total liabilities and equity</b>                             | <u>551,148</u>                          | <u>12</u>                            | <u>12</u>                             | <u>72</u>                           | <u>-</u>                               | <u>210,588</u>                          | <u>761,832</u>        |
| <b>Net interest sensitivity gap</b>                             | <u>(365,186)</u>                        | <u>88,772</u>                        | <u>174,668</u>                        | <u>178,021</u>                      | <u>84,672</u>                          | <u>(160,947)</u>                        | <u>-</u>              |

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED

**26 INTEREST RATE RISK (continued)**

| <b>As at 31 December 2002</b>       | <u>Up to<br/>1 month</u><br>CZK m | <u>1-3<br/>months</u><br>CZK m | <u>3-12<br/>months</u><br>CZK m | <u>1-5<br/>years</u><br>CZK m | <u>Over<br/>5 years</u><br>CZK m | <u>Un-<br/>specified</u><br>CZK m | <u>Total</u><br>CZK m |
|-------------------------------------|-----------------------------------|--------------------------------|---------------------------------|-------------------------------|----------------------------------|-----------------------------------|-----------------------|
| <b>Total assets</b>                 | 163,635                           | 150,672                        | 87,128                          | 329,180                       | 9,567                            | 54,009                            | 794,191               |
| <b>Total liabilities</b>            | <u>575,288</u>                    | <u>4,497</u>                   | <u>278</u>                      | <u>90</u>                     | <u>-</u>                         | <u>214,038</u>                    | <u>794,191</u>        |
| <b>Net interest sensitivity gap</b> | <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>              |
| <b>As at 31 December 2001</b>       |                                   |                                |                                 |                               |                                  |                                   |                       |
| <b>Total assets</b>                 | 173,782                           | 54,159                         | 119,640                         | 219,277                       | 13                               | 60,629                            | 627,500               |
| <b>Total liabilities</b>            | <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>        |
| <b>Net interest sensitivity gap</b> | <u>(231,938)</u>                  | <u>54,147</u>                  | <u>119,628</u>                  | <u>214,430</u>                | <u>-</u>                         | <u>(156,267)</u>                  | <u>-</u>              |

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED

27 CURRENCY RISK

| As at 31 December 2003               | <u>CZK</u>       | <u>EUR</u>     | <u>USD</u>     | <u>JPY</u>      | <u>Other</u>  | <u>Total</u>   |
|--------------------------------------|------------------|----------------|----------------|-----------------|---------------|----------------|
|                                      | CZK m            | CZK m          | CZK m          | CZK m           | CZK m         | CZK m          |
| <b>Assets</b>                        |                  |                |                |                 |               |                |
| Gold                                 | -                | -              | -              | -               | 833           | 833            |
| Receivables from IMF                 | 19,790           | -              | -              | -               | 12,403        | 32,193         |
| Treasury bills and other             |                  |                |                |                 |               |                |
| discounted securities                | -                | 25,185         | 93,124         | 99,570          | -             | 217,879        |
| Bonds and other coupon securities    | -                | 279,271        | 101,816        | -               | 1,688         | 382,775        |
| Deposits, loans and other            |                  |                |                |                 |               |                |
| receivables from foreign countries   | -                | 57,593         | 18,803         | 2               | 106           | 76,504         |
| Receivables from domestic banks      | -                | 96             | -              | -               | -             | 96             |
| Receivables from clients             | 37,467           | -              | -              | -               | -             | 37,467         |
| Fixed assets                         | 6,729            | -              | -              | -               | 10            | 6,739          |
| Other assets                         | <u>6,966</u>     | <u>117</u>     | <u>10</u>      | <u>-</u>        | <u>253</u>    | <u>7,346</u>   |
| <b>Total assets</b>                  | <u>70,952</u>    | <u>362,262</u> | <u>213,753</u> | <u>99,572</u>   | <u>15,293</u> | <u>761,832</u> |
| <b>Liabilities and equity</b>        |                  |                |                |                 |               |                |
| Currency in circulation              | 247,361          | -              | -              | -               | -             | 247,361        |
| Liabilities to IMF                   | 19,790           | -              | -              | -               | -             | 19,790         |
| Liabilities to foreign countries     | 424              | 96             | 2,569          | -               | -             | 3,089          |
| Liabilities to domestic banks        | 470,311          | -              | -              | -               | -             | 470,311        |
| Deposits from clients                | 27,832           | 1,366          | 51             | -               | -             | 29,249         |
| Liabilities to the state             | 42,207           | 3,501          | -              | -               | -             | 45,708         |
| Reserves                             | 5,881            | -              | -              | -               | -             | 5,881          |
| Equity                               | (62,444)         | -              | -              | -               | -             | (62,444)       |
| Other liabilities                    | <u>2,886</u>     | <u>-</u>       | <u>1</u>       | <u>-</u>        | <u>-</u>      | <u>2,887</u>   |
| <b>Total liabilities and equity</b>  | <u>754,248</u>   | <u>4,963</u>   | <u>2,621</u>   | <u>-</u>        | <u>-</u>      | <u>761,832</u> |
| <b>Net assets / (liabilities)</b>    | (683,296)        | 357,299        | 211,132        | 99,572          | 15,293        | -              |
| <b>Net off-balance sheet assets</b>  | <u>-</u>         | <u>79,904</u>  | <u>23,444</u>  | <u>(99,571)</u> | <u>-</u>      | <u>3,777</u>   |
| <b>Net foreign exchange position</b> | <u>(683,296)</u> | <u>437,203</u> | <u>234,576</u> | <u>1</u>        | <u>15,293</u> | <u>3,777</u>   |

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED

27 CURRENCY RISK (continued)

| As at 31 December 2002               | <u>CZK</u><br>CZK m | <u>EUR</u><br>CZK m | <u>USD</u><br>CZK m | <u>JPY</u><br>CZK m | <u>Other</u><br>CZK m | <u>Total</u><br>CZK m |
|--------------------------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| <b>Total assets</b>                  | 78,401              | 456,323             | 159,855             | 91,199              | 8,413                 | 794,191               |
| <b>Total liabilities</b>             | <u>777,597</u>      | <u>16,497</u>       | <u>96</u>           | <u>-</u>            | <u>1</u>              | <u>794,191</u>        |
| <b>Net assets / (liabilities)</b>    | (699,196)           | 439,826             | 159,759             | 91,199              | 8,412                 | -                     |
| <b>Net off-balance sheet assets</b>  | <u>-</u>            | <u>67,934</u>       | <u>23,482</u>       | <u>(91,196)</u>     | <u>-</u>              | <u>220</u>            |
| <b>Net foreign exchange position</b> | <u>(699,196)</u>    | <u>507,760</u>      | <u>183,241</u>      | <u>3</u>            | <u>8,412</u>          | <u>220</u>            |
| <b>As at 31 December 2001</b>        |                     |                     |                     |                     |                       |                       |
| <b>Total assets</b>                  | 91,712              | 363,581             | 164,402             | 1                   | 7,804                 | 627,500               |
| <b>Total liabilities</b>             | <u>590,423</u>      | <u>6,617</u>        | <u>30,459</u>       | <u>-</u>            | <u>1</u>              | <u>627,500</u>        |
| <b>Net assets / (liabilities)</b>    | (498,711)           | 356,964             | 133,943             | 1                   | 7,803                 | -                     |
| <b>Net off-balance sheet assets</b>  | <u>0</u>            | <u>561</u>          | <u>(537)</u>        | <u>0</u>            | <u>(18)</u>           | <u>6</u>              |
| <b>Net foreign exchange position</b> | <u>(498,711)</u>    | <u>357,525</u>      | <u>133,406</u>      | <u>1</u>            | <u>7,785</u>          | <u>6</u>              |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED**

**28 CREDIT RISK AND CONCENTRATION OF LIABILITIES**

**Geographical concentrations of assets**

|                           | <u>31 December 2003</u> | <u>31 December 2002</u> | <u>31 December 2001</u> |
|---------------------------|-------------------------|-------------------------|-------------------------|
|                           | CZK million             | CZK million             | CZK million             |
| Czech Republic            | 52,573                  | 51,683                  | 59,031                  |
| Germany                   | 146,522                 | 123,883                 | 83,298                  |
| France                    | 48,981                  | 46,568                  | 82,318                  |
| Italy                     | 66,577                  | 140,758                 | 111,309                 |
| Other Euro zone countries | 53,071                  | 120,326                 | 104,711                 |
| Switzerland               | 30,134                  | 27,456                  | 18,516                  |
| Great Britain             | 55,146                  | 54,391                  | 42,871                  |
| Other European countries  | 1                       | 2,005                   | 99                      |
| Canada and USA            | 198,151                 | 119,700                 | 113,565                 |
| Japan                     | 99,572                  | 91,200                  | 1                       |
| Other countries           | <u>11,104</u>           | <u>16,221</u>           | <u>11,781</u>           |
|                           | <u>761,832</u>          | <u>794,191</u>          | <u>627,500</u>          |

**Geographical concentrations of liabilities**

|                          | <u>31 December 2003</u> | <u>31 December 2002</u> | <u>31 December 2001</u> |
|--------------------------|-------------------------|-------------------------|-------------------------|
|                          | CZK million             | CZK million             | CZK million             |
| Czech Republic           | 738,953                 | 761,587                 | 578,724                 |
| Euro zone countries      | 2,684                   | 4,325                   | 3,461                   |
| Other European countries | 4                       | 8                       | 5                       |
| Canada and USA           | <u>20,191</u>           | <u>28,271</u>           | <u>45,310</u>           |
|                          | <u>761,832</u>          | <u>794,191</u>          | <u>627,500</u>          |

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED**

**29 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 in CR 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 of the banking sector not covered by the Guarantee.

The assets taken over and specific provisions and reserves created as at 31 December 2003, 2002 and 2001 can be summarised as follows:

|   | <u>31 December 2003</u> | <u>31 December 2002</u> | <u>31 December 2001</u> |
|---|-------------------------|-------------------------|-------------------------|
|   | CZK million             | CZK million             | CZK million             |
| Receivables from banks                        | 26,971                  | 27,175                  | 27,480                  |
| Purchased receivables of banks                | 223                     | 308                     | 308                     |
| Guarantees and commitments                    | <u>467</u>              | <u>598</u>              | <u>582</u>              |
|   | 27,661                  | 28,081                  | 28,370                  |
| Specific provisions (Note 17)                 | (4,694)                 | (4,983)                 | (5,288)                 |
| Reserves (Note 17)                            | <u>(467)</u>            | <u>(598)</u>            | <u>(582)</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 2003 AND FOR THE YEAR THEN ENDED**

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

**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. 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 Konsolidační Banka Praha, s.p.ú., now Česká Konsolidační Agentura (hereinafter the "CKA") in June 2000. The CNB has undertaken to cover all CF losses resulting from the Consolidation Programme 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, which would exceed the share capital of CF and therefore could not be offset against the CF share capital of CZK 13,833 million. The CNB increased the share capital in CF in 1997 and 1998.

The Consolidation programme involved transfers of certain doubtful assets of certain banks taking part in this programme to CF. CF purchased these assets from the CNB and other banks without any further claims. The aim of this programme was to regain financial stability and the programme was started in 1997. CF ceded the portfolio of three receivables against Agrobanka Praha, a.s., v likvidaci included in the Consolidation Programme back to CNB in 2002. The unaudited net book value of the Consolidation programme assets administered by CF (net of provisions created by CF but reflecting the guarantee received from the CNB) was CZK 5,090 million as at 31 December 2003 (audited amount as at 31 December 2002: CZK 5,631 million and audited amount as at 31 December 2001: CZK 26,304 million).

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



**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED**

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

**Česká finanční, s.r.o. (continued)**

The calculation of the reserve can be summarised as follows:

|  | <u>31 December 2003</u> | <u>31 December 2002</u> | <u>31 December 2001</u> |
|--|-------------------------|-------------------------|-------------------------|
|  | CZK million             | CZK million             | CZK million             |
| Provided loans                           | 5,060                   | 5,542                   | 14,026                  |
| Less expected recoverability of          |                         |                         |                         |
| - receivables in Consolidation programme | (170)                   | (510)                   | (3,334)                 |
| - securities in Consolidation programme  | <u>(120)</u>            | <u>(116)</u>            | <u>(105)</u>            |
| Created reserves (Note 17)               | <u>4,770</u>            | <u>4,916</u>            | <u>10,587</u>           |

**Investiční a poštovní banka, a.s.**

In June 2000 CNB declared forced administration in Investiční a poštovní banka, a.s. (hereinafter "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 June 2003.

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 CSOB. The balance of the Guarantee for Deposits in the off balance sheet of the CNB as at 31 December 2003 was CZK 3,651 million (31 December 2002: CZK 32,780 million, 31 December 2001: CZK 48,707 million).

The forced administrator of IPB concluded with CSOB 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 and CSOB concluded the Indemnity Letter in which the CNB 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 2003 AND FOR THE YEAR THEN ENDED

29 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 CSOB indemnification based on the Indemnity Letter (hereinafter the “State Guarantee”). The State guarantee covers losses incurred by the CNB resulting from indemnification of CSOB’s losses (damages) arising from unrecorded liabilities relating to IPB that were transferred to CSOB.

During 2001 the CNB granted advances to CSOB relating to the Indemnity letter of CZK 478 million relating to compensations paid by CSOB resulting from liabilities unrecorded in the IPB accounting records. The CNB paid out further advance payments in the total amount of CZK 2,200 million and EUR 3 million in 2002 and an advance payment of USD 391 thousands in 2003. These advance payments are not provided for, since they are considered by the CNB to be covered by the State Guarantee. In 2003, the CNB received an advance payment relating to the State Guarantee in the amount of CZK 2,000 million.

CSOB regularly lists and quantifies the items, which according to the CSOB opinion may be covered by the Indemnity Letter and may result in potential compensations by the CNB. The final outcome of claims under the Indemnity Letter or claims under the Indemnity Letter that are not covered by the State Guarantee cannot be currently determined. On 6 November 2002, the CNB obtained an unilateral obligatory declaration from CSOB according to which all claims for compensations under the Indemnity letter from the CNB will be made by CSOB and will be settled by the CNB by 31 December 2016 and the maximum amount of the compensation is CZK 160,000 million. Based on this declaration, the CNB expects that the maximum compensation from the State Guarantee would be in the same amount.

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

|   | <u>31 December 2003</u><br>CZK million | <u>31 December 2002</u><br>CZK million | <u>31 December 2001</u><br>CZK million |
|---|--|--|--|
| Potential claims under the Indemnity Letter | 157,215                                | 157,227                                | 39,362                                 |
| Advances paid to CSOB                       | 2,785                                  | 2,773                                  | 478                                    |
| Advances received from the State Guarantee  | <u>(2,000)</u>                         | <u>-</u>                               | <u>-</u>                               |
| Available State Guarantee                   | <u>158,000</u>                         | <u>160,000</u>                         | <u>39,840</u>                          |

## CZECH NATIONAL BANK

### NOTES TO FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED

## 29 CONSOLIDATION OF THE BANKING SECTOR (continued)

### Investiční a poštovní banka, a.s. (continued)

The CNB has not created a provision for these claims as no claims not covered by the State Guarantee have been raised so far and the CNB is currently not able to assess reliably the expected outcome of legal proceedings or the amount of damages, if any, which may be incurred by CSOB and then claimed from the CNB.

In case CSOB will ask CNB to settle any claim under the Indemnity Letter, based on the agreement CNB should make the related payment within the 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,<br>the rest in the following calendar year   |
| Over CZK 5 billion   | CZK 2 billion in the same calendar year,<br>CZK 3 billion in the following calendar year,<br>the rest in the third calendar year after the request of the CNB |

## 30 RELATED PARTY TRANSACTIONS

Related parties are defined as follows:

- Members of the Banking Council, senior management and their relatives;
- Corporates in which members of the Banking Council, senior management hold at least 10% shareholding;
- Subsidiaries;
- CF.

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.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**AS AT 31 DECEMBER 2003 AND FOR THE YEAR THEN ENDED**

**30 RELATED PARTY TRANSACTIONS**

The objectives and basic activities of the CF are described in Note 29. 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.

**31 SUBSEQUENT EVENTS**

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