

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 2004, the related statements of income and notes for the year then ended (hereinafter "the financial statements"). The financial statements, which include a description of the activities of the CNB in accordance with the Act on the Czech National Bank as amended, 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 International Standards on Auditing. 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 2004, 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.

31 March 2005



PricewaterhouseCoopers Audit, s.r.o.
represented by



Paul Cunningham
Partner



Eva Loulová
Auditor, Licence No. 1981

CZECH NATIONAL BANK

BALANCE SHEET

AS AT 31 DECEMBER 2004

	Note	31 December 2004			31 December
		Gross CZK million	Provisions CZK million	Net CZK million	2003 CZK million
ASSETS					
1. Gold	3	825	-	825	833
2. Receivables from International Monetary Fund	4	31,611	-	31,611	32,193
3. Receivables from foreign countries including securities	5	645,830	-	645,830	677,158
3.1. Deposits at foreign banks		44,021	-	44,021	75,773
3.2. Loans provided to foreign banks		21,235	-	21,235	641
3.3. Securities		580,448	-	580,448	600,654
3.4. Other receivables from foreign countries		126	-	126	90
4. Receivables from domestic banks	6	84	14	70	96
5. Receivables from clients	7	21,936	9,080	12,856	13,609
6. Receivables from the state	8	22,435	-	22,435	23,858
7. Fixed assets	9	11,754	5,435	6,319	6,739
7.1. Tangible fixed assets		10,573	4,362	6,211	6,582
7.2. Intangible fixed assets		1,181	1,073	108	157
8. Other assets	10	4,805	574	4,231	7,346
8.1. Prepayments and accrued income		20	-	20	34
8.2. Other		4,785	574	4,211	7,312
TOTAL ASSETS		<u>739,280</u>	<u>15,103</u>	<u>724,177</u>	<u>761,832</u>

CZECH NATIONAL BANK

BALANCE SHEET (continued)

AS AT 31 DECEMBER 2004

	<u>Note</u>	<u>31 December 2004</u>	<u>31 December 2003</u>
		CZK million	CZK million
LIABILITIES			
1. Currency in circulation	11	261,430	247,361
2. Liabilities to International Monetary Fund	4	22,159	19,790
3. Liabilities to foreign countries	12	23,551	3,089
3.1. Loans from foreign banks		23,145	2,665
3.2. Other liabilities to foreign countries		406	424
4. Liabilities to domestic banks	13	428,337	470,311
4.1. Bank monetary reserves		20,311	21,237
4.2. Repo operations		402,997	439,609
4.3. Other liabilities		5,029	9,465
5. Deposits from clients	14	57,573	29,249
6. Domestic treasury bills issued	15	-	-
7. Liabilities to the state	16	37,507	45,708
8. Reserves	18	4,781	5,881
9. Share capital	17	1,400	1,400
10. Funds	17	8,075	8,109
11. Accumulated losses from previous periods	17	(71,953)	(53,780)
12. Loss for the accounting period	17	(53,717)	(18,173)
13. Other liabilities	19	5,034	2,887
13.1. Accruals and deferred income		-	-
13.2. Other		<u>5,034</u>	<u>2,887</u>
TOTAL LIABILITIES		<u>724,177</u>	<u>761,832</u>

CZECH NATIONAL BANK

OFF BALANCE SHEET

AS AT 31 DECEMBER 2004

	<u>Note</u>	<u>31 December 2004</u>	<u>31 December 2003</u>	
		CZK million	CZK million	
OFF BALANCE SHEET				
1.	Guarantees issued	20	166,102	170,440
2.	Receivables from spot, term and option transactions	25	129,599	122,293
3.	Liabilities from spot, term and option transactions	25	118,764	118,516
4.	Guarantees received	20	165,535	180,500

CZECH NATIONAL BANK

INCOME STATEMENT

FOR YEAR ENDED 31 DECEMBER 2004

	<u>Note</u>	<u>2004</u> CZK million	<u>2003</u> CZK million
1. Interest income and similar income	21	13,744	19,192
1.1. Interest from fixed income securities		12,243	16,530
1.2. Other		1,501	2,662
2. Interest expense and similar expense	21	(11,597)	(12,598)
2.1. Interest from fixed income securities		-	-
2.2. Other		(11,597)	(12,598)
3. Income from securities with variable income		46	43
4. Fee and commission income		419	447
5. Fee and commission expense		(37)	(41)
6. Loss from financial operations	22	(55,104)	(23,232)
7. Other income		112	120
7.1. Income from money issue		40	23
7.2. Other		72	97
8. Administration expenses	23	(1,919)	(2,042)
8.1. Personnel expenses		(808)	(785)
8.1.1. Wages and salaries		(596)	(579)
8.1.2. Social and health security		(212)	(206)
8.2. Other operating expenses		(1,111)	(1,257)
9. Other expenses	24	(541)	(655)
9.1. Expenses for issuing bank notes and coinage		(261)	(285)
9.2. Other		(280)	(370)
10. Charge for specific and general provisions for loans and guarantees	18	(477)	(33)
11. Release of specific and general provisions for loans and guarantees and write-offs of loans	18	1,598	576
12. Charge for other specific and general provisions	18	(1)	(10)
13. Release of other specific and general provisions and write-offs of other receivables	18	40	60
14. Ordinary loss		(53,717)	(18,173)
15. Extraordinary profit		-	-
16. Loss for the period		(53,717)	(18,173)

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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 which lead 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 their 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

FOR THE YEAR ENDED 31 DECEMBER 2004

1 GENERAL INFORMATION (continued)

The members of the Bank Council as at 31 December 2004 and 2003 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

On 12 February 2005, the term of four Banking Council members expired so that the president of the Czech Republic re-appointed the Governor and appointed the following new Banking Council members on 11 February 2005:

Mr. Miroslav Singer	Vice-Governor
Mr. Robert Holman	member
Mr. Pavel Řežábek	member

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 it be necessary.

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

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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), decrees and Czech Accounting Standards 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, in compliance with the decree no. 501/2002 issued by the Ministry of Finance.

(b) Foreign currencies

Transactions in foreign currencies are translated to CZK at the foreign exchange rate effective at the transaction date. Assets and liabilities denominated in foreign currencies (including Special Drawing Rights (Note 2(g)), 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 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. Interest income resulting from the interest bearing securities and deposits denominated in gold is accrued.

(d) Securities

The Bank classified all its fixed income securities as available-for-sale securities. Shares other than investments in subsidiary or associated undertakings are included in other assets.

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 set by the Banking Council. They consist of money market and capital market securities.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

2 ACCOUNTING POLICIES (continued)

(d) Securities (continued)

Treasury bills and other discounted securities are stated at fair value. Treasury bills and other discounted securities are originally recorded at cost which is further increased by related accrued interest income (amortised cost). Since 1 January 2004, interest income is accrued using an effective yield method. Until 31 December 2003, a linear interest rate was used as an approximation of the effective yield. Treasury bills and other discounted securities are subsequently re-measured to their fair value on a monthly basis.

Bonds are stated at fair value. Bonds are originally valued at cost, which is further increased by related accrued interest income consisting of coupon and the difference between the purchase price and the nominal value of bonds (amortised cost). Since 1 January 2004, interest income is accrued using an effective yield method. Until 31 December 2003 a linear interest rate was used as an approximation of the effective yield. Re-measurement of bonds to their fair value is performed on a monthly basis.

Effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the security to the net carrying amount of the security.

Transaction costs are not included in the cost of purchased securities.

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 the loss from financial operations.

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

Disposals of securities are valued at the weighted average cost of the amortised costs.

During 2004 and 2003 the Bank does not have any investments in subsidiary or associated undertakings.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

2 ACCOUNTING POLICIES (continued)

(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.

(a) Currency in circulation

Notes and coins in circulation represent the liability of the Bank from the issue of currency. The Bank recognises the amount of currency in issue, decreased by the cash in hand, denominated in CZK.

(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.

(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 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 the balance sheet at cost and subsequently are re-measured at their fair value or market value (futures). Fair value as applied by the Bank approximates the market value through the calculation of foreign exchange differences and accrual of the difference between spot and forward rate. Fair values of derivatives are presented in other assets or in other liabilities when they are positive or negative respectively. The Bank does not apply hedge accounting. Changes in the fair value of derivatives are included in the loss from financial operations.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

2 ACCOUNTING POLICIES (continued)

(j) Interest income and expense

Interest income and expense are accrued using a linear yield method for loans and deposits. Interest income for bonds available-for-sale is calculated using an effective yield method since 1 January 2004. The Bank used a linear interest rate as an approximation of the effective yield until 31 December 2003. Accrued interest is recorded together with 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.

Non-interest earning assets, such as long term receivables are not discounted.

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.

(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 (Note 30). The received and issued guarantees related to the consolidation of the banking sector are recorded in the off balance sheet of the CNB.

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. 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 cover these assets were taken into consideration (Note 30).

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

2 ACCOUNTING POLICIES (continued)

(l) Specific provisions and reserves (continued)

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. Specific provisions and reserves are not discounted for the effects of expected timing of cash flows.

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

Tangible and intangible fixed assets are depreciated as follows:

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

In the 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 are 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 cost of the property.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

2 ACCOUNTING POLICIES (continued)

(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 affect taxable supplies liable to VAT; apart from this the allowance reduced by coefficient according to Paragraph 76 of the VAT Act is claimed.

(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 or 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.

(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 the 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.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

2 ACCOUNTING POLICIES (continued)

(a) Changes in accounting policy

Since 1 January 2003, the effects of changes in accounting policies have been 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 re-measured 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 17) and decreased the accumulated losses from previous periods.

Since 2004, the Bank disclosed receivables from Česká konsolidační agentura within receivables from the state, previously they were recorded within receivables from clients. Comparable figures as at 31 December 2003 have been reclassified accordingly.

(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 the financial statements which are indicative of conditions that 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
FOR THE YEAR ENDED 31 DECEMBER 2004

3 GOLD

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Gold in total	<u>825</u>	<u>833</u>

The gold as at 31 December 2004 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 (31 December 2003: CZK 283 million). The nominal value of the purchased bond was 150,115 oz of gold and the market value of this gold as at 31 December 2004 was CZK 1,460 million (31 December 2003: CZK 1,626 million).

The total market value of gold as at 31 December 2004 was CZK 4,254 million (31 December 2003: CZK 4,784 million).

4 RECEIVABLES AND PAYABLES FROM/TO IMF

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Membership quota at IMF	22,277	20,028
Deposits in IMF	<u>9,334</u>	<u>12,165</u>
Total receivables from IMF	<u>31,611</u>	<u>32,193</u>
Liability to IMF	20,009	19,653
Current account IMF	<u>2,150</u>	<u>137</u>
Total payables to IMF	<u>22,159</u>	<u>19,790</u>

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

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

5 RECEIVABLES FROM FOREIGN COUNTRIES INCLUDING SECURITIES

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Current accounts with banks	30	37
Deposits	<u>43,991</u>	<u>75,736</u>
Total deposits at foreign banks	44,021	75,773
Total loans provided to foreign banks	21,235	641
Treasury bills and other discounted securities	209,064	217,879
Bonds and other coupon securities	<u>371,384</u>	<u>382,775</u>
Total securities	580,448	600,654
Cash in foreign currencies	<u>126</u>	<u>90</u>
Total other receivables from foreign countries	126	90
Total receivables from foreign countries including securities	<u>645,830</u>	<u>677,158</u>

Foreign banks are banks with residence abroad. Foreign banks do not include branches of foreign banks with residence in the Czech Republic.

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.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

**5 RECEIVABLES FROM FOREIGN COUNTRIES INCLUDING SECURITIES
(continued)**

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

	<u>31 December 2004</u>		<u>31 December 2003</u>	
	CZK million	%	CZK million	%
Euro zone	20,415	31	35,110	46
Great Britain	22,534	35	40,637	53
Other European countries	22	-	99	-
USA	13,673	21	653	1
Japan	8,730	13	2	-
Other countries	<u>8</u>	<u>-</u>	<u>3</u>	<u>-</u>
	<u>65,382</u>	<u>100</u>	<u>76,504</u>	<u>100</u>

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 <u>31 December 2004</u>	Fair value <u>31 December 2003</u>
	CZK million	CZK million
Treasury bills	107,363	114,913
Other discounted securities	<u>101,701</u>	<u>102,966</u>
Total treasury bills and other discounted securities	<u>209,064</u>	<u>217,879</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

**1 RECEIVABLES FROM FOREIGN COUNTRIES INCLUDING SECURITIES
(continued)**

Geographic sector risk concentrations within treasury bills and other discounted securities

	<u>31 December 2004</u>		<u>31 December 2003</u>	
	CZK million	%	CZK million	%
Euro zone	60,676	29	13,714	6
Great Britain	4,557	2	2,694	1
Switzerland	19,431	9	30,128	14
USA	46,336	22	60,671	28
Japan	68,233	33	99,570	46
Other countries	<u>9,831</u>	<u>5</u>	<u>11,102</u>	<u>5</u>
	<u>209,064</u>	<u>100</u>	<u>217,879</u>	<u>100</u>

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

Bonds and other coupon securities can be analysed as follows:

	Fair value	Fair value
	<u>31 December 2004</u>	<u>31 December 2003</u>
	CZK million	CZK million
State bonds	223,890	179,405
Other foreign bonds (bonds issued by foreign financial institutions)	<u>147,494</u>	<u>203,370</u>
Total bonds and other coupon securities	<u>371,384</u>	<u>382,775</u>

Bonds and other securities with fixed income reported as at 31 December 2004 and 2003 include solely fixed income securities.

Geographic sector risk concentrations within bonds and other coupon securities

	<u>31 December 2004</u>		<u>31 December 2003</u>	
	CZK million	%	CZK million	%
Euro zone	246,094	66	266,327	70
Great Britain	4,902	1	11,815	3
USA	<u>120,388</u>	<u>33</u>	<u>104,633</u>	<u>27</u>
	<u>371,384</u>	<u>100</u>	<u>382,775</u>	<u>100</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

6 RECEIVABLES FROM DOMESTIC BANKS

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Non-performing loans	14	14
Loans provided from European Investment Bank (hereinafter the "EIB") funds (Note 12)	<u>70</u>	<u>96</u>
	84	110
Specific provisions against receivables from domestic banks (Note 18)	<u>(14)</u>	<u>(14)</u>
Total net receivables from domestic banks	<u>70</u>	<u>96</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 RECEIVABLES FROM CLIENTS

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Standard loans	4,539	5,166
Classified loans	<u>17,397</u>	<u>17,544</u>
	21,936	22,710
Specific provisions for classified loans (Note 18)	<u>(9,080)</u>	<u>(9,101)</u>
Total net receivables from clients	<u>12,856</u>	<u>13,609</u>

In 2004, receivables of CZK 23,858 million as at 31 December 2003 were reclassified from receivables from clients to receivables from the state (Note 8).

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

7 RECEIVABLES FROM CLIENTS (continued)

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 the total outstanding principal and accrued interest receivable, and are overdue or show other defaults in contractual terms or financial performance.

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Loss loans	<u>17,397</u>	<u>17,544</u>
Gross classified loans	17,397	17,544
Specific provisions	<u>(9,080)</u>	<u>(9,101)</u>
Net book value	<u>8,317</u>	<u>8,443</u>

The net book value of classified loans reflects the guarantee received from the Czech Government (Note 30).

Classified loans include a portfolio of receivables from Agrobanka Praha, a.s., v likvidaci of total gross amount of CZK 5,204 million as at 31 December 2004 (31 December 2003: CZK 5,674 million). A specific provision of CZK 5,204 million as at 31 December 2004 was created against this receivable (31 December 2003: CZK 5,548 million).

Excluding specific provisions for classified loans, the Bank created a reserve for standard loans of CZK 348 million (Note 18) as at 31 December 2004 and 2003. The reserve must be utilised or released to income in compliance with Czech accounting rules for banks by 31 December 2005.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

8 RECEIVABLES FROM THE STATE

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Redistribution loans	8,752	9,675
Receivables from the state arising from an exercised state guarantee	<u>13,683</u>	<u>14,183</u>
Total receivables from the state	<u>22,435</u>	<u>23,858</u>

Redistribution loans

Long-term redistribution loans were provided to former 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 cooperative housing scheme. It is repayable by annual instalments based on payments received from clients and its final maturity has not been specified.

Receivables from the state arising from an exercised state guarantee

As a result of the consolidation of the banking sector, the CNB had a receivable from a former bank covered by the state guarantee (Note 30). Since the liquidation of this former bank was finished and the bank was deleted from the Commercial register, this receivable does not exist any more and the CNB claimed it from the state guarantee. This claim is disclosed within receivables from the state. The CNB received a partial payment of CZK 500 million from the Ministry of Finance in 2004.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

9 FIXED ASSETS

Tangible fixed assets

	31 December <u>2003</u> CZK million	<u>Additions</u> CZK million	<u>Disposals</u> CZK million	31 December <u>2004</u> CZK million
<u>Cost</u>				
Land	176	-	(2)	174
Buildings	7,036	14	(219)	6,831
Technical equipment	2,552	330	(106)	2,776
Equipment	341	2	(11)	332
Other	445	21	(31)	435
Tangible assets in the course of construction	<u>40</u>	<u>239</u>	<u>(254)</u>	<u>25</u>
Total cost	<u>10,590</u>	<u>606</u>	<u>(623)</u>	<u>10,573</u>
<u>Accumulated depreciation</u>				
Buildings	(1,279)	(227)	38	(1,468)
Technical equipment	(2,047)	(231)	72	(2,206)
Equipment	(271)	(26)	10	(287)
Other	<u>(411)</u>	<u>(21)</u>	<u>31</u>	<u>(401)</u>
Total accumulated depreciation	<u>(4,008)</u>	<u>(505)</u>	<u>151</u>	<u>(4,362)</u>
Net book amount	<u>6,582</u>			<u>6,211</u>

The original cost of low value tangible fixed assets that have been fully depreciated when put into use in 2004 is CZK 21 million (2003: CZK 9 million).

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

9 FIXED ASSETS (continued)

Intangible fixed assets

	31 December <u>2003</u> CZK million	<u>Additions</u> CZK million	<u>Disposals</u> CZK million	31 December <u>2004</u> CZK million
<u>Cost</u>				
Software	1,171	31	(36)	1,166
Other intangible assets	2	4	-	6
Intangible assets not yet put into use	<u>6</u>	<u>38</u>	<u>(35)</u>	<u>9</u>
Total cost	<u>1,179</u>	<u>73</u>	<u>(71)</u>	<u>1,181</u>
<u>Accumulated amortisation</u>				
Software	(1,020)	(87)	36	(1,071)
Other intangible assets	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>2</u>
Total accumulated amortisation	<u>(1,022)</u>	<u>(87)</u>	<u>36</u>	<u>1,073</u>
Net book amount	<u>157</u>			<u>108</u>

The original cost of low value intangible fixed assets that has been fully amortised when put into use in 2004 is CZK 0.9 million (2003: CZK 0.9 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

FOR THE YEAR ENDED 31 DECEMBER 2004

10 OTHER ASSETS

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Accrued income	20	34
Advances in relation to the Indemnity letter (Note 30)	2,744	2,785
Other advances in relation to the consolidation of the banking sector	69	1,496
Other foreign financial assets	404	253
Other precious metals	18	21
Positive fair value of foreign currency forwards (Note 25)	877	4,122
Margin account including fair value of futures (Note 25)	18	19
Other	<u>655</u>	<u>628</u>
	4,805	9,358
Specific provisions to advances and other assets (Note 18)	<u>(574)</u>	<u>(2,012)</u>
Total other assets	<u>4,231</u>	<u>7,346</u>

The Bank discloses its share on European Central Bank's (hereinafter only "ECB") share capital within other foreign financial assets. The Czech Republic joined the European Union on 1 May 2004 and consequently the CNB became a member of the European system of central banks (hereinafter only "ESCB"). In line with the article 28 of the Statute of European central banks and European central bank (hereinafter only "Statute"), the CNB became a shareholder of ECB. The membership share is set in line with the Article 29.3. of the Statute and must be adjusted every 5 years. The share of the Czech Republic, 1.4584%, was calculated according to the Article 29 of the Statute based on the population and gross domestic product. The Czech Republic is not a member of the Euro zone, so transition provisions included in the Article 48 of the Statute are applied and the CNB paid the contribution of 7% from its share on subscribed share capital in the total amount of EUR 5.7 million. The residual part will be paid after the accession of the Czech Republic into the Euro zone.

The CNB's investments in BIS and SWIFT are also 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 17).

The shares in ECB, BIS and SWIFT are measured at cost less any impairment other than temporary.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

10 OTHER ASSETS (continued)

Within other assets, 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 30).

Within other assets, the Bank also discloses its 99.98 % shares in EKOAGROBANKA, a.s. v likvidaci and COOP Banka, a.s. v likvidaci, purchased in 2004 from Česká finanční, s.r.o. (hereinafter “CF”) within the Consolidation programme under the conditions, which did not cause a financial loss to the CNB. These shares are not treated as investments in subsidiaries, because in the opinion of representatives of the Bank, it is the liquidator and not the general meeting who takes decisions about activities of these companies, and therefore the CNB cannot control the management of these companies.

The shares are measured at fair value and in the opinion of the representatives of the Bank the fair value of these shares is approximately nil.

11 CURRENCY IN CIRCULATION

	<u>31 December 2004</u>	<u>31 December 2003</u>
	CZK million	CZK million
Notes in circulation	256,649	242,102
Coins in circulation	6,692	6,338
Cash in hand denominated in CZK	<u>(1,911)</u>	<u>(1,079)</u>
Total currency in circulation	<u>261,430</u>	<u>247,361</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

12 LIABILITIES TO FOREIGN COUNTRIES

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Repo operations	23,075	2,569
Loans from the EIB (Note 6)	<u>70</u>	<u>96</u>
Total loans from foreign countries	23,145	2,665
Other liabilities to foreign countries	<u>406</u>	<u>424</u>
Total liabilities to foreign countries	<u>23,551</u>	<u>3,089</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.

Geographic sector risk concentrations within liabilities to foreign countries:

	<u>31 December 2004</u>		<u>31 December 2003</u>	
	CZK million	%	CZK million	%
Euro zone	70	-	2,684	87
Other European countries	5	-	4	-
USA	<u>23,476</u>	<u>100</u>	<u>401</u>	<u>13</u>
	<u>23,551</u>	<u>100</u>	<u>3,089</u>	<u>100</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

13 DUE TO DOMESTIC BANKS

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Monetary reserves from banks	20,311	21,237
Repo operations	402,997	439,609
Other liabilities to domestic banks	<u>5,029</u>	<u>9,465</u>
Total liabilities to domestic banks	<u>428,337</u>	<u>470,311</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 received deposits and loans from non-banking clients or selected issued securities.

Repo operations

Repo operations as at 31 December 2004 include CZK 402,997 million (31 December 2003: CZK 439,609 million) of loans received from banks in the CR. Re-purchased 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 for handling cash and deposits used for interbank money transfers.

14 DEPOSITS FROM CLIENTS

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Current accounts	19,199	9,836
Term deposits	1,912	2,020
Deposits of local government bodies	31,992	13,699
Other deposits	<u>4,470</u>	<u>3,694</u>
Total deposits from clients	<u>57,573</u>	<u>29,249</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

15 DOMESTIC TREASURY BILLS ISSUED

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Bank's treasury bills	700,000	700,000
from which:		
- held in the treasury bills portfolio	(297,145)	(267,867)
- in repo operations	<u>(402,855)</u>	<u>(432,133)</u>
Total domestic treasury bills issued	<u>-----</u> -	<u>-----</u> -

The treasury bills were issued at zero discount.

16 LIABILITIES TO THE STATE

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
State funds' accounts	8,716	23,182
State assets denominated in CZK	19,959	19,025
State assets denominated in foreign currency	<u>8,832</u>	<u>3,501</u>
Total liabilities to the state	<u>37,507</u>	<u>45,708</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

17 EQUITY

Changes of equity during 2004 and 2003 were as follows:

	<u>Share capital</u> CZK million	<u>Funds</u> CZK million	<u>Accumulated losses</u> CZK million	<u>Loss for the year</u> CZK million	<u>Equity</u> CZK million
Balance at 1 January 2003	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 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	1,400	8,109	(53,780)	(18,173)	(62,444)
Transfer of accumulated losses	-	-	(18,173)	18,173	-
Usage of social fund	-	(34)	-	-	(34)
Loss for the year 2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>(53,717)</u>	<u>(53,717)</u>
Balance at 31 December 2004	<u>1,400</u>	<u>8,075</u>	<u>(71,953)</u>	<u>(53,717)</u>	<u>(116,195)</u>

Funds

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

The Social fund of CZK 3 million as at 31 December 2004 (31 December 2003: CZK 3 million) is used for coverage of the social needs of employees and the 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.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

18 RESERVES, SPECIFIC PROVISIONS AND WRITE-OFFS

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

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Specific provisions		
Non-performing loans due from domestic banks (Note 6)	14	14
Classified loans to clients (Note 7)	9,080	9,101
Other (Note 10)	<u>574</u>	<u>2,012</u>
Total specific provisions	<u>9,668</u>	<u>11,127</u>
Reserves		
Standard loans (Note 7)	348	348
Guarantee for CF (Notes 20 and 30)	4,176	4,770
Guarantees for the consolidation of the banking sector (Notes 20 and 30)	-	467
Guarantees for clients (Note 20)	<u>257</u>	<u>296</u>
Total reserves	<u>4,781</u>	<u>5,881</u>

Specific provisions for classified loans to clients include the provisions resulting from Consolidation programme of CZK 3,622 million as at 31 December 2004 (31 December 2003: 4,694) (Note 30).

Write-offs and recovery of amounts written off previously

The CNB wrote off receivables of CZK 1,400 million in 2004 (2003: CZK 75 million) and did not receive any payments on debts which had been previously written off in 2004 and 2003.

In 2004, receivables written off primarily represented advances of CZK 1,400 million, paid in the past within the consolidation of the banking sector. They were fully provided for. Impact of this write-off is disclosed net in line Release of other specific and general provisions and write-offs of other receivables.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

18 RESERVES, SPECIFIC PROVISIONS AND WRITE OFFS (continued)

Specific provisions

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

	<u>Amounts due from banks</u> CZK million	Classified <u>loans</u> CZK million	<u>Other</u> CZK million	<u>Total</u> CZK million
At 1 January 2003	14	9,389	1,988	11,391
Addition	-	9	27	36
Usage and release	<u>-</u>	<u>(297)</u>	<u>(3)</u>	<u>(300)</u>
At 31 December 2003	14	9,101	2,012	11,127
Addition	-	470	1	471
Usage and release	<u>-</u>	<u>(491)</u>	<u>(1,439)</u>	<u>(1,930)</u>
At 31 December 2004	<u>14</u>	<u>9,080</u>	<u>574</u>	<u>9,668</u>

Reserves

The movements in reserves can be analysed as follows:

	Standard <u>loans</u> CZK million	<u>Consolidation</u> CZK million	Other <u>guarantees</u> CZK million	<u>Total</u> CZK million
At 1 January 2003	348	5,514	348	6,210
Addition	-	-	7	7
Usage and release	<u>-</u>	<u>(277)</u>	<u>(59)</u>	<u>(336)</u>
At 31 December 2003	348	5,237	296	5,881
Addition	-	-	7	7
Usage and release	<u>-</u>	<u>(1,061)</u>	<u>(46)</u>	<u>(1,107)</u>
At 31 December 2004	<u>348</u>	<u>4,176</u>	<u>257</u>	<u>4,781</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

18 RESERVES, SPECIFIC PROVISIONS AND WRITE OFFS (continued)

Reserves (continued)

In 2004 usage and release of reserves to activities within the consolidation of the banking sector includes release of reserve created to cover the losses of Česká Finanční, s.r.o. incurred in relation to the implementation of the Consolidation programme in the amount of CZK 594 million (Note 30) (2003: CZK 146 million). In 2004 the Bank purchased from Česká Finanční, s.r.o. within the Consolidation programme shares of COOP Banka, a.s. v likvidaci (Note 10). Purchase price of these shares was netted off against the loans provided to Česká Finanční, s.r.o. (Note 30).

19 OTHER LIABILITIES

	<u>31 December 2004</u>	<u>31 December 2003</u>
	CZK million	CZK million
Negative fair value of foreign currency forwards (Note 25)	1,121	586
Advance received in relation to the State guarantee (Note 30)	2,744	2,000
Liabilities to the European Communities	861	-
Other liabilities	<u>308</u>	<u>301</u>
Total other liabilities	<u>5,034</u>	<u>2,887</u>

CZECH NATIONAL BANK
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20 CONTINGENCIES AND COMMITMENTS

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Issued guarantees		
Clients	286	330
CF (Note 30)	4,176	4,770
Consolidation of the banking sector (Note 30)	<u>161,640</u>	<u>165,340</u>
Total issued guarantees	<u>166,102</u>	<u>170,440</u>
Received guarantees		
From the Czech Government for impaired assets taken over by the Bank within the Consolidation programme (Note 30)	8,317	22,500
From the Ministry of Finance in relation to the Indemnity Letter (Note 30)	<u>157,218</u>	<u>158,000</u>
Total guarantees received	<u>165,535</u>	<u>180,500</u>

The issued guarantees for the consolidation of the banking sector primarily include the Indemnity Letter and the Guarantee for deposits (Note 30).

The identified need for reserves for expected losses (Note 18) on the issued guarantees was as follows:

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Guarantees for clients (Note 18)	257	296
Guarantee for CF (Note 18 and 30)	4,176	4,770
Guarantees for the Consolidation of the banking sector (Note 18)	—	<u>467</u>
	<u>4,433</u>	<u>5,533</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

20 CONTINGENCIES AND COMMITMENTS (continued)

Receivables and payables from unsettled transactions with securities

	<u>31 December 2004</u>	<u>31 December 2003</u>
	CZK million	CZK million
Receivables from unsettled transactions with securities	12,432	31,835
Payables from unsettled transactions with securities	<u>1,672</u>	<u>30,130</u>
Net position	<u>10,760</u>	<u>1,705</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 1.8 billion 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, as well as 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.

The Bank is participating in a legal suit against INVESTMART B. V. resulting from a transaction performed by the Bank within the supervision activities over the banking sector. The amount of the suit is EUR 188 million. As at the date of preparation of the financial statements, the Bank is not able to reliably assess the outcome of this legal suit and therefore has not created any reserve for this legal suit.

Other contingencies

The Bank received a letter from administrator Union Banka, which states that the Bank did not pay an amount of CZK 20 million resulting from a transaction performed by the CNB during the consolidation of the Czech banking sector. Based on the Bank’s lawyers opinion the whole case is statute-barred and therefore no reserve has been created.

Investment commitments

The Bank has not entered into any contracts for the purchase of tangible and intangible fixed assets as at 31 December 2004 and 2003.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

20 CONTINGENCIES AND COMMITMENTS (continued)

Assets held in custody

The Bank has not received any assets from third parties to be held in custody in 2004 and 2003.

21 INTEREST MARGIN

	<u>2004</u>	<u>2003</u>
	CZK million	CZK million
Interest income and similar income	13,744	19,192
Interest expense and similar expense	<u>(11,597)</u>	<u>(12,598)</u>
Interest margin	<u>2,147</u>	<u>6,594</u>

Interest income and similar income

	<u>2004</u>	<u>2003</u>
	CZK million	CZK million
Treasury bills and other discounted securities	2,207	2,602
Bonds	<u>10,036</u>	<u>13,928</u>
Interest from securities with fixed income	<u>12,243</u>	<u>16,530</u>
Inter-bank deposits	1,000	2,165
Receivables from the clients	330	384
Other	<u>171</u>	<u>113</u>
Total other interest income	<u>1,501</u>	<u>2,662</u>
Total interest income and similar income	<u>13,744</u>	<u>19,192</u>

Based on the estimate of the Bank's management, the 2004 total income included CZK 0.5 million from interest income on classified loans (2003: CZK 1.0 million). Unpaid interest is accrued and is taken into account when calculating the amount of specific provisions.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

21 INTEREST MARGIN (continued)

Interest expense and similar expense

	<u>2004</u>	<u>2003</u>
	CZK million	CZK million
Liabilities to the state	140	143
Liabilities to banks	11,394	12,320
Liabilities to clients	<u>63</u>	<u>135</u>
Total interest expense and similar expense	<u>11,597</u>	<u>12,598</u>

22 LOSS FROM FINANCIAL OPERATIONS

Loss from financial operations can be analysed as follows:

	<u>2004</u>	<u>2003</u>
	CZK million	CZK million
Realised gain from securities	2,466	5,910
Realised loss from securities	(1,807)	(3,297)
Net foreign exchange losses	(60,135)	(29,481)
Net gains from currency forwards	1,499	5,923
Realised and unrealised gains less losses from interest futures	(21)	19
Unrealised gains less losses from securities	<u>2,944</u>	<u>(2,306)</u>
Total loss from financial operations	<u>(55,104)</u>	<u>(23,232)</u>

In 2004 net gains from currency forwards includes foreign exchange loss of CZK 865 million and interest differential of CZK 2,314 million (2003: foreign exchange gain of CZK 5,096 million and interest differential of CZK 827 million).

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

23 ADMINISTRATION EXPENSES

The administration expenses can be analysed as follows:

	<u>2004</u>	<u>2003</u>
	CZK million	CZK million
Wages and salaries	596	579
Social security and health insurance	<u>212</u>	<u>206</u>
Total personnel costs	<u>808</u>	<u>785</u>
Depreciation of tangible fixed assets (Note 9)	505	547
Amortisation of intangible fixed assets (Note 9)	87	152
Rent	13	14
Other	<u>506</u>	<u>544</u>
Total other administration expenses	<u>1,111</u>	<u>1,257</u>
Total administration expenses	<u>1,919</u>	<u>2,042</u>

Staff statistics

	<u>2004</u>	<u>2003</u>
Average number of employees	1,464	1,477
From which: Number of members of the Bank Council	7	7

24 OTHER EXPENSES

	<u>2004</u>	<u>2003</u>
	CZK million	CZK million
Settlement of CF losses	134	172
Expenses for issuing bank notes and coins	261	285
Other expenses and damages	<u>146</u>	<u>198</u>
Total other expenses	<u>541</u>	<u>655</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

25 FINANCIAL RISKS

Liquidity risk

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

Interest rate risk

The Bank takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Changes in interest rates result in 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 27 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, re-pricing 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 28 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.

Credit risk

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

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

25 FINANCIAL RISKS (continued)

Spot transactions and derivative financial instruments

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

	<u>31 December 2004</u>	<u>31 December 2003</u>
	CZK million	CZK million
<u>Off balance sheet receivables:</u>		
- from future transactions	14,232	3,964
- from unsettled spot transactions	12,432	-
- from forward transactions	77,035	103,348
- from option transactions	<u>25,900</u>	<u>14,981</u>
	<u>129,599</u>	<u>122,293</u>
<u>Off balance sheet payables:</u>		
- from future transactions	14,232	3,964
- from unsettled spot transactions	1,672	-
- from forward transactions	76,960	99,571
- from option transactions	<u>25,900</u>	<u>14,981</u>
	<u>118,764</u>	<u>118,516</u>

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

	<u>31 December 2004</u>	<u>31 December 2003</u>
	CZK million	CZK million
Off balance sheet receivables from forward transactions	77,035	103,348
Off balance sheet payables from forward transactions	76,960	99,571
Positive fair value (Note 10)	877	4,122
Negative fair value (Note 19)	1,121	586

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

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

25 FINANCIAL RISKS (continued)

Spot transactions and derivative financial instruments (continued)

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 fulfil 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 22).

The Bank has outstanding futures at the balance sheet date:

	<u>31 December 2004</u>	<u>31 December 2003</u>
	CZK million	CZK million
Off balance sheet receivables from futures transactions	14,232	3,964
Off balance sheet payables from futures transactions	14,232	3,964
Net loss from change in fair values of futures transactions	(1)	-

Gains or losses from change in fair values of futures transactions are settled daily against cash on margin account reported within other assets.

	<u>31 December 2004</u>	<u>31 December 2003</u>
	CZK million	CZK million
Net loss from change in fair values of futures transactions	(1)	-
Cash on margin account	<u>19</u>	<u>19</u>
Margin account including settled change in fair value of futures transactions (Note 10)	<u>18</u>	<u>19</u>

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26 LIQUIDITY RISK

As at 31 December 2004	Up to <u>1 month</u> CZK m	1-3 <u>months</u> CZK m	3-12 <u>months</u> CZK m	1-5 <u>years</u> CZK m	Over <u>5 years</u> CZK m	Un- <u>specified</u> CZK m	<u>Total</u> CZK m
Assets							
Gold	542	-	-	283	-	-	825
Receivables from IMF	-	-	-	-	-	31,611	31,611
Treasury bills and other discounted securities	57,727	61,221	90,116	-	-	-	209,064
Bonds and other coupon securities	25,886	25,466	72,286	168,336	79,410	-	371,384
Deposits, loans and other receivables from foreign countries	62,789	2,593	-	-	-	-	65,382
Receivables from domestic banks	-	10	10	50	-	-	70
Receivables from clients	2	-	4,427	8,325	102	-	12,856
Receivables from the state	-	-	-	13,682	-	8,753	22,435
Fixed assets	-	-	-	-	-	6,319	6,319
Other assets	<u>4,211</u>	<u>-</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,231</u>
Total assets	<u>151,157</u>	<u>89,290</u>	<u>166,859</u>	<u>190,676</u>	<u>79,512</u>	<u>46,683</u>	<u>724,177</u>
Liabilities and equity							
Currency in circulation	-	-	-	-	-	261,430	261,430
Liabilities to IMF	-	-	-	-	-	22,159	22,159
Liabilities to foreign countries	23,481	10	10	50	-	-	23,551
Liabilities to domestic banks	428,337	-	-	-	-	-	428,337
Deposits from clients	55,662	-	371	260	1,280	-	57,573
Liabilities to the state	37,507	-	-	-	-	-	37,507
Reserves	-	-	-	-	-	4,781	4,781
Equity	-	-	-	-	-	(116,195)	(116,195)
Other liabilities	<u>5,034</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,034</u>
Total liabilities and equity	<u>550,021</u>	<u>10</u>	<u>381</u>	<u>310</u>	<u>1,280</u>	<u>172,175</u>	<u>724,177</u>
Net liquidity gap	<u>(398,864)</u>	<u>89,280</u>	<u>166,478</u>	<u>190,366</u>	<u>78,232</u>	<u>(125,492)</u>	<u>-</u>
Balance as at 31 December 2003							
Total assets	189,154	89,683	176,574	175,026	82,587	48,808	761,832
Total liabilities	<u>550,521</u>	<u>12</u>	<u>354</u>	<u>357</u>	<u>-</u>	<u>210,588</u>	<u>761,832</u>
Net liquidity gap	<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

FOR THE YEAR ENDED 31 DECEMBER 2004

27 INTEREST RATE RISK

As at 31 December 2004	Up to <u>1 month</u> CZK m	1-3 <u>months</u> CZK m	3-12 <u>months</u> CZK m	1-5 <u>years</u> CZK m	Over <u>5 years</u> CZK m	Un- <u>specified</u> CZK m	<u>Total</u> CZK m
Assets							
Gold	-	-	-	-	-	825	825
Receivables from IMF	-	-	-	-	-	31,611	31,611
Treasury bills and other							
discounted securities	57,727	61,221	90,116	-	-	-	209,064
Bonds and other coupon securities	37,912	44,632	49,092	160,338	79,410	-	371,384
Deposits, loans and other receivables							
from foreign countries	62,789	2,593	-	-	-	-	65,382
Receivables from domestic banks	-	10	10	50	-	-	70
Receivables from clients	2	-	4,427	8,325	102	-	12,856
Receivables from the state	-	-	-	13,682	-	8,753	22,435
Fixed assets	-	-	-	-	-	6,319	6,319
Other assets	<u>4,231</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,231</u>
Total assets	<u>162,661</u>	<u>108,456</u>	<u>143,645</u>	<u>182,395</u>	<u>79,512</u>	<u>47,508</u>	<u>724,177</u>
Liabilities and equity							
Currency in circulation	-	-	-	-	-	261,430	261,430
Liabilities to IMF	-	-	-	-	-	22,159	22,159
Liabilities to foreign countries	23,481	10	10	50	-	-	23,551
Liabilities to domestic banks	428,337	-	-	-	-	-	428,337
Deposits from clients	57,573	-	-	-	-	-	57,573
Liabilities to the state	37,507	-	-	-	-	-	37,507
Reserves	-	-	-	-	-	4,781	4,781
Equity	-	-	-	-	-	(116,195)	(116,195)
Other liabilities	<u>5,034</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,034</u>
Total liabilities and equity	<u>551,932</u>	<u>10</u>	<u>10</u>	<u>50</u>	<u>-</u>	<u>172,175</u>	<u>724,177</u>
Net interest sensitivity gap	<u>(389,271)</u>	<u>108,446</u>	<u>143,635</u>	<u>182,345</u>	<u>79,512</u>	<u>(124,667)</u>	<u>-</u>
Balance as at 31 December 2003							
Total assets	185,962	88,784	174,680	178,093	84,672	49,641	761,832
Total liabilities	<u>551,148</u>	<u>12</u>	<u>12</u>	<u>72</u>	<u>-</u>	<u>210,588</u>	<u>761,832</u>
Net interest sensitivity gap	<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

FOR THE YEAR ENDED 31 DECEMBER 2004

28 CURRENCY RISK

As at 31 December 2004	<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
Assets						
Gold	-	-	-	-	825	825
Receivables from IMF	22,159	-	-	-	9,452	31,611
Treasury bills and other discounted securities	-	64,140	76,692	68,232	-	209,064
Bonds and other coupon securities	-	247,900	121,132	-	2,352	371,384
Deposits, loans and other						
receivables from foreign countries	-	18,618	37,996	8,730	38	65,382
Receivables from domestic banks	-	70	-	-	-	70
Receivables from clients	12,856	-	-	-	-	12,856
Receivables from the state	22,435	-	-	-	-	22,435
Fixed assets	6,309	-	-	-	10	6,319
Other assets	<u>3,717</u>	<u>279</u>	<u>4</u>	<u>-</u>	<u>231</u>	<u>4,231</u>
Total assets	<u>67,476</u>	<u>331,007</u>	<u>235,824</u>	<u>76,962</u>	<u>12,908</u>	<u>724,177</u>
Liabilities						
Currency in circulation	261,430	-	-	-	-	261,430
Liabilities to IMF	22,159	-	-	-	-	22,159
Liabilities to foreign countries	406	70	23,075	-	-	23,551
Liabilities to domestic banks	428,337	-	-	-	-	428,337
Deposits from clients	56,243	1,288	42	-	-	57,573
Liabilities to the state	28,675	8,832	-	-	-	37,507
Reserves	4,781	-	-	-	-	4,781
Other liabilities	<u>4,400</u>	<u>633</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>5,034</u>
Total liabilities	<u>806,431</u>	<u>10,823</u>	<u>23,117</u>	<u>-</u>	<u>1</u>	<u>840,372</u>
Net assets / (liabilities)	(738,955)	320,184	212,707	76,962	12,907	(116,195)
Net off-balance sheet assets / (liabilities)	<u>-</u>	<u>43,094</u>	<u>33,941</u>	<u>(76,959)</u>	<u>-</u>	<u>76</u>
Net foreign exchange position	<u>(738,955)</u>	<u>363,278</u>	<u>246,648</u>	<u>3</u>	<u>12,907</u>	<u>(116,119)</u>
Balance as at 31 December 2003						
Total assets	<u>70,952</u>	<u>362,262</u>	<u>213,753</u>	<u>99,572</u>	<u>15,293</u>	<u>761,832</u>
Total liabilities	<u>816,692</u>	<u>4,963</u>	<u>2,621</u>	<u>-</u>	<u>-</u>	<u>824,276</u>
Net assets / (liabilities)	(745,740)	357,299	211,132	99,572	15,293	(62,444)
Net off-balance sheet assets / (liabilities)	<u>-</u>	<u>79,904</u>	<u>23,444</u>	<u>(99,571)</u>	<u>-</u>	<u>3,777</u>
Net foreign exchange position	<u>(745,740)</u>	<u>437,203</u>	<u>234,576</u>	<u>1</u>	<u>15,293</u>	<u>(58,667)</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

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29 CREDIT RISK AND CONCENTRATION OF LIABILITIES

Geographical concentrations of assets

	<u>31 December 2004</u>	<u>31 December 2003</u>
	CZK million	CZK million
Czech Republic	46,052	52,573
Germany	136,305	146,522
France	49,345	48,981
Italy	64,523	66,577
Other Euro zone countries	77,183	53,071
Switzerland	19,665	30,134
Great Britain	31,993	55,146
Other European countries	17	1
Canada and USA	212,293	198,151
Japan	76,963	99,572
Other countries	<u>9,838</u>	<u>11,104</u>
	<u>724,177</u>	<u>761,832</u>

Geographical concentrations of liabilities

	<u>31 December 2004</u>	<u>31 December 2003</u>
	CZK million	CZK million
Czech Republic	678,723	738,953
Euro zone countries	931	2,684
Other European countries	5	4
Canada and USA	<u>44,518</u>	<u>20,191</u>
	<u>724,177</u>	<u>761,832</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

30 CONSOLIDATION OF THE BANKING SECTOR

Consolidation of the banking sector

Pursuant to its role in supporting and maintaining the stability of the banking sector and monitoring the security of the clients' 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. The CNB has fully provided for the estimated losses resulting from the consolidation of the banking sector not covered by the Guarantee. The CNB obtained a payment of CZK 500 million from the Guarantee in 2004.

The assets taken over and specific provisions and reserves created as at 31 December 2004 and 2003 can be summarised as follows:

	<u>31 December 2004</u>	<u>31 December 2003</u>
	CZK million	CZK million
Receivables from banks	11,716	26,971
Purchased receivables of banks	223	223
Guarantees and commitments	<u>-</u>	<u>467</u>
	11,939	27,661
Specific provisions (Note 18)	(3,622)	(4,694)
Reserves (Note 18)	<u>-</u>	<u>(467)</u>
Total net book value covered by the Guarantee (Note 20)	<u>8,317</u>	<u>22,500</u>

Česká finanční, s.r.o.

CF was 100% acquired by the Bank in 1997 as a special purpose vehicle to administer the banking industry Stabilisation and Consolidation programmes which focused on small and middle sized banks. Further to the resolution of the Czech Government number 1162 dated 8 November 1999, by which the Czech Government approved the restructuring of certain transformation institutions, the CNB sold its 100% ownership interest in 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.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

30 CONSOLIDATION OF THE BANKING SECTOR (continued)

Česká finanční, s.r.o. (continued)

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 the 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 4,411 million as at 31 December 2004 (31 December 2003: CZK 5,090 million).

In compliance with this agreement concluded by CF and the CNB, 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.

The calculation of the reserve can be summarised as follows:

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Provided loans	4,427	5,060
Less expected recoverability of		
- receivables in Consolidation programme	(110)	(170)
- securities in Consolidation programme	<u>(141)</u>	<u>(120)</u>
Created reserves (Note 18)	<u>4,176</u>	<u>4,770</u>

Investiční a poštovní banka, a.s.

In June 2000 the CNB declared forced administration in Investiční a poštovní banka, a.s. (hereinafter "IPB"). On 16 June 2000 the CNB issued a guarantee for deposits (hereinafter the "Guarantee for Deposits") covering all commitments resulting from deposits received by IPB and from bonds issued by IPB, including accrued interest, as at 16 June 2000. Liabilities with a fixed maturity date were guaranteed until the maturity date and liabilities without a fixed maturity date were guaranteed until June 2003.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

30 CONSOLIDATION OF THE BANKING SECTOR (continued)

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

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 2004 was CZK 421 million (31 December 2003: CZK 3,651 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.

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.

On 6 November 2002, the CNB obtained a 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 billion. Based on this declaration, the CNB expects that the maximum compensation from the State Guarantee would be in the same amount. The CNB received a Binding representation from CSOB on 28 June 2004. A final List of claims is enclosed to this Binding representation. The CNB accepted this Binding representation on 28 June 2004. This does not mean that the CNB accepted or approved individual claims in the enclosure, however further claims not included in the Binding representation may not be brought by CSOB.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

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30 CONSOLIDATION OF THE BANKING SECTOR (continued)

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

The amounts covered under the Indemnity letter, advances and final payments to CSOB, the available state guarantee, advances received and final payments from the State Guarantee can be analysed as follows:

	<u>31 December 2004</u> CZK million	<u>31 December 2003</u> CZK million
Potential future claims under the Indemnity Letter	157,218	157,215
Advances paid to CSOB (Note 10)	2,744	2,785
Final payments to CSOB	<u>38</u>	<u>-</u>
	160,000	160 000
Advances received from the State Guarantee (Note 19)	(2,744)	(2,000)
Final payments from the State guarantee	<u>(38)</u>	<u>-</u>
Available State Guarantee (Note 20)	<u>157,218</u>	<u>158,000</u>

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

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

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

31 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 or senior management hold at least a 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 Bank's management, a common interest rate was used in all cases and the deposits do not have different liquidity risk or other unfavourable features.

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

32 SUBSEQUENT EVENTS

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