

REPORT OF INDEPENDENT AUDITORS

TO THE BANK BOARD OF THE CZECH NATIONAL BANK

We have audited the accompanying balance sheet of the Czech National Bank (“the CNB”) as at 31 December 2005, the related income statement and notes for the year then ended (“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.

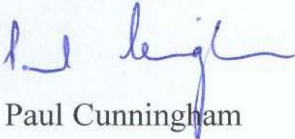
We conducted our audit in accordance with the Act on Auditors, International Standards on Auditing and related application guidance of the Chamber of Auditors of the Czech Republic. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements 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 2005, and the results of its operations for the year then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.

27 March 2006

PricewaterhouseCoopers Audit, s.r.o.

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 2005

	Note	31 December 2005			31 December
		Gross CZK million	Provisions CZK million	Net CZK million	2004 CZK million
ASSETS					
1. Gold	3	821	-	821	825
2. Receivables from International Monetary Fund	4	29,146	-	29,146	31,611
3. Receivables from foreign countries including securities	5	803,065	-	803,065	645,830
3.1. Deposits at foreign banks		140,921	-	140,921	44,021
3.2. Loans provided to foreign banks		34,031	-	34,031	21,235
3.3. Securities		627,991	-	627,991	580,448
3.4. Other receivables from foreign countries		122	-	122	126
4. Receivables from domestic banks	6	29,064	(14)	29,050	70
5. Receivables from clients	7	21,210	(8,740)	12,470	12,856
6. Receivables from the state	8	8,683	-	8,683	22,435
7. Fixed assets	9	11,937	(5,802)	6,135	6,319
7.1. Tangible fixed assets		10,725	(4,661)	6,064	6,211
7.2. Intangible fixed assets		1,212	(1,141)	71	108
8. Other assets	10	7,054	(1,084)	5,970	4,231
8.1. Prepayments and accrued income		23	-	23	20
8.2. Other		7,031	(1,084)	5,947	4,211
TOTAL ASSETS		<u>910,980</u>	<u>(15,640)</u>	<u>895,340</u>	<u>724,177</u>

CZECH NATIONAL BANK**BALANCE SHEET (continued)****AS AT 31 DECEMBER 2005**

	<u>Note</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
		CZK million	CZK million
LIABILITIES			
1. Currency in circulation	11	287,762	261,430
2. Liabilities to International Monetary Fund	4	24,210	22,159
3. Liabilities to foreign countries	12	87,077	23,551
3.1. Loans from foreign banks		86,669	23,145
3.2. Other liabilities to foreign countries		408	406
4. Liabilities to domestic banks	13	399,305	428,337
4.1. Bank monetary reserves		17,249	20,311
4.2. Repo operations		377,757	402,997
4.3. Other liabilities		4,299	5,029
5. Deposits from clients	14	68,094	57,573
6. Domestic treasury bills issued	15	-	-
7. Liabilities to the state	16	112,663	37,507
8. Provisions	18	4,097	4,781
9. Share capital	17	1,400	1,400
10. Funds	17	8,044	8,075
11. Revaluation reserve	17	(433)	-
12. Accumulated losses from previous periods	17	(125,670)	(71,953)
13. Profit/(loss) for the accounting period	17	19,957	(53,717)
14. Other liabilities	19	<u>8,834</u>	<u>5,034</u>
TOTAL LIABILITIES		<u>895,340</u>	<u>724,177</u>

CZECH NATIONAL BANK

OFF-BALANCE SHEET

AS AT 31 DECEMBER 2005

	<u>Note</u>	<u>31 December 2005</u>	<u>31 December 2004</u>	
		CZK million	CZK million	
OFF-BALANCE SHEET				
1.	Guarantees issued	20	166,018	166,102
2.	Receivables from spot, term and option transactions	25	109,672	129,599
3.	Liabilities from spot, term, option and reverse repo transactions	25	135,200	118,764
4.	Guarantees received	20	165,846	165,535

CZECH NATIONAL BANK

INCOME STATEMENT

FOR YEAR ENDED 31 DECEMBER 2005

	<u>Note</u>	<u>2005</u> CZK million	<u>2004</u> CZK million
1. Interest income and similar income	21	20,587	13,744
1.1. Interest from fixed income securities		17,173	12,243
1.2. Other		3,414	1,501
2. Interest expense and similar expense	21	(11,819)	(11,597)
2.1. Interest from fixed income securities		-	-
2.2. Other		(11,819)	(11,597)
3. Income from securities with variable income		45	46
4. Fee and commission income		430	419
5. Fee and commission expense		(37)	(37)
6. Gains less losses from financial operations	22	11,957	(55,104)
7. Other income		625	112
7.1. Income from money issue		28	40
7.2. Other		597	72
8. Administration expenses	23	(1,878)	(1,919)
8.1. Personnel expenses		(891)	(860)
8.1.1. Wages and salaries		(627)	(599)
8.1.2. Social and health security		(219)	(212)
8.1.3. Training and other expenses		(45)	(49)
8.2. Other operating expenses		(987)	(1,059)
9. Other expenses	24	(467)	(541)
9.1. Expenses for issuing bank notes and coinage		(170)	(261)
9.2. Other		(297)	(280)
10. Charge for specific and general provisions for loans and guarantees	18	(63)	(477)
11. Utilisation and release of specific and general provisions for loans and guarantees and write-offs of loans	18	1,087	1,598
12. Charge for other specific and general provisions	18	(510)	(1)
13. Utilisation and release of other specific and general provisions and write-offs of other receivables	18	—	40
14. Ordinary profit/(loss)		19,957	(53,717)
15. Extraordinary profit		—	—
16. Profit/(loss) for the period		<u>19,957</u>	<u>(53,717)</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

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 inter-bank settlements, maintains the inter-bank 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 management of foreign currency reserves and 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 organisations and international organisations 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.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

1 GENERAL INFORMATION (continued)

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

On 12 February 2005, the term of four Bank Board members expired so that the President of the Czech Republic re-appointed the governor and appointed new Bank Board members on 11 February 2005. As at 31 December 2005, the members of the Bank Board were as follows (including information regarding the end of their term):

Mr. Zdeněk Tůma	Governor	until 12 February 2011
Mr. Miroslav Singer	Vice-Governor	until 12 February 2011
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. Robert Holman	member	until 12 February 2011
Mr. Pavel Řežábek	member	until 12 February 2011

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 the 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 Board 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 2005

2 ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements, comprising a balance sheet, statements of income and accompanying notes including statement of changes in equity, are prepared in accordance with the Act on accounting (Act No. 563/1991 Col. as amended), decrees and Czech Accounting Standards for financial institutions issued by the Ministry of Finance of the CR. The financial statements are prepared under the historical cost convention as modified by the revaluation of financial instruments at fair value through profit or loss and available-for-sale to fair values. The financial statements are prepared according to the 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 of CNB were prepared to give a true and fair view of its financial transactions and the results of its operations. The financial statements are rounded to millions of Czech Crowns (hereinafter "CZK") unless otherwise stated. The Bank is not required to prepare consolidated financial statements according to the decree no. 501/2002 as amended issued by the Ministry of Finance.

(b) Foreign currencies and Special Drawing Rights

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 as at the balance sheet date. All resulting realised and unrealised foreign exchange gains and losses are recognised in the income statement in the gains less losses from financial operations except for foreign exchange gains and losses from equity securities in available-for-sale portfolio which are recognised in equity since 15 January 2005 (Note 2(d)). Previously all such gains and losses were recognised in the statement of income.

(c) Gold and other precious metals

Gold and other precious metals are valued at historic cost. Deposits and securities denominated and payable in gold, which 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.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

2 ACCOUNTING POLICIES (continued)

(d) Securities

The Bank classified all its fixed income securities as available-for-sale securities. The CNB does not hold securities valued at fair value through profit or loss. 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 the foreign currency reserves administration, in accordance with predefined rules set by the Bank Board. They consist of money market and capital market securities.

Treasury bills, other discounted securities and bonds are stated at fair value. Treasury bills, other discounted securities and bonds are originally recorded at cost. Interest income is accrued based on the difference between the purchase price and the nominal value using effective yield method (amortised cost). The difference between fair value and amortised cost is recorded in equity.

The 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.

Cost of the securities at the initial recognition includes expenses incurred in connection with their acquisition.

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 of cash flows for debt securities and notes.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

2 ACCOUNTING POLICIES (continued)

(d) Securities (continued)

Since 1 January 2005 subsequent gains and losses arising from changes in the fair value of available-for-sale securities are recognised directly in equity until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in the income statement. In 2004, changes in the fair value of available-for-sale securities were recognised in the income statement. Comparative figures were not restated as required by Czech accounting rules. Interest calculated using the effective interest rate method, dividends and foreign exchange differences on debt securities are recognised in the income statement. Foreign exchange differences on equity securities are recognised in the revaluation reserve in equity. Dividends received are included in income from securities with variable income.

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

During 2005 and 2004, the Bank did 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 cash-flows 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. 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.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

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 collateral in repo operations with domestic banks.

(i) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate 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. Fair values of futures are obtained from quoted market prices, in other cases the market value is derived from discounted cash flow models. 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 gains less losses from financial operations.

(j) Interest income and expense

Interest income and expense are accrued using a linear yield method for loans and deposits. Interest income for available-for-sale securities is calculated using an effective yield method derived from purchase price. 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 and commission income from the maintenance of current accounts and other services are generally recognised on an accrual basis when the service has been provided, usually monthly. One-off fees are recognised immediately in the income statement when earned.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

2 ACCOUNTING POLICIES (continued)

(l) Receivables

Receivables originated by the Bank are stated at nominal value less allowances. Irrecoverable receivables are written off upon completion of bankruptcy proceedings against the debtor.

(m) Provisions

Provisions 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. These provisions are recognised in liabilities.

Additions to provisions are recognised in the income statement, their utilisation is recognised together with expenses or losses, for which purpose they were created in the income statement. Release of provisions in case they are no longer necessary is recognised as income.

When creating provisions 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. In addition, general provision for standard loans recorded prior to 1 January 2002 was recognised in the balance sheet, however, this provision was released to income in 2005 (Note 7).

(n) Specific provisions for impairment

Specific provisions adjust the book value of individual assets at risk. The amount of specific provisions for loans and other assets at risk is based on appraisals of these assets at the balance sheet date including collateral.

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. 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).

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

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

2 ACCOUNTING POLICIES (continued)

(n) Specific provisions for impairment (continued)

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 current period income statement if previously written off.

(o) 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”) and are depreciated / amortised by applying the straight-line basis of depreciation over the estimated useful lives following annual rates stated below.

If usage of intangible fixed assets is limited by contract, 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	5 – 6 years
Motor vehicles	4 years
Office equipment and computers	3 – 4 years
Software	3 – 4 years
Other intangible assets	6 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 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 cost of the property.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

2 ACCOUNTING POLICIES (continued)

(p) 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.

(q) 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.

(r) Staff costs, pensions and social fund

Staff costs are included in Administration expense and they also include the Bank Board emoluments.

The Bank does not administer its own pension fund but operates defined contribution schemes for its employees, administrated by commercial pension funds. Contributions paid by the Bank are accounted for directly as an expense.

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. 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.

(s) 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 2005

2 ACCOUNTING POLICIES (continued)

(t) Subsequent events

The effects of events which occurred between the balance sheet date and the date of signing the financial statements are reflected in the financial statements in the case that these events provide further evidence of conditions which existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date 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 2005

3 GOLD

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
Gold in total	<u>821</u>	<u>825</u>

Gold as at 31 December 2005 includes a gold bond issued by the International Bank for Reconstruction and Development with maturity on 15 December 2007, at the book value of CZK 283 million (31 December 2004: 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 2005 was CZK 1,905 million (31 December 2004: CZK 1,460 million).

The total market value of gold as at 31 December 2005 was CZK 5,527 million (31 December 2004: CZK 4,254 million).

4 RECEIVABLES AND PAYABLES FROM/TO IMF

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
Membership quota at IMF	24,499	22,277
Deposits in IMF	<u>4,647</u>	<u>9,334</u>
Total receivables from IMF	<u>29,146</u>	<u>31,611</u>
Liability to IMF	17,347	20,009
Current account IMF	<u>6,863</u>	<u>2,150</u>
Total payables to IMF	<u>24,210</u>	<u>22,159</u>

The membership quota at the 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 2005

5 RECEIVABLES FROM FOREIGN COUNTRIES INCLUDING SECURITIES

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
Current accounts with banks	1,480	30
Deposits	<u>139,441</u>	<u>43,991</u>
Total deposits at foreign banks	140,921	44,021
Total loans provided to foreign banks	34,031	21,235
Treasury bills and other discounted securities	179,239	209,064
Bonds and other coupon securities	<u>448,752</u>	<u>371,384</u>
Total securities	627,991	580,448
Cash in foreign currencies	<u>122</u>	<u>126</u>
Total other receivables from foreign countries	122	126
Total receivables from foreign countries including securities	<u>803,065</u>	<u>645,830</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 received 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 2005

**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 2005</u>		<u>31 December 2004</u>	
	CZK million	%	CZK million	%
Euro zone	84,267	48	20,415	31
Great Britain	56,508	32	22,534	35
Other European countries	25	-	22	-
USA and Canada	853	1	13,673	21
Japan	33,420	19	8,730	13
Other countries	<u>1</u>	<u>-</u>	<u>8</u>	<u>-</u>
	<u>175,074</u>	<u>100</u>	<u>65,382</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	Fair value
	<u>31 December 2005</u>	<u>31 December 2004</u>
	CZK million	CZK million
Treasury bills	84,591	107,363
Other discounted securities	<u>94,648</u>	<u>101,701</u>
Total treasury bills and other discounted securities	<u>179,239</u>	<u>209,064</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

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

Geographic sector risk concentrations within treasury bills and other discounted securities

	<u>31 December 2005</u>		<u>31 December 2004</u>	
	CZK million	%	CZK million	%
Euro zone	78,689	44	60,676	29
Great Britain	16,090	9	4,557	2
Switzerland	13,058	7	19,431	9
USA and Canada	33,841	19	46,336	22
Japan	25,062	14	68,233	33
Other countries	<u>12,499</u>	<u>7</u>	<u>9,831</u>	<u>5</u>
	<u>179,239</u>	<u>100</u>	<u>209,064</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 2005</u>	<u>31 December 2004</u>
	CZK million	CZK million
State bonds	281,865	223,890
Other foreign bonds (bonds issued by foreign financial institutions)	<u>166,887</u>	<u>147,494</u>
Total bonds and other coupon securities	<u>448,752</u>	<u>371,384</u>

Bonds and other coupon securities reported as at 31 December 2005 and 2004 include solely fixed income securities.

Geographic sector risk concentrations within bonds and other coupon securities

	<u>31 December 2005</u>		<u>31 December 2004</u>	
	CZK million	%	CZK million	%
Euro zone	233,425	52	246,094	66
Great Britain	3,512	1	4,902	1
USA and Canada	<u>211,815</u>	<u>47</u>	<u>120,388</u>	<u>33</u>
	<u>448,752</u>	<u>100</u>	<u>371,384</u>	<u>100</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

6 RECEIVABLES FROM DOMESTIC BANKS

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
Receivables from reverse repo transactions	29,002	-
Non-performing loans	14	14
Loans provided by European Investment Bank (hereinafter the "EIB") funds (Note 12)	<u>48</u>	<u>70</u>
	29,064	84
Specific provisions against receivables from domestic banks (Note 18)	<u>(14)</u>	<u>(14)</u>
Total net receivables from domestic banks	<u>29,050</u>	<u>70</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 2005</u> CZK million	<u>31 December 2004</u> CZK million
Standard loans	4,153	4,539
Classified loans	<u>17,057</u>	<u>17,397</u>
	21,210	21,936
Specific provisions for classified loans (Note 18)	<u>(8,740)</u>	<u>(9,080)</u>
Total net receivables from clients	<u>12,470</u>	<u>12,856</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

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 2005</u> CZK million	<u>31 December 2004</u> CZK million
Loss loans	17,057	17,397
Specific provisions (Note 18)	<u>(8,740)</u>	<u>(9,080)</u>
Net book value	<u>8,317</u>	<u>8,317</u>

The net book value and fair 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 5,004 million as at 31 December 2005 (31 December 2004: CZK 5,204 million). A specific provision of CZK 5,004 million as at 31 December 2005 was created against this receivable (31 December 2004: CZK 5,204 million).

Excluding specific provisions for classified loans, the Bank created a general provision for standard loans of CZK 348 million (Note 18) as at 31 December 2004. The provision was released to income in 2005 as required by Czech accounting rules (Note 2(m)).

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

8 RECEIVABLES FROM THE STATE

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
Redistribution loans	-	8,752
Receivables from the state arising from an exercised state guarantee	<u>8,683</u>	<u>13,683</u>
Total receivables from the state	<u>8,683</u>	<u>22,435</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. Česká konsolidační agentura fully repaid the loan in 2005.

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 under the state guarantee. This claim is disclosed within receivables from the state. In 2005, the CNB received partial repayment from the Ministry of Finance of CZK 5,000 million (in 2004: CZK 500 million).

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

9 FIXED ASSETS

Tangible fixed assets

	31 December <u>2004</u> CZK million	<u>Additions</u> CZK million	<u>Disposals</u> CZK million	31 December <u>2005</u> CZK million
<u>Cost</u>				
Land	174	22	-	196
Buildings	6,831	14	(31)	6,814
Technical equipment	2,776	161	(163)	2,774
Equipment	332	5	(5)	332
Other	435	3	(4)	434
Tangible assets in the course of construction	23	174	(183)	14
Advance payments for tangible assets	<u>2</u>	<u>196</u>	<u>(37)</u>	<u>161</u>
Total cost	<u>10,573</u>	<u>575</u>	<u>(423)</u>	<u>10,725</u>
<u>Accumulated depreciation</u>				
Buildings	(1,468)	(229)	8	(1,689)
Technical equipment	(2,206)	(221)	162	(2,265)
Equipment	(287)	(24)	4	(307)
Other	<u>(401)</u>	<u>(3)</u>	<u>4</u>	<u>(400)</u>
Total accumulated depreciation	<u>(4,362)</u>	<u>(477)</u>	<u>178</u>	<u>(4,661)</u>
Net book amount	<u>6,211</u>			<u>6,064</u>

The original cost of low value tangible fixed assets that have been fully depreciated when put into use in 2005 was CZK 3 million (2004: CZK 21 million).

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

9 FIXED ASSETS (continued)

Intangible fixed assets

	31 December <u>2004</u> CZK million	<u>Additions</u> CZK million	<u>Disposals</u> CZK million	31 December <u>2005</u> CZK million
<u>Cost</u>				
Software	1,166	31	(1)	1,196
Other intangible assets	6	1	-	7
Intangible assets not yet put into use	9	32	(32)	9
Advance payments for intangible assets	<u>-</u>	<u>1</u>	<u>(1)</u>	<u>-</u>
Total cost	<u>1,181</u>	<u>65</u>	<u>(34)</u>	<u>1,212</u>
<u>Accumulated amortisation</u>				
Software	(1,071)	(68)	1	(1,138)
Other intangible assets	<u>(2)</u>	<u>(1)</u>	<u>-</u>	<u>(3)</u>
Total accumulated amortisation	<u>(1,073)</u>	<u>(69)</u>	<u>1</u>	<u>(1,141)</u>
Net book amount	<u>108</u>			<u>71</u>

The original cost of low value intangible fixed assets that have been fully amortised when put into use in 2005 was CZK 1 million (2004: 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 2005

10 OTHER ASSETS

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
Accrued income	23	20
Advances in relation to the Indemnity letter (Note 30)	2,430	2,744
Other advances in relation to the consolidation of the banking sector	56	69
Other foreign financial assets	2,985	404
Other precious metals	18	18
Positive fair value of foreign currency forwards (Note 25)	364	877
Margin account including fair value of futures (Note 25)	53	18
Other	<u>1,125</u>	<u>655</u>
	7,054	4,805
Specific provisions to advances and other assets (Note 18)	<u>(1,084)</u>	<u>(574)</u>
Total other assets	<u>5,970</u>	<u>4,231</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 the 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.

The shares in ECB 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 2005

10 OTHER ASSETS (continued)

At 31 December 2005 the shares in BIS are measured at CNB's share on the paid up portion of BIS net assets (or equity) reduced by 30%, which reflects the valuation of shares used by BIS. Arising revaluation difference including foreign exchange difference was included in revaluation reserve in equity. As at 31 December 2004, the shares in BIS was valued at cost revalued for the impact of foreign exchange differences that were recognized in the income statement (Note 2(b)).

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 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 makes 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 Bank the fair value of these shares is approximately nil.

11 CURRENCY IN CIRCULATION

	<u>31 December 2005</u>	<u>31 December 2004</u>
	CZK million	CZK million
Notes in circulation	280,727	256,649
Coins in circulation	7,046	6,692
Cash in hand denominated in CZK	<u>(11)</u>	<u>(1,911)</u>
Total currency in circulation	<u>287,762</u>	<u>261,430</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

12 LIABILITIES TO FOREIGN COUNTRIES

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
Repo operations	86,621	23,075
Loans from the EIB (Note 6)	<u>48</u>	<u>70</u>
Total loans from foreign countries	86,669	23,145
Other liabilities to foreign countries	<u>406</u>	<u>406</u>
Total liabilities to foreign countries	<u>87,077</u>	<u>23,551</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 2005</u>		<u>31 December 2004</u>	
	CZK million	%	CZK million	%
Euro zone	51	-	70	-
Other European countries	5	-	5	-
USA and Canada	<u>87,021</u>	<u>100</u>	<u>23,476</u>	<u>100</u>
	<u>87,077</u>	<u>100</u>	<u>23,551</u>	<u>100</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

13 DUE TO DOMESTIC BANKS

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
Bank monetary reserves	17,249	20,311
Repo operations	377,757	402,997
Other liabilities to domestic banks	<u>4,299</u>	<u>5,029</u>
Total liabilities to domestic banks	<u>399,305</u>	<u>428,337</u>

Monetary reserves from banks

Obligatory minimum reserves represent deposits of the banks in the CR held at the CNB which banks cannot dispense with. The CNB pays interest equal to the CZK two-week repo interest rate on these deposits, which has been 2.0% p.a. as at 31 December 2005 (2004: 2.5% p.a.). 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 2005 include CZK 377,757 million (31 December 2004: CZK 402,997 million) of loans received from banks in the CR. These operations are collateralized by re-purchased treasury bills of the Bank. 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 inter-bank money transfers.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

14 DEPOSITS FROM CLIENTS

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
Current accounts	9,260	19,199
Term deposits	46,957	1,912
Deposits of local government bodies	9,065	31,992
Other deposits	<u>2,812</u>	<u>4,470</u>
Total deposits from clients	<u>68,094</u>	<u>57,573</u>

15 DOMESTIC TREASURY BILLS ISSUED

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
Bank's treasury bills	700,000	700,000
from which:		
- held in the treasury bills portfolio	(327,333)	(300,738)
- in repo operations	<u>(372,667)</u>	<u>(399,262)</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 2005</u> CZK million	<u>31 December 2004</u> CZK million
State funds' accounts	12,940	8,716
State assets denominated in CZK	89,365	19,959
State assets denominated in foreign currency	<u>10,358</u>	<u>8,832</u>
Total liabilities to the state	<u>112,663</u>	<u>37,507</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
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17 EQUITY

Changes in equity during 2005 and 2004 were as follows:

	<u>Share capital</u> CZK million	<u>Funds</u> CZK million	<u>Accumulated losses</u> CZK million	<u>Revaluation reserve</u> CZK million	<u>Profit/(loss) for the year</u> CZK million	<u>Equity</u> CZK million
Balance as at 1 January 2004	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>-</u>	<u>(53,717)</u>	<u>(53,717)</u>
		-				
Balance as at 31 December 2004	<u>1,400</u>	<u>8,075</u>	<u>(71,953)</u>	<u>-</u>	<u>(53,717)</u>	<u>(116,195)</u>
Transfer of accumulated losses	-	-	(53,717)	-	53,717	-
Usage of social fund	-	(31)	-	-	-	(31)
Revaluation differences not included in profit	-	-	-	(433)	-	(433)
Profit for the year 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,957</u>	<u>19,957</u>
Balance as at 31 December 2005	<u>1,400</u>	<u>8,044</u>	<u>(125,670)</u>	<u>(433)</u>	<u>19,957</u>	<u>(96,702)</u>

Funds

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

The Social fund of CZK 6 million as at 31 December 2005 (31 December 2004: 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 previous year. If the CNB achieved a loss in the previous year, the allocation to the Social fund is made from the Special reserve fund.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
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18 PROVISIONS, SPECIFIC PROVISIONS AND WRITE-OFFS

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

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
Specific provisions		
Non-performing loans due from domestic banks (Note 6)	14	14
Classified loans to clients (Note 7)	8,740	9,080
Other (Note 10)	<u>1,084</u>	<u>574</u>
Total specific provisions	<u>9,838</u>	<u>9,668</u>
Provisions		
Standard loans (Note 7)	-	348
Guarantee for CF (Notes 20 and 30)	3,815	4,176
Guarantees for clients (Note 20)	<u>282</u>	<u>257</u>
Total provisions	<u>4,097</u>	<u>4,781</u>

Specific provisions for classified loans to clients include the provisions resulting from the Consolidation programme of CZK 3,487 million as at 31 December 2005 (31 December 2004: 3,622 million) (Note 30).

Write-offs and recovery of amounts written off previously

The CNB wrote off receivables of CZK 32 million in 2005 (2004: CZK 1,400 million) and did not receive any payments on debts which had been previously written off in 2005 and 2004.

Receivables written off in 2004 primarily represented advances of CZK 1,400 million, paid in the past within the consolidation of the banking sector. They were fully provided for. The impact of this write-off is disclosed net in line Utilisation and 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 2005

18 PROVISIONS, 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	<u>Classified loans</u> CZK million	<u>Other</u> CZK million	<u>Total</u> CZK million
As at 1 January 2004	14	9,101	2,012	11,127
Addition	-	470	1	471
Utilisation and release	<u>-</u>	<u>(491)</u>	<u>(1,439)</u>	<u>(1,930)</u>
As at 31 December 2004	<u>14</u>	<u>9,080</u>	<u>574</u>	<u>9,668</u>
Addition	-	-	510	510
Utilisation and release	<u>-</u>	<u>(340)</u>	<u>-</u>	<u>(340)</u>
As at 31 December 2005	<u>14</u>	<u>8,740</u>	<u>1,084</u>	<u>9,838</u>

Provisions

The movements in provisions can be analysed as follows:

	<u>Standard loans</u> CZK million	<u>Consolidation programme</u> CZK million	<u>Other guarantees</u> CZK million	<u>Total</u> CZK million
As at 1 January 2004	348	5,237	296	5,881
Addition	-	-	7	7
Utilisation and release	<u>-</u>	<u>(1,061)</u>	<u>(46)</u>	<u>(1,107)</u>
As at 31 December 2004	<u>348</u>	<u>4,176</u>	<u>257</u>	<u>4,781</u>
Addition	-	38	25	63
Utilisation and release	<u>(348)</u>	<u>(399)</u>	<u>-</u>	<u>(747)</u>
As at 31 December 2005	<u>-</u>	<u>3,815</u>	<u>282</u>	<u>4,097</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

18 PROVISIONS, SPECIFIC PROVISIONS AND WRITE OFFS (continued)

Provisions (continued)

In 2005, utilisation and release of provisions to activities within the consolidation of the banking sector includes the release of the provision 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 399 million (Note 30) (2004: CZK 1,061 million of which CZK 594 million related to Česká Finanční, s.r.o.). In 2004, the Bank purchased shares of COOP Banka, a.s. v likvidaci (Note 10) from Česká Finanční, s.r.o. within the Consolidation programme. 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 2005</u>	<u>31 December 2004</u>
	CZK million	CZK million
Negative fair value of foreign currency forwards (Note 25)	170	1,121
Advance received in relation to the State guarantee (Note 30)	2,433	2,744
Liabilities to the European Community	5,919	861
Other liabilities	<u>312</u>	<u>308</u>
Total other liabilities	<u>8,834</u>	<u>5,034</u>

20 CONTINGENCIES AND COMMITMENTS

	<u>31 December 2005</u>	<u>31 December 2004</u>
	CZK million	CZK million
Issued guarantees		
Clients	315	286
CF (Note 30)	3,815	4,176
Consolidation of the banking sector (Note 30)	<u>161,888</u>	<u>161,640</u>
Total issued guarantees	<u>166,018</u>	<u>166,102</u>

CZECH NATIONAL BANK
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20 CONTINGENCIES AND COMMITMENTS (continued)

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
Received guarantees		
From the Czech Government for impaired assets taken over by the Bank within the Consolidation programme (Note 30)	8,317	8,317
From the Ministry of Finance in relation to the Indemnity Letter (Note 30)	<u>157,529</u>	<u>157,218</u>
Total guarantees received	<u>165,846</u>	<u>165,535</u>

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

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

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
Guarantees for clients (Note 18)	282	257
Guarantee for CF (Note 18 and 30)	<u>3,815</u>	<u>4,176</u>
	<u>4,097</u>	<u>4,433</u>

Receivables and payables from unsettled transactions with securities

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
Receivables from unsettled transactions with securities	15,893	12,432
Payables from unsettled transactions with securities	<u>12,768</u>	<u>1,672</u>
Net position	<u>3,125</u>	<u>10,760</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

20 CONTINGENCIES AND COMMITMENTS (continued)

Receivables and payables from unsettled transactions with securities (continued)

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

Legal suits

The Bank is the defendant in a legal suit brought by 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 CNB does not consider it probable that any compensation will have to be paid by the CNB and therefore has not created any provision for such compensation.

The Bank is the defendant in a legal suit brought by 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. Based on the Bank’s own opinion the CNB does not consider it probable that any compensation will have to be paid by the CNB and therefore has not created any provision for such compensation.

Other contingencies

The Bank received a letter from the administrator of 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 opinion of the Bank’s lawyers opinion the whole case is statute-barred and therefore no provision 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 2005 and 2004.

Assets held in custody

The Bank has not received any assets from third parties to be held in custody in 2005 and 2004.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
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21 INTEREST MARGIN

	<u>2005</u> CZK million	<u>2004</u> CZK million
Interest income and similar income	20,587	13,744
Interest expense and similar expense	<u>(11,819)</u>	<u>(11,597)</u>
Interest margin	<u>8,768</u>	<u>2,147</u>

Interest income and similar income

	<u>2005</u> CZK million	<u>2004</u> CZK million
Treasury bills and other discounted securities	3,863	2,207
Bonds	<u>13,310</u>	<u>10,036</u>
Interest from securities with fixed income	<u>17,173</u>	<u>12,243</u>
Inter-bank deposits	2,961	1,000
Receivables from the clients	286	330
Other	<u>167</u>	<u>171</u>
Total other interest income	<u>3,414</u>	<u>1,501</u>
Total interest income and similar income	<u>20,587</u>	<u>13,744</u>

Based on the estimate of the Bank's management, the 2005 total income included CZK 0.1 million from interest income on classified loans (2004: CZK 0.5 million). Unpaid interest is accrued and is taken into account when calculating the amount of specific provisions.

Interest expense and similar expense

	<u>2005</u> CZK million	<u>2004</u> CZK million
Liabilities to the state	204	140
Liabilities to banks	11,285	11,394
Liabilities to clients	<u>330</u>	<u>63</u>
Total interest expense and similar expense	<u>11,819</u>	<u>11,597</u>

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22 GAINS LESS LOSSES FROM FINANCIAL OPERATIONS

Gains less losses from financial operations can be analysed as follows:

	<u>2005</u> CZK million	<u>2004</u> CZK million
Realised gain from securities	2,193	2,466
Realised loss from securities	(2,647)	(1,807)
Net foreign exchange gains/(losses)	5,504	(60,135)
Net gains from currency forwards	6,553	1,449
Realised and unrealised gains less losses from interest futures	36	(21)
Unrealised gains less losses from securities (Note 2(d))	<u>-</u>	<u>2,944</u>
Total gain/(loss) from financial operations	<u>11,957</u>	<u>(55,104)</u>

23 ADMINISTRATION EXPENSES

The administration expenses can be analysed as follows:

	<u>2005</u> CZK million	<u>2004</u> CZK million
Wages and salaries	627	599
Social security and health insurance	219	212
Training and other expense	<u>45</u>	<u>49</u>
Total personnel costs	<u>891</u>	<u>860</u>
Depreciation of tangible fixed assets (Note 9)	477	505
Amortisation of intangible fixed assets (Note 9)	69	87
Rent	13	13
Other	<u>428</u>	<u>454</u>
Total other administration expenses	<u>987</u>	<u>1,059</u>
Total administration expenses	<u>1,878</u>	<u>1,919</u>

Staff statistics

	<u>2005</u>	<u>2004</u>
Average number of employees	1,433	1,464
From which: Number of members of the Bank Board	7	7

CZECH NATIONAL BANK

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24 OTHER EXPENSES

	<u>2005</u> CZK million	<u>2004</u> CZK million
Settlement of CF losses	147	134
Expenses for issuing bank notes and coinage	170	261
Other expenses and damages	<u>150</u>	<u>146</u>
Total other expenses	<u>467</u>	<u>541</u>

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 and assigns assets and liabilities of the Bank into relevant maturity bands based on the remaining period as 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, categorised 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 reflects the main functions of the central bank and foreign currency reserves, i.e. support for the ability of CNB to perform intervention, insurance against a Balance of Payments crisis and reflects the basic principle of management of assets, being diversification. Due to the necessity to keep foreign currency reserves, the CNB cannot reduce the risk of the strengthening of the Czech currency against main foreign currencies. 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, categorised by currency.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

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25 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 29.

Spot transactions and derivative financial instruments

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

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
<u>Off-balance sheet receivables:</u>		
- from future transactions	3,862	14,232
- from unsettled spot transactions	15,893	12,432
- from forward transactions	58,825	77,035
- from option transactions	<u>31,092</u>	<u>25,900</u>
	<u>109,672</u>	<u>129,599</u>
<u>Off-balance sheet payables:</u>		
- from future transactions	3,862	14,232
- from unsettled spot transactions	12,768	1,672
- from forward transactions	58,478	76,960
- from option transactions	31,092	25,900
- securities received in reverse repo operations	<u>29,000</u>	-
	<u>135,200</u>	<u>118,764</u>

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

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
Off-balance sheet receivables from forward transactions	58,825	77,035
Off-balance sheet payables from forward transactions	58,478	76,960
Positive fair value (Note 10)	364	877
Negative fair value (Note 19)	170	1,121

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

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25 FINANCIAL RISKS (continued)

Spot transactions and derivative financial instruments (continued)

The nominal or notional amounts recognized in the 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 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 as at the balance sheet date:

	<u>31 December 2005</u>	<u>31 December 2004</u>
	CZK million	CZK million
Off-balance sheet receivables from futures transactions	3,862	14,232
Off-balance sheet payables from futures transactions	3,862	14,232
Net gain/(loss) from change in fair values of futures transactions open at the year-end	3	(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 2005</u>	<u>31 December 2004</u>
	CZK million	CZK million
Net gain/(loss) from change in fair values of futures transactions open at the year-end	3	(1)
Cash on margin account	<u>50</u>	<u>19</u>
Margin account including settled change in fair value of futures transactions (Note 10)	<u>53</u>	<u>18</u>

CZECH NATIONAL BANK

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26 LIQUIDITY RISK

As at 31 December 2005	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	538	-	-	283	-	-	821
Receivables from IMF	-	-	-	-	-	29,146	29,146
Treasury bills and other discounted securities	55,706	65,631	57,902	-	-	-	179,239
Bonds and other coupon securities	25,531	14,586	56,390	237,644	114,601	-	448,752
Deposits, loans and other receivables from foreign countries	175,074	-	-	-	-	-	175,074
Receivables from domestic banks	29,002	10	10	28	-	-	29,050
Receivables from clients	-	-	4,054	8,323	93	-	12,470
Receivables from the state	-	-	-	8,683	-	-	8,683
Fixed assets	-	-	-	-	-	6,135	6,135
Other assets	<u>3,442</u>	<u>-</u>	<u>23</u>	<u>-</u>	<u>-</u>	<u>2,505</u>	<u>5,970</u>
Total assets	<u>289,293</u>	<u>80,227</u>	<u>118,379</u>	<u>254,961</u>	<u>114,694</u>	<u>37,786</u>	<u>895,340</u>
Liabilities and equity							
Currency in circulation	-	-	-	-	-	287,762	287,762
Liabilities to IMF	-	-	-	-	-	24,210	24,210
Liabilities to foreign countries	87,029	10	10	28	-	-	87,077
Liabilities to domestic banks	399,305	-	-	-	-	-	399,305
Deposits from clients	21,137	29,197	367	16,207	1,186	-	68,094
Liabilities to the state	112,663	-	-	-	-	-	112,663
Provisions	-	-	-	-	-	4,097	4,097
Equity	-	-	-	-	-	(96,702)	(96,702)
Other liabilities	<u>6,324</u>	<u>71</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,439</u>	<u>8,834</u>
Total liabilities and equity	<u>626,458</u>	<u>29,278</u>	<u>377</u>	<u>16,235</u>	<u>1,186</u>	<u>221,806</u>	<u>895,340</u>
Net liquidity gap	<u>(337,165)</u>	<u>50,949</u>	<u>118,002</u>	<u>238,726</u>	<u>113,508</u>	<u>(184,020)</u>	<u>-</u>
Balance as at 31 December 2004							
Total assets	148,327	89,290	166,859	190,676	79,512	49,513	724,177
Total liabilities	<u>547,198</u>	<u>83</u>	<u>381</u>	<u>310</u>	<u>1,280</u>	<u>174,925</u>	<u>724,177</u>
Net liquidity gap	<u>(398,871)</u>	<u>89,207</u>	<u>166,478</u>	<u>190,366</u>	<u>78,232</u>	<u>(125,412)</u>	<u>-</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

27 INTEREST RATE RISK

As at 31 December 2005	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	-	-	-	-	-	821	821
Receivables from IMF	-	4,737	-	-	-	24,409	29,146
Treasury bills and other discounted securities	55,706	65,631	57,902	-	-	-	179,239
Bonds and other coupon securities	32,374	20,014	53,129	228,634	114,601	-	448,752
Deposits, loans and other receivables							
from foreign countries	175,074	-	-	-	-	-	175,074
Receivables from domestic banks	29,002	10	10	28	-	-	29,050
Receivables from clients	-	-	4,054	8,323	93	-	12,470
Receivables from the state	-	-	-	8,683	-	-	8,683
Fixed assets	-	-	-	-	-	6,135	6,135
Other assets	<u>457</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,513</u>	<u>5,970</u>
Total assets	<u>292,613</u>	<u>90,392</u>	<u>115,095</u>	<u>245,668</u>	<u>114,694</u>	<u>36,878</u>	<u>895,340</u>
Liabilities and equity							
Currency in circulation	-	-	-	-	-	287,762	287,762
Liabilities to IMF	-	-	-	-	-	24,210	24,210
Liabilities to foreign countries	87,029	10	10	28	-	-	87,077
Liabilities to domestic banks	399,305	-	-	-	-	-	399,305
Deposits from clients	68,094	-	-	-	-	-	68,094
Liabilities to the state	112,663	-	-	-	-	-	112,663
Provisions	-	-	-	-	-	4,097	4,097
Equity	-	-	-	-	-	(96,702)	(96,702)
Other liabilities	<u>244</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,590</u>	<u>8,834</u>
Total liabilities and equity	<u>667,335</u>	<u>10</u>	<u>10</u>	<u>28</u>	<u>-</u>	<u>227,957</u>	<u>895,340</u>
Net interest sensitivity gap	<u>(374,722)</u>	<u>90,382</u>	<u>115,085</u>	<u>245,640</u>	<u>114,694</u>	<u>(191,079)</u>	<u>-</u>
Balance as at 31 December 2004							
Total assets	159,407	117,711	143,645	182,395	79,512	41,507	724,177
Total liabilities	<u>548,086</u>	<u>10</u>	<u>10</u>	<u>50</u>	<u>-</u>	<u>176,021</u>	<u>724,177</u>
Net interest sensitivity gap	<u>(388,679)</u>	<u>117,701</u>	<u>143,635</u>	<u>182,345</u>	<u>79,512</u>	<u>(134,514)</u>	<u>-</u>

CZECH NATIONAL BANK

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28 CURRENCY RISK

As at 31 December 2005	<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	-	-	-	-	821	821
Receivables from IMF	24,210	-	-	-	4,936	29,146
Treasury bills and other discounted securities	-	66,205	87,972	25,062	-	179,239
Bonds and other coupon securities	-	230,167	218,098	-	487	448,752
Deposits, loans and other						
receivables from foreign countries	-	57,525	84,081	33,420	48	175,074
Receivables from domestic banks	29,002	48	-	-	-	29,050
Receivables from clients	12,470	-	-	-	-	12,470
Receivables from the state	8,683	-	-	-	-	8,683
Fixed assets	6,125	-	-	-	10	6,135
Other assets	<u>2,843</u>	<u>264</u>	<u>43</u>	<u>-</u>	<u>2,820</u>	<u>5,970</u>
Total assets	<u>83,333</u>	<u>354,209</u>	<u>390,194</u>	<u>58,482</u>	<u>9,122</u>	<u>895,340</u>
Liabilities						
Currency in circulation	287,762	-	-	-	-	287,762
Liabilities to IMF	24,210	-	-	-	-	24,210
Liabilities to foreign countries	408	48	86,621	-	-	87,077
Liabilities to domestic banks	399,305	-	-	-	-	399,305
Deposits from clients	21,700	46,350	44	-	-	68,094
Liabilities to the state	102,305	10,090	268	-	-	112,663
Provisions	4,097	-	-	-	-	4,097
Other liabilities	<u>2,964</u>	<u>5,870</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,834</u>
Total liabilities	<u>842,751</u>	<u>62,358</u>	<u>86,933</u>	<u>-</u>	<u>-</u>	<u>992,042</u>
Net assets / (liabilities)	(759,418)	291,851	303,261	58,482	9,122	(96,702)
Net off-balance sheet assets / (liabilities)	<u>(29,000)</u>	<u>48,837</u>	<u>13,113</u>	<u>(58,478)</u>	<u>-</u>	<u>(25,528)</u>
Net foreign exchange position	<u>(788,418)</u>	<u>340,688</u>	<u>316,374</u>	<u>4</u>	<u>9,122</u>	<u>(122,230)</u>
Balance as at 31 December 2004						
Total assets	67,476	331,007	235,824	76,962	12,908	724,177
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>47,623</u>	<u>40,171</u>	<u>(76,959)</u>	<u>-</u>	<u>10,835</u>
Net foreign exchange position	<u>(738,955)</u>	<u>367,807</u>	<u>252,878</u>	<u>3</u>	<u>12,907</u>	<u>(105,360)</u>

CZECH NATIONAL BANK

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29 CREDIT RISK AND CONCENTRATION OF LIABILITIES

Geographical concentrations of assets

	<u>31 December 2005</u>	<u>31 December 2004</u>
	CZK million	CZK million
Czech Republic	59,810	46,052
Germany	139,889	136,305
France	74,959	49,345
Italy	51,654	64,523
Other Euro zone countries	130,043	77,183
Switzerland	15,882	19,665
Great Britain	76,167	31,993
Other European countries	4,766	17
USA and Canada	275,938	212,293
Japan	58,482	76,963
Other countries	<u>7,750</u>	<u>9,838</u>
	<u>895,340</u>	<u>724,177</u>

Geographical concentrations of liabilities

	<u>31 December 2005</u>	<u>31 December 2004</u>
	CZK million	CZK million
Czech Republic	778,134	678,723
Euro zone countries	5,970	931
Other European countries	5	5
USA and Canada	<u>111,231</u>	<u>44,518</u>
	<u>895,340</u>	<u>724,177</u>

CZECH NATIONAL BANK

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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 the 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 5,000 million from the Guarantee in 2005 (2004: CZK 500 million).

The assets taken over and specific provisions and provisions created as at 31 December 2005 and 2004 can be summarised as follows:

	<u>31 December 2005</u>	<u>31 December 2004</u>
	CZK million	CZK million
Receivables from banks	11,615	11,716
Purchased receivables of banks	<u>189</u>	<u>223</u>
	11,804	11,939
Specific provisions (Note 18)	<u>(3,487)</u>	<u>(3,622)</u>
Total net book value covered by the Guarantee (Note 20)	<u>8,317</u>	<u>8,317</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 Czech Government resolution 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

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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 remaining Consolidation Programme assets administered by CF (net of provisions created by CF but reflecting the guarantee received from the CNB) was CZK 1,857 million as at 31 December 2005 (audited net book value as at 31 December 2004: CZK 2,361 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 provision can be summarised as follows:

	<u>31 December 2005</u> CZK million	<u>31 December 2004</u> CZK million
Provided loans	4,054	4,427
Less expected recoverability of:		
- receivables in Consolidation programme	(46)	(110)
- securities in Consolidation programme	<u>(193)</u>	<u>(141)</u>
Created provisions (Note 18 and 20)	<u>3,815</u>	<u>4,176</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

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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 2005 was CZK 361 million (31 December 2004: CZK 421 million).

The forced administrator of IPB concluded a contract with CSOB 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 State 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 2005</u> CZK million	<u>31 December 2004</u> CZK million
Potential future claims under the Indemnity Letter	157,532	157,218
Advances paid to CSOB (Note 10)	2,430	2,744
Settlement to CSOB	<u>38</u>	<u>38</u>
	160,000	160,000
Advances received from the State Guarantee (Note 19)	(2,433)	(2,744)
Settlement from the State guarantee	<u>(38)</u>	<u>(38)</u>
Available State Guarantee (Note 20)	<u>157,529</u>	<u>157,218</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, then claimed from the CNB, but would not be covered by State Guarantee.

In the case that CSOB asks 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 3 years after the request of the CNB

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31 RELATED PARTY TRANSACTIONS

Related parties and parties with special relations to the Bank are defined as follows:

- Members of the Bank Board, senior management and their relatives;
- Subsidiaries;
- CF.

CNB grants members of the Bank Board and senior management in accordance with internal rules special purpose loans, especially for housing. These loans are financed from special reserve fund created from the profits of previous periods of the CNB. The loans to the members of the Bank Board and senior management are provided under the same conditions as loans to other employees.

CNB has no subsidiaries.

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 basis interest rates.

32 SUBSEQUENT EVENTS

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