

INDEPENDENT AUDITORS' REPORT

TO THE BANK BOARD OF THE CZECH NATIONAL BANK

We have audited the accompanying financial statements of the Czech National Bank ("the CNB"), which comprise the balance sheet as at 31 December 2006, the income statement for the year then ended and notes, including a summary of significant accounting policies (the "financial statements"). Details of the CNB are disclosed in Note 1 to these financial statements.

The Management's Responsibility for the Financial Statements

The management of the CNB is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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 of the Czech Republic, International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

To the Bank board of the Czech National Bank
Independent auditors' report

Auditors' Responsibility (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the CNB's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CNB's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the CNB as of 31 December 2006 and its financial performance for the year then ended in accordance with Czech accounting legislation.

27 March 2007



PricewaterhouseCoopers Audit s.r.o.
represented by a partner



Petr Kříž
Auditor, Licence No. 1140

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

Name of bank: **CZECH NATIONAL BANK**

Code of bank:

0	7	1	0
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BALANCE SHEET

as at 31 December 2006
(CZK million)

Date of preparation	Stamp and signature of statutory representative	Person responsible for accounting Name and signature	Person responsible for financial statements Name and signature
27. 3. 2007	doc. Ing. Z. Tůma, CSc.	Ing. M. Mayer	V. Vícovský
		tel.: 224 414 326	tel.: 224 414 424

CZECH NATIONAL BANK

BALANCE SHEET

AS AT 31 DECEMBER 2006

	Note	31 December 2006			31 December
		Gross	Provision	Net	2005
		CZK million	CZK million	CZK million	CZK million
ASSETS					
1. Gold	3	816	-	816	821
2. Receivables from International Monetary Fund	4	26,614	-	26,614	29,146
3. Receivables from foreign countries including securities	5	729,455	-	729,455	803,065
3.1. Deposits at foreign banks		120,413	-	120,413	140,921
3.2. Loans provided to foreign banks		522	-	522	34,031
3.3. Securities		608,436	-	608,436	627,991
3.4. Other receivables from foreign countries		84	-	84	122
4. Receivables from domestic banks	6	41	14	27	29,050
5. Receivables from clients	7	8,680	8,588	92	12,470
6. Receivables from the state	8	-	-	-	8,683
7. Fixed assets	9	11,724	5,839	5,885	6,135
7.1. Tangible fixed assets		10,436	4,633	5,803	6,064
7.2. Intangible fixed assets		1,288	1,206	82	71
8. Other assets	10	7,764	1,088	6,676	5,970
8.1. Prepayments and accrued income		27	-	27	23
8.2. Other		<u>7,737</u>	<u>1,088</u>	<u>6,649</u>	<u>5,947</u>
TOTAL ASSETS		<u>785,094</u>	<u>15,529</u>	<u>769,565</u>	<u>895,340</u>

CZECH NATIONAL BANK**BALANCE SHEET (continued)****AS AT 31 DECEMBER 2006**

	Note	31 December 2006	31 December 2005	
		CZK million	CZK million	
LIABILITIES AND EQUITY				
1.	Currency in circulation	11	321,495	287,762
2.	Liabilities to International Monetary Fund	4	23,765	24,210
3.	Liabilities to foreign countries	12	81,626	87,077
3.1.	Loans from foreign banks		81,134	86,669
3.2.	Other liabilities to foreign countries		492	408
4.	Liabilities to domestic banks	13	331,789	399,305
4.1.	Bank monetary reserves		30,611	17,249
4.2.	Repo operations		297,811	377,757
4.3.	Other liabilities		3,367	4,299
5.	Deposits from clients	14	40,133	68,094
6.	Liabilities to the state	15	118,979	112,663
7.	Provisions	17	240	4,097
8.	Share capital	16	1,400	1,400
9.	Funds	16	8,123	8,044
10.	Revaluation reserve	16	(1,440)	(433)
11.	Accumulated losses from previous periods	16	(105,748)	(125,670)
12.	Net (loss) / profit for the period	16	(56,385)	19,957
13.	Other liabilities	18	<u>5,588</u>	<u>8,834</u>
TOTAL LIABILITIES AND EQUITY			<u>769,565</u>	<u>895,340</u>

CZECH NATIONAL BANK

OFF-BALANCE SHEET

AS AT 31 DECEMBER 2006

		31 December	31 December	
	<u>Note</u>	<u>2006</u>	<u>2005</u>	
		CZK million	CZK million	
OFF-BALANCE SHEET				
1.	Guarantees issued	19	161,583	166,018
2.	Receivables from spot, term and option transactions	24	110,479	109,672
3.	Liabilities from spot, term, option and reverse repo transactions	24	100,598	135,200
4.	Guarantees received	19	157,007	165,846

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

Name of bank: **CZECH NATIONAL BANK**

Code of bank:

0	7	1	0
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INCOME STATEMENT

for the year ended 31 December 2006
(CZK million)

Date of preparation	Stamp and signature of statutory representative	Person responsible for accounting Name and signature	Person responsible for financial statements Name and signature
27. 3. 2007	doc. Ing. Z. Tůma, CSc.	Ing. M. Mayer	E. Slívová
		tel.: 224 414 326	tel.: 224 412 777

CZECH NATIONAL BANK

INCOME STATEMENT

FOR YEAR ENDED 31 DECEMBER 2006

	<u>Note</u>	<u>2006</u> CZK million	<u>2005</u> CZK million
1. Interest income and similar income	20	27,906	20,587
1.1. Interest from fixed income securities		22,207	17,173
1.2. Other		5,699	3,414
2. Interest expense and similar expense	20	(14,269)	(11,819)
3. Income from shares and other interests		46	45
4. Fee and commission income		436	430
5. Fee and commission expense		(37)	(37)
6. Gains less losses from financial operations	21	(69,874)	11,957
6.1. Net foreign exchange gains / (losses) and foreign exchange spread		(65,999)	10,267
6.2. Other		(3,875)	1,690
7. Other operating income	23	411	625
7.1. Income from money issue		327	28
7.2. Other		84	597
8. Other operating expense		(281)	(467)
8.1. Expenses for production of notes and coins		(193)	(170)
8.2. Other		(88)	(297)
9. Administration expense	22	(1,533)	(1,332)
9.1. Personnel expenses		(1,027)	(891)
9.1.1. Wages and salaries		(722)	(627)
9.1.2. Social and health security		(253)	(219)
9.1.3. Training and other expenses		(52)	(45)
9.2. Other administration expenses		(506)	(441)
10. Depreciation and amortisation of fixed assets	9	(535)	(546)
11. Release of specific and general provisions for receivables and guarantees, income from receivables already written off	17	1,383	1,087
12. Write offs, additions and utilisation of specific and general provisions for receivables and guarantees	17	(38)	(573)
13. Net (loss) / profit for the period		<u>(56,385)</u>	<u>19,957</u>

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

Name of bank: **CZECH NATIONAL BANK**

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006
(CZK million)

Date of preparation	Stamp and signature of statutory representative	Person responsible for accounting Name and signature	Person responsible for financial statements Name and signature
27. 3. 2007	doc. Ing. Z. Tůma, CSc.	Ing. M. Mayer	V. Vícovský
		tel.: 224 414 326	tel.: 224 414 424

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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 „CNB 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 and the general economic policies of the European Community. The Bank acts in accordance with the principle of an open market economy.

In accordance with its primary objective, the Bank sets the monetary policy, issues bank notes and coins, manages the circulation of currency and inter-bank clearing and the settlement system, including the maintenance of this system to ensure its fluency and efficiency, supervises the institutions operating on the financial market (banks, credit unions, electronic money institutions, investment firms and issuers of securities, insurance companies and pension funds) and ensures to the safe functioning and development of the financial 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.

Based on the European Community foundation agreement and based on the Protocol about the Statute of the European Central Banks System and the European Central bank (hereinafter "the Statute"), the Bank is a part of the European Central Banks System and is obligated to follow the regulations set by the Statute in the extension of requirements for those European Union's member states, which have not accepted the Euro as their national currency yet.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

1 GENERAL INFORMATION (continued)

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, administrative authorities, European Community authorities, Governments of the other European Union member states 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 supreme 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 30 November 2006, the term of two Bank Board members expired so the President of the Czech Republic appointed new Bank Board members on 28 November 2006, Mr. Mojmír Hampl and Mr. Vladimír Tomšík, who replaced Mrs. Michaela Erbenová and Mr. Jan Frait. As at 31 December 2006, 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. Luděk Niedermayer	Vice-Governor	until 26 February 2008
Mr. Miroslav Singer	Vice-Governor	until 12 February 2011
Mr. Mojmír Hampl	Head Manager	until 30 November 2012
Mr. Robert Holman	Head Manager	until 12 February 2011
Mr. Pavel Řežábek	Head Manager	until 12 February 2011
Mr. Vladimír Tomšík	Head Manager	until 30 November 2012

The statutory representative of the Bank is the Governor. In the event of the Governor's absence, a Vice-Governor is appointed by him to represent the Bank.

The Bank uses its income to cover the necessary 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 2006

2 ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements, comprising a balance sheet, income statement and accompanying notes including statement of changes in equity, are prepared in accordance with the Act on Accounting, decree 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 financial instruments 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 reporting of central banks. The financial statements of CNB are prepared to give a true and fair view of its financial position and the results of its operations. The financial statements are rounded to millions of Czech Crowns (hereinafter "million CZK") unless otherwise stated.

(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 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 capital instruments in available-for-sale portfolio which are recognised in equity (Note 2(d)).

(c) Gold and other precious metals

Gold and other precious metals are valued at historical 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 into the income statement.

(d) Securities

The Bank classifies all its debt securities as available-for-sale. 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.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

2 ACCOUNTING POLICIES (continued)

(d) Securities (continued)

Treasury bills, other discounted securities and bonds are stated at fair value. Available-for-sale securities are initially recognized at cost which includes expenses incurred in connection with their acquisition. Interest income is accrued based on the difference between the purchase price and the nominal value using effective yield method considering also coupon payments if relevant (amortised cost). Gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in equity until the financial asset is derecognized or impaired. In such case the cumulative gain or loss previously recognized in equity is recognized in the income statement.

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

- the share on the issuer's equity or the historical cost less impairment in the absence of any other measure;
- the risk adjusted net present value of cash flows for debt securities and notes.

Interest, dividends and foreign exchange differences on debt securities are recognized in the income statement. Foreign exchange differences on capital instruments are recognized in equity.

(e) Securities financing arrangements

Securities borrowed or purchased under the purchase and resell agreements are not recognised on the balance sheet. Securities lent or sold under those 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. The expenses for the production of notes and coins are expensed as incurred.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

2 ACCOUNTING POLICIES (continued)

(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 only as collateral in repo operations with domestic banks.

(i) Derivative financial instruments

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.

The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the instrument to its net carrying amount.

Interest income on non-performing loans is also accrued and included in the related loan balance. 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.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

2 ACCOUNTING POLICIES (continued)

(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 the service is provided.

(l) Receivables

Receivables originated by the Bank are stated at nominal value. Irrecoverable receivables are written off upon completion of bankruptcy proceedings against the debtor or on debtor's liquidation.

(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.

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.

(n) Specific provisions for impairment

Specific provisions are deducted from the nominal value of each receivable originated by the Bank. The amount of specific provisions for classified receivables and assets at risk is based on appraisals of these assets at the balance sheet date after taking into consideration the present forced sale value of collateral.

When creating specific provisions for assets at risk related to the consolidation of the banking sector, the guarantees issued by the Czech Government that cover these assets are taken into consideration (Note 29).

Specific provisions and provisions 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 current period income statement if previously written off.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

2 ACCOUNTING POLICIES (continued)

(o) Tangible and intangible fixed assets

Tangible and intangible fixed assets are recorded at cost, which includes value added tax (hereinafter "VAT") unless the VAT is fully recoverable, 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 not exceeding CZK 40,000, as well as low value intangible fixed assets with a unit cost not exceeding 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.

Since 2006, depreciation and amortisation charges are reported separately, whereas they were included in the other administration expenses until 2005.

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.

(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 only for taxable supplies liable to VAT, where the input VAT is fully recoverable.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

2 ACCOUNTING POLICIES (continued)

(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 usage (e.g. budgeted compensation of accumulated losses from previous periods) 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 recognised 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.

(t) Subsequent events

The effects of events which occurred between the balance sheet date and the date of approval of the financial statements by the Bank Board 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 the approval of 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 2006

3 GOLD

	<u>31 December 2006</u> CZK million	<u>31 December 2005</u> CZK million
Gold at cost	<u>816</u>	<u>821</u>

Gold as at 31 December 2006 and 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. The nominal value of the purchased bond was 150,115 oz of gold and the market value of this gold as at 31 December 2006 was CZK 1,974 million (31 December 2005: CZK 1,905 million).

The total market value of gold as at 31 December 2006 was CZK 5,691 million (31 December 2005: CZK 5,527 million).

4 RECEIVABLES FROM AND PAYABLES TO IMF

	<u>31 December 2006</u> CZK million	<u>31 December 2005</u> CZK million
Membership quota at IMF	24,111	24,499
Deposits in IMF	<u>2,503</u>	<u>4,647</u>
Total receivables from IMF	<u>26,614</u>	<u>29,146</u>
Liability to IMF	15,381	17,347
Current account with IMF	<u>8,384</u>	<u>6,863</u>
Total payables to IMF	<u>23,765</u>	<u>24,210</u>

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

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

5 RECEIVABLES FROM FOREIGN COUNTRIES INCLUDING SECURITIES

	<u>31 December 2006</u> CZK million	<u>31 December 2005</u> CZK million
Current accounts with banks	45	1,480
Deposits	<u>120,368</u>	<u>139,441</u>
Total deposits at foreign banks	120,413	140,921
Total loans provided to foreign banks	522	34,031
Treasury bills and other discounted securities	129,300	179,239
Bonds and other coupon securities	<u>479,136</u>	<u>448,752</u>
Total securities	608,436	627,991
Cash in foreign currencies	<u>84</u>	<u>122</u>
Total other receivables from foreign countries	84	122
Total receivables from foreign countries including securities	<u>729,455</u>	<u>803,065</u>

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

Treasury bills and other discounted securities

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

	<u>Fair value</u> <u>31 December 2006</u> CZK million	<u>Fair value</u> <u>31 December 2005</u> CZK million
Treasury bills	41,834	84,591
Other discounted securities	<u>87,466</u>	<u>94,648</u>
Total treasury bills and other discounted securities	<u>129,300</u>	<u>179,239</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

5 RECEIVABLES FROM FOREIGN COUNTRIES INCLUDING SECURITIES (continued)

Bonds and other coupon securities

Bonds and other coupon securities can be analysed as follows:

	Fair value <u>31 December 2006</u> CZK million	Fair value <u>31 December 2005</u> CZK million
State bonds	281,918	281,865
Other foreign bonds (bonds issued by foreign financial institutions)	<u>197,218</u>	<u>166,887</u>
Total bonds and other coupon securities	<u>479,136</u>	<u>448,752</u>

6 RECEIVABLES FROM DOMESTIC BANKS

	<u>31 December 2006</u> CZK million	<u>31 December 2005</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>27</u>	<u>48</u>
	41	29,064
Specific provisions against receivables from domestic banks (Note 17)	<u>(14)</u>	<u>(14)</u>
Total net receivables from domestic banks	<u>27</u>	<u>29,050</u>

7 RECEIVABLES FROM CLIENTS

	<u>31 December 2006</u> CZK million	<u>31 December 2005</u> CZK million
Standard loans	92	4,153
Loss loans net value	-	<u>8,317</u>
Total receivables from clients	<u>92</u>	<u>12,470</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

7 RECEIVABLES FROM CLIENTS (continued)

Loss loans can be analysed as follows:

	<u>31 December 2006</u>	<u>31 December 2005</u>
	CZK million	CZK million
Loss loans	8,588	17,057
Specific provisions (Note 17)	<u>(8,588)</u>	<u>(8,740)</u>
Net book value	<u>-----</u>	<u>8,317</u>

The net book value and fair value of classified loans reflects the guarantee received from the Czech Government (hereinafter "the Guarantee") (Notes 17 and 29). In 2006, the CNB received the final repayment of this Guarantee.

8 RECEIVABLES FROM THE STATE

	<u>31 December 2006</u>	<u>31 December 2005</u>
	CZK million	CZK million
Receivables from the state arising from an exercised Guarantee	-	<u>8,683</u>
Total receivables from the state	=	<u>8,683</u>

Receivables from the state arising from an exercised Guarantee as at 31 December 2005 represented a receivable from a former bank covered by the Guarantee (Notes 7 and 29). Since the liquidation of this former bank was finished and the bank was deleted from the Commercial register, this receivable did not exist any more and the CNB claimed it under the Guarantee. This claim was disclosed within receivables from the state. In 2006, the CNB received the final repayment of this Guarantee settling this receivables and partly also other receivables from former banks covered by the Guarantee.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

9 FIXED ASSETS

Tangible fixed assets

<u>Cost</u>	31 December <u>2005</u> CZK million	<u>Additions</u> CZK million	<u>Disposals</u> CZK million	31 December <u>2006</u> CZK million
Land	196	3	(11)	188
Buildings	6,814	156	(3)	6,967
Technical equipment	2,774	205	(479)	2,500
Furniture and fittings	332	10	(14)	328
Other	434	19	(8)	445
Tangible assets in the course of construction	14	387	(393)	8
Advance payments for tangible assets	<u>161</u>	<u>44</u>	<u>(205)</u>	<u>-</u>
Total cost	<u>10,725</u>	<u>824</u>	<u>(1,113)</u>	<u>10,436</u>
<u>Accumulated depreciation</u>				
Buildings	(1,689)	(234)	2	(1,921)
Technical equipment	(2,265)	(204)	474	(1,995)
Furniture and fittings	(307)	(13)	14	(306)
Other	<u>(400)</u>	<u>(16)</u>	<u>5</u>	<u>(411)</u>
Total accumulated depreciation	<u>(4,661)</u>	<u>(467)</u>	<u>495</u>	<u>(4,633)</u>
Net book amount	<u>6,064</u>			<u>5,803</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

9 FIXED ASSETS (continued)

Intangible fixed assets

<u>Cost</u>	31 December	<u>Additions</u>	<u>Disposals</u>	31 December
	<u>2005</u>			<u>2006</u>
	CZK million	CZK million	CZK million	CZK million
Software	1,196	83	(3)	1,276
Other intangible assets	7	5	-	12
Intangible assets not yet put into use	9	79	(88)	-
Advance payments for intangible assets	<u>-</u>	<u>2</u>	<u>(2)</u>	<u>-</u>
Total cost	<u>1,212</u>	<u>169</u>	<u>(93)</u>	<u>1,288</u>
<u>Accumulated amortisation</u>				
Software	(1,138)	(66)	3	(1,201)
Other intangible assets	<u>(3)</u>	<u>(2)</u>	<u>-</u>	<u>(5)</u>
Total accumulated amortisation	<u>(1,141)</u>	<u>(68)</u>	<u>3</u>	<u>(1,206)</u>
Net book amount	<u>71</u>			<u>82</u>

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 2006

10 OTHER ASSETS

	<u>31 December 2006</u>	<u>31 December 2005</u>
	CZK million	CZK million
Prepaid expenses	27	23
Advances in relation to the Indemnity letter (Note 29)	2,946	2,430
Other advances in relation to the consolidation of the banking sector	-	56
Other foreign financial assets	2,816	2,985
Other precious metals	7	18
Positive fair value of foreign currency forwards (Note 24)	766	364
Margin account including fair value of futures (Note 24)	22	53
Other	<u>1,180</u>	<u>1,125</u>
	7,764	7,054
Specific provisions to advances and other assets (Note 17)	<u>(1,088)</u>	<u>(1,084)</u>
Total other assets	<u>6,676</u>	<u>5,970</u>

Other foreign financial assets include the CNB's share in European Central Bank (hereinafter only "ECB"), Bank for International Settlement (hereinafter "BIS") and SWIFT.

In line with the article 29 of the Statute of European central banks and European central bank, the membership share on ECB of 1.4584% was calculated based on the population and gross domestic product in the total amount of EUR 5.7 million. The residual part will be paid after the accession of the Czech Republic into the European monetary union.

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.

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.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

11 CURRENCY IN CIRCULATION

	<u>31 December 2006</u> CZK million	<u>31 December 2005</u> CZK million
Notes in circulation	313,279	280,727
Coins in circulation	8,216	7,046
Cash in hand denominated in CZK	_____ -	_____ (11)
Total currency in circulation	<u>321,495</u>	<u>287,762</u>

12 LIABILITIES TO FOREIGN COUNTRIES

	<u>31 December 2006</u> CZK million	<u>31 December 2005</u> CZK million
Repo operations	81,107	86,621
Loans from the EIB (Note 6)	_____ 27	_____ 48
Total loans from foreign countries	81,134	86,669
Other liabilities to foreign countries	_____ 492	_____ 408
Total liabilities to foreign countries	<u>81,626</u>	<u>87,077</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.

13 DUE TO DOMESTIC BANKS

	<u>31 December 2006</u> CZK million	<u>31 December 2005</u> CZK million
Banks' monetary reserves	30,611	17,249
Repo operations	297,811	377,757
Other liabilities to domestic banks	_____ 3,367	_____ 4,299
Total liabilities to domestic banks	<u>331,789</u>	<u>399,305</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

13 DUE TO DOMESTIC BANKS (continued)

Banks' monetary reserves

Obligatory minimum reserves represent deposits of the banks in the CR held at the CNB which banks cannot dispose with. The CNB pays interest equal to the CZK two-week repo interest rate on these deposits, which has been 2.5% p.a. as at 31 December 2006 (2005: 2.0% p.a.). Obligatory minimum reserves are defined as 2% of received deposits and loans from non-banking clients or selected issued securities.

Other liabilities to domestic banks

Other liabilities to domestic banks represent deposits for handling cash and deposits used for inter-bank money transfers.

14 DEPOSITS FROM CLIENTS

	<u>31 December 2006</u>	<u>31 December 2005</u>
	CZK million	CZK million
Current accounts	9,079	9,260
Term deposits	16,849	46,957
Deposits of local government bodies	11,303	9,065
Other deposits	<u>2,902</u>	<u>2,812</u>
Total deposits from clients	<u>40,133</u>	<u>68,094</u>

15 LIABILITIES TO THE STATE

	<u>31 December 2006</u>	<u>31 December 2005</u>
	CZK million	CZK million
State funds' accounts	9,299	12,940
State assets denominated in CZK	102,801	89,365
State assets denominated in foreign currency	<u>6,879</u>	<u>10,358</u>
Total liabilities to the state	<u>118,979</u>	<u>112,663</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

16 EQUITY

Changes in equity during 2006 and 2005 were as follows:

	Share <u>capital</u> CZK million	Funds CZK million	Accumulated <u>losses</u> CZK million	Revaluation <u>reserve</u> CZK million	Profit/(loss) <u>for the period</u> CZK million	<u>Equity</u> CZK million
Balance as at 1 January 2005	1,400	8,075	(71,953)	-	(53,717)	(116,195)
Transfer to accumulated losses	-	-	(53,717)	-	53,717	-
Usage of social fund	-	(31)	-	-	-	(31)
Revaluation reserve	-	-	-	(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>
Transfer to accumulated losses	-	-	19,957	-	(19,957)	-
Acquisition of fixed assets						
acquired free of charge	-	75	-	-	-	75
Allocation to funds	-	35	(35)	-	-	-
Usage of social fund	-	(31)	-	-	-	(31)
Revaluation reserve	-	-	-	(1,007)	-	(1,007)
Loss for the year 2006	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(56,385)</u>	<u>(56,385)</u>
Balance as at 31 December 2006	<u>1,400</u>	<u>8,123</u>	<u>(105,748)</u>	<u>(1,440)</u>	<u>(56,385)</u>	<u>(154,050)</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 (see below).

The Social fund of CZK 9 million as at 31 December 2006 (31 December 2005: CZK 6 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
FOR THE YEAR ENDED 31 DECEMBER 2006

17 PROVISIONS, SPECIFIC PROVISIONS AND WRITE-OFFS

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

	<u>31 December 2006</u>	<u>31 December 2005</u>
Specific provisions	CZK million	CZK million
Non-performing loans due from domestic banks (Note 6)	14	14
Classified loans to clients (Note 7)	8,588	8,740
Other (Note 10)	<u>1,088</u>	<u>1,084</u>
Total specific provisions	<u>9,690</u>	<u>9,838</u>
Provisions		
Guarantee for CF (resulting from the Consolidation program)	-	3,815
Guarantees for clients (Note 19)	<u>240</u>	<u>282</u>
Total provisions	<u>240</u>	<u>4,097</u>

Česká Finanční, s.r.o. (hereinafter "CF") was wound up without liquidation by the take over of net assets by its sole shareholder, Česká konsolidační agentura, on 31 August 2006. Following the settlement of costs and losses resulting from assets taken over within the Consolidation program, the provision to the Guarantee for CF, created in the past, was released in 2006.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

17 PROVISIONS, SPECIFIC PROVISIONS AND WRITE-OFFS (continued)

Specific provisions

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

	<u>Amounts due</u> <u>from banks</u> CZK million	<u>Classified</u> <u>loans</u> CZK million	<u>Other</u> CZK million	<u>Total</u> CZK million
As at 1 January 2005	14	9,080	574	9,668
Addition	-	-	510	510
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>
Addition	-	-	4	4
Utilisation	-	(17)	-	(17)
Release	<u>-</u>	<u>(135)</u>	<u>-</u>	<u>(135)</u>
As at 31 December 2006	<u>14</u>	<u>8,588</u>	<u>1,088</u>	<u>9,690</u>

Provisions

The movements in provisions can be analysed as follows:

	<u>Standard</u> <u>loans</u> CZK million	<u>CF</u> CZK million	<u>Other</u> <u>guarantees</u> CZK million	<u>Total</u> CZK million
As at 1 January 2005	348	4,176	257	4,781
Addition	-	38	25	63
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>
Addition	-	-	6	6
Utilisation	-	(3,815)	-	(3,815)
Release	<u>-</u>	<u>-</u>	<u>(48)</u>	<u>(48)</u>
As at 31 December 2006	<u>-</u>	<u>-</u>	<u>240</u>	<u>240</u>

CZECH NATIONAL BANK**NOTES TO FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2006

17 PROVISIONS, SPECIFIC PROVISIONS AND WRITE-OFFS (continued)

Release of specific and general provisions for loans and guarantees, income from receivables already written off may be analysed as follows:

	<u>2006</u>	<u>2005</u>
	CZK million	CZK million
Release of specific provisions	135	340
Release of provisions	48	747
Income from receivables already written off	<u>1,200</u>	<u>-</u>
	<u>1,383</u>	<u>1,087</u>

Income from receivables already written off in 2006 represents partial compensation from Ministry of Finance of the CR for losses incurred on the dissolution of the State Bank of Czechoslovakia.

18 OTHER LIABILITIES

	<u>31 December 2006</u>	<u>31 December 2005</u>
	CZK million	CZK million
Negative fair value of foreign currency forwards (Note 24)	541	170
Advance received in relation to the State guarantee (Note 29)	2,955	2,433
Liabilities to the European Community	1,768	5,919
Other liabilities	<u>324</u>	<u>312</u>
Total other liabilities	<u>5,588</u>	<u>8,834</u>

19 CONTINGENCIES AND COMMITMENTS

Issued guarantees	<u>31 December 2006</u>	<u>31 December 2005</u>
	CZK million	CZK million
Clients	267	313
CF by virtue of Consolidation program (Note 17)	-	3,815
In relation to the Agreement and Indemnity letter (Note 29)	157,007	157,529
For IPB deposits (Note 29)	309	361
Consolidation of the banking sector – sale of part of the business (AGB)	<u>4,000</u>	<u>4,000</u>
Total issued guarantees	<u>161,583</u>	<u>166,018</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

19 CONTINGENCIES AND COMMITMENTS (continued)

The identified need for provisions for expected losses on the issued guarantees to clients was CZK 240 million as at 31 December 2006 (2005: CZK 282 million) (Note 17).

Received guarantees	<u>31 December 2006</u> CZK million	<u>31 December 2005</u> CZK million
From the Czech Government for impaired assets taken over by the Bank within the Consolidation programme (Note 29)	-	8,317
From the Ministry of Finance of the CR in relation to the State guarantee (Note 29)	<u>157,007</u>	<u>157,529</u>
Total guarantees received	<u>157,007</u>	<u>165,846</u>

Off-balance sheet receivables and payables from option transactions	<u>31 December 2006</u> CZK million	<u>31 December 2005</u> CZK million
The agreement about the sale option resulting from the sale of part of business of Agrobanka Praha a.s. (Note 24)	<u>38,687</u>	<u>31,092</u>

Receivables and payables from option operations represent the notional value of options issued in 1998 in favour of GE Capital International Holdings Corporation in connection with the sale of part of business of Agrobanka Praha a.s. to GE Capital Bank.

Legal suits

Pursuant to its role in supporting and maintaining the stability of the banking sector, the CNB or third parties became defendants in several legal suits. Negative results of these legal suits could impact the operations of the Bank. Based on the consultation with external law firms and internal analyses, the CNB does not consider probable that the outcome of these legal cases will result in any material outflow of the CNB resources and therefore has not recognised any provision.

Assets held in custody

The Bank has not received any financial assets from third parties to be held in custody in 2006 and 2005.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

20 INTEREST MARGIN

	<u>2006</u>	<u>2005</u>
	CZK million	CZK million
Interest income and similar income	27,906	20,587
Interest expense and similar expense	<u>(14,269)</u>	<u>(11,819)</u>
Interest margin	<u>13,637</u>	<u>8,768</u>

Interest income and similar income

	<u>2006</u>	<u>2005</u>
	CZK million	CZK million
Treasury bills and other discounted securities	5,097	3,863
Bonds	<u>17,110</u>	<u>13,310</u>
Total interest from securities	<u>22,207</u>	<u>17,173</u>
Inter-bank deposits	5,581	2,961
Receivables from the clients	36	286
Other	<u>82</u>	<u>167</u>
Total other interest income	<u>5,699</u>	<u>3,414</u>
Total interest income and similar income	<u>27,906</u>	<u>20,587</u>

Interest expense and similar expense

	<u>2006</u>	<u>2005</u>
	CZK million	CZK million
Liabilities to the state	131	204
Liabilities to banks	13,998	11,285
Liabilities to clients	<u>140</u>	<u>330</u>
Total interest expense and similar expense	<u>14,269</u>	<u>11,819</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

21 GAINS LESS LOSSES FROM FINANCIAL OPERATIONS

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

	<u>2006</u> CZK million	<u>2005</u> CZK million
Foreign exchange gains less losses	(66,994)	8,734
Foreign exchange spread	<u>995</u>	<u>1,533</u>
Net foreign exchange gains/(losses) and foreign exchange spread	(65,999)	10,267
Realised gain from sales of securities	353	2,511
Realised loss from sales of securities	(4,204)	(2,647)
Net gains/(losses) from currency forwards	(12)	1,790
Net gains/(losses) from interest futures	<u>(12)</u>	<u>36</u>
Total gain/(loss) from financial operations	<u>(69,874)</u>	<u>11,957</u>

The foreign exchange spread represents the difference between the bid or ask foreign exchange rate and the mid foreign exchange rate used for purchases and sales of the cash and non-cash of the Bank's clients.

22 ADMINISTRATION EXPENSES

The administration expenses can be analysed as follows:

	<u>2006</u> CZK million	<u>2005</u> CZK million
Wages and salaries	722	627
Social security and health insurance	253	219
Training and other expense	<u>52</u>	<u>45</u>
Total personnel costs	<u>1,027</u>	<u>891</u>
Rent	17	13
Other	<u>489</u>	<u>428</u>
Total other administration expenses	<u>506</u>	<u>441</u>
Total administration expenses	<u>1,533</u>	<u>1,332</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

22 ADMINISTRATION EXPENSES (continued)

Staff statistics

	<u>2006</u>	<u>2005</u>
Average number of employees	1,458	1,433
From which: Number of members of the Bank Board	7	7

23 OTHER OPERATING INCOME

	<u>2006</u>	<u>2005</u>
	CZK million	CZK million
Income from issuing of bank notes and coins	327	28
Other	<u>84</u>	<u>597</u>
Total other operating income	<u>411</u>	<u>625</u>

24 FINANCIAL RISKS

Liquidity risk

The Bank monitors and manages the structure and duration of its foreign currency reserves in compliance with the mission of the Bank. The table in Note 25 analyses 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 losses resulting from changes in interest rates. The table in Note 26 summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's interest bearing assets and liabilities at carrying amounts, categorised by the earlier of contractual, re-pricing or maturity dates.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

24 FINANCIAL RISKS (continued)

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 major foreign currencies. The table in Note 27 summarises the Bank's exposure to the currency risk. Included in the table are the Bank's foreign currency-denominated assets and liabilities at carrying amounts, categorised 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 28.

Spot transactions and derivative financial instruments

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

<u>Off-balance sheet receivables:</u>	<u>31 December 2006</u>	<u>31 December 2005</u>
	CZK million	CZK million
- from future transactions	224	3,862
- from unsettled spot transactions	12,014	15,893
- from forward transactions	59,554	58,825
- from option transactions (Note 24)	<u>38,687</u>	<u>31,092</u>
	<u>110,479</u>	<u>109,672</u>
 <u>Off-balance sheet payables:</u>		
- from future transactions	224	3,862
- from unsettled spot transactions	2,172	12,768
- from forward transactions	59,515	58,478
- from option transactions (Note 24)	38,687	31,092
- securities received in reverse repo operations	<u>-</u>	<u>29,000</u>
	<u>100,598</u>	<u>135,200</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

24 FINANCIAL RISKS (continued)

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

	<u>31 December 2006</u>	<u>31 December 2005</u>
	CZK million	CZK million
Off-balance sheet receivables from forward transactions	59,554	58,825
Off-balance sheet payables from forward transactions	59,515	58,478
Positive fair value (Note 10)	766	364
Negative fair value (Note 18)	541	170

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.

The foreign currency forwards do not fulfil the criteria for hedge accounting required by the Czech accounting rules, so 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 gain less loss from financial operations (Note 21).

The Bank has outstanding futures as at the balance sheet date:

	<u>31 December 2006</u>	<u>31 December 2005</u>
	CZK million	CZK million
Off-balance sheet receivables and payables from futures transactions	224	3,862
Net gain/(loss) from change in fair values of futures transactions open at the year-end	(12)	3

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 2006</u>	<u>31 December 2005</u>
	CZK million	CZK million
Net gain/(loss) from change in fair values of futures transactions open at the year-end	(12)	3
Cash on margin account	<u>34</u>	<u>50</u>
Margin account including settled change in fair value of futures (Note 10)	<u>22</u>	<u>53</u>
		(27)

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

25 LIQUIDITY RISK

As at 31 December 2006	Up to <u>1 month</u>	1-3 <u>months</u>	3-12 <u>months</u>	1-5 <u>years</u>	Over <u>5 years</u>	Un- <u>specified</u>	<u>Total</u>
	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.
Assets							
Gold	533	-	283	-	-	-	816
Receivables from IMF	-	-	-	-	-	26,614	26,614
Treasury bills and other discounted securities	45,537	37,713	46,050	-	-	-	129,300
Bonds and other coupon securities	24,054	36,666	42,199	228,676	147,541	-	479,136
Deposits, loans and other receivables from foreign countries	121,019	-	-	-	-	-	121,019
Receivables from domestic banks	-	10	10	7	-	-	27
Receivables from clients	-	-	-	5	87	-	92
Fixed assets	-	-	-	-	-	5,885	5,885
Other assets	<u>565</u>	<u>323</u>	<u>27</u>	<u>-</u>	<u>2,945</u>	<u>2,816</u>	<u>6,676</u>
Total assets	<u>191,708</u>	<u>74,712</u>	<u>88,569</u>	<u>228,688</u>	<u>150,573</u>	<u>35,315</u>	<u>769,565</u>
Liabilities and equity							
Currency in circulation	-	-	-	-	-	321,495	321,495
Liabilities to IMF	-	-	-	-	-	23,765	23,765
Liabilities to foreign countries	80,393	1,216	10	7	-	-	81,626
Liabilities to domestic banks	331,789	-	-	-	-	-	331,789
Deposits from clients	39,564	-	340	229	-	-	40,133
Liabilities to the state	118,979	-	-	-	-	-	118,979
Provisions	-	-	-	-	-	240	240
Equity	-	-	-	-	-	(154,050)	(154,050)
Other liabilities	<u>2,258</u>	<u>355</u>	<u>5</u>	<u>14</u>	<u>-</u>	<u>2,956</u>	<u>5,588</u>
Total liabilities and equity	<u>572,983</u>	<u>1,571</u>	<u>355</u>	<u>250</u>	<u>-</u>	<u>194,406</u>	<u>769,565</u>
Net liquidity gap	<u>(381,275)</u>	<u>73,141</u>	<u>88,214</u>	<u>228,438</u>	<u>150,573</u>	<u>(159,091)</u>	<u>-</u>
Balance as at 31 December 2005							
Total assets	289,293	80,227	118,379	254,961	114,694	37,786	895,340
Total liabilities	<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>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

26 INTEREST RATE RISK

As at 31 December 2006	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Un- specified	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.
Assets							
Gold	-	-	-	-	-	816	816
Receivables from IMF	-	2,671	-	-	-	23,943	26,614
Treasury bills and other							
discounted securities	45,537	37,713	46,050	-	-	-	129,300
Bonds and other coupon securities	73,493	184,863	220,780	-	-	-	479,136
Deposits, loans and other receivables							
from foreign countries	121,019	-	-	-	-	-	121,019
Receivables from domestic banks	-	10	10	7	-	-	27
Receivables from clients	-	-	-	5	87	-	92
Fixed assets	-	-	-	-	-	5,885	5,885
Other assets	<u>465</u>	<u>323</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,888</u>	<u>6,676</u>
Total assets	<u>240,514</u>	<u>225,580</u>	<u>266,840</u>	<u>12</u>	<u>87</u>	<u>36,532</u>	<u>769,565</u>
Liabilities and equity							
Currency in circulation	-	-	-	-	-	321,495	321,495
Liabilities to IMF	-	-	-	-	-	23,765	23,765
Liabilities to foreign countries	80,393	1,216	10	7	-	-	81,626
Liabilities to domestic banks	331,789	-	-	-	-	-	331,789
Deposits from clients	39,565	568	-	-	-	-	40,133
Liabilities to the state	118,979	-	-	-	-	-	118,979
Provisions	-	-	-	-	-	240	240
Equity	-	-	-	-	-	(154,050)	(154,050)
Other liabilities	<u>181</u>	<u>354</u>	<u>5</u>	<u>14</u>	<u>-</u>	<u>5,034</u>	<u>5,588</u>
Total liabilities and equity	<u>570,907</u>	<u>2,138</u>	<u>15</u>	<u>21</u>	<u>-</u>	<u>196,484</u>	<u>769,565</u>
Net interest sensitivity gap	<u>(330,393)</u>	<u>223,442</u>	<u>266,825</u>	<u>(9)</u>	<u>87</u>	<u>(159,952)</u>	<u>-</u>
Balance as at 31 December 2005							
Total assets	292,613	90,392	115,095	245,668	114,694	36,878	895,340
Total liabilities	<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>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

27 CURRENCY RISK

As at 31 December 2006	<u>CZK</u> CZK mil.	<u>EUR</u> CZK mil.	<u>USD</u> CZK mil.	<u>JPY</u> CZK mil.	<u>Other</u> CZK mil.	<u>Total</u> CZK mil.
Assets						
Gold	-	-	-	-	816	816
Receivables from IMF	23,765	-	-	-	2,849	26,614
Treasury bills and other discounted securities	-	72,075	57,225	-	-	129,300
Bonds and other coupon securities	-	260,511	218,625	-	-	479,136
Deposits, loans and other						
receivables from foreign countries	-	41,807	79,163	1	48	121,019
Receivables from domestic banks	-	27	-	-	-	27
Receivables from clients	92	-	-	-	-	92
Fixed assets	5,875	-	-	-	10	5,885
Other assets	<u>3,747</u>	<u>263</u>	<u>-</u>	<u>-</u>	<u>2,666</u>	<u>6,676</u>
Total assets	<u>33,479</u>	<u>374,683</u>	<u>355,013</u>	<u>1</u>	<u>6,389</u>	<u>769,565</u>
Liabilities						
Currency in circulation	321,495	-	-	-	-	321,495
Liabilities to IMF	23,765	-	-	-	-	23,765
Liabilities to foreign countries	492	5,088	76,046	-	-	81,626
Liabilities to domestic banks	331,789	-	-	-	-	331,789
Deposits from clients	23,841	16,255	37	-	-	40,133
Liabilities to the state	112,100	6,878	1	-	-	118,979
Provisions	240	-	-	-	-	240
Other liabilities	<u>3,866</u>	<u>1,722</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,588</u>
Total liabilities	<u>817,588</u>	<u>29,943</u>	<u>76,084</u>	<u>-</u>	<u>-</u>	<u>923,615</u>
Net assets / (liabilities)	(784,109)	344,740	278,929	1	6,389	(154,050)
Net off-balance sheet assets / (liabilities)	<u>17</u>	<u>8,001</u>	<u>(55,536)</u>	<u>27,387</u>	<u>30,012</u>	<u>9,881</u>
Net foreign exchange position	<u>(784,092)</u>	<u>352,741</u>	<u>223,393</u>	<u>27,388</u>	<u>36,401</u>	<u>(144,169)</u>
Balance as at 31 December 2005						
Total assets	83,333	354,209	390,194	58,482	9,122	895,340
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>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

28 CREDIT RISK AND CONCENTRATION OF LIABILITIES

Geographical concentrations of assets

	<u>31 December 2006</u>	<u>31 December 2005</u>
	CZK million	CZK million
Czech Republic	10,352	59,810
Germany	119,184	139,889
France	84,680	74,959
Italy	57,538	51,654
Other Euro zone countries	116,652	130,043
Switzerland	23,757	15,882
Great Britain	90,386	76,167
Other European countries	6,243	4,766
USA and Canada	239,999	275,938
Japan	2	58,482
Other countries	<u>20,772</u>	<u>7,750</u>
	<u>769,565</u>	<u>895,340</u>
From which:		
Central governments	360,212	385,376
Government agencies	31,858	39,802
Securities hedged by other assets (pfandbriefs)	76,499	77,616
Commercial banks	171,375	201,737
BIS	<u>8,132</u>	<u>11,131</u>
	<u>648,076</u>	<u>715,662</u>

Geographical concentrations of liabilities

	<u>31 December 2006</u>	<u>31 December 2005</u>
	CZK million	CZK million
Czech Republic	662,433	778,134
Euro zone countries	5,623	5,970
Other European countries	1,217	5
USA and Canada	<u>100,292</u>	<u>111,231</u>
	<u>769,565</u>	<u>895,340</u>

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

29 CONSOLIDATION OF THE BANKING SECTOR

Government guarantee received from banking sector consolidation

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 to cover the exposure of the Bank arising as a consequence of these activities. The Guarantee was issued on 19 March 1997 and was valid for ten years from that date. The CNB did not fully provide for the residual portion of these assets not covered by this Guarantee in the past. In 2006, the CNB received the final repayment of this Guarantee.

The Guarantee receivable can be analysed as follows:

	<u>31 December 2006</u>	<u>31 December 2005</u>
	CZK million	CZK million
Total Guarantee issued by the Czech Government	22,500	22,500
Total cumulative payments received from Ministry of Finance of the CR (Note 8)	<u>(22,500)</u>	<u>(5,500)</u>
Guarantee receivable	<u>-----</u> -	<u>17,000</u>
Represented by:		
- Net book value of loss loans (Notes 7 and 19)	-	8,317
- Receivables from state (Note 8)	-	8,683

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.

29 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 2006 was CZK 309 million (31 December 2005: CZK 361 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 binding 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

FOR THE YEAR ENDED 31 DECEMBER 2006

29 CONSOLIDATION OF THE BANKING SECTOR (continued)

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

The advances and final payments to CSOB and potential amounts covered under the Indemnity letter can be analysed as follows:

	<u>31 December 2006</u>	<u>31 December 2005</u>
	CZK million	CZK million
Total potential claims under the Indemnity Letter	160,000	160,000
Advances paid to CSOB (Note 10)	(2,946)	(2,430)
Foreign exchange differences	(9)	-
Settlement to CSOB	<u>(38)</u>	<u>(38)</u>
Potential future claims under the Indemnity Letter (Note 19)	<u>157,007</u>	<u>157,532</u>

The advances and final payments received from the State Guarantee and available State Guarantee can be analysed as follows:

	<u>31 December 2006</u>	<u>31 December 2005</u>
	CZK million	CZK million
Total State Guarantee received	160,000	160,000
Advances received from the State Guarantee (Note 18)	(2,955)	(2,433)
Final settlement from the State Guarantee	<u>(38)</u>	<u>(38)</u>
State Guarantee receivables at year end (Note 19)	<u>157,007</u>	<u>157,529</u>

The CNB has not recognised 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, which would not be covered by State Guarantee and would therefore become an expense of CNB.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

30 RELATED PARTY TRANSACTIONS

Related parties and parties with special relations to the Bank are members of the Bank Board, other senior management and their relatives.

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 set aside 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.

31 SUBSEQUENT EVENTS

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