

(Translation of a report originally issued in Czech - see Note 1 to the financial statements.)

## INDEPENDENT AUDITOR'S REPORT

To the Bank Board of Česká národní banka:

We have audited the accompanying financial statements of Česká národní banka which comprise the balance sheet as at 31 December 2007, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details on Česká národní banka see Note 1 to the financial statements.

### *Management's Responsibility for the Financial Statements*

The management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic. 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.

### *Auditor's Responsibility*

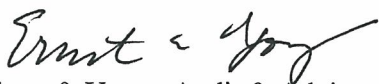
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors, International Standards on Auditing and implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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 entity'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 entity'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*

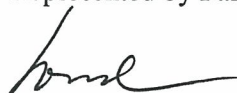
In our opinion, the financial statements present fairly, in all material respects, the financial position of Česká národní banka as at 31 December 2007, and its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.



Ernst & Young Audit & Advisory, s.r.o., člen koncernu

License No. 401

Represented by Partner



Magdalena Souček

Auditor, License No. 1291

29 February 2008

Prague, Czech Republic

IKF							Year	Identification number									
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Name of bank: **CZECH NATIONAL BANK**

Sorting code:

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## BALANCE SHEET

as at 31 December 2007  
(CZK million)

Date of preparation  29 February 2008	Governor's stamp and signature   <b>doc. Ing. Z. Tůma, CSc.</b> <b>ČNB ČESKÁ NÁRODNÍ BANKA</b> Na Příkopě 28, 115 03 Praha 1	Person responsible for accounting Name and signature  <b>Ing. M. Mayer</b>	Person responsible for financial statements Name and signature  <b>Ing. M. Lorenc</b>
		Tel.: 224 414 326	Tel.: 224 414 461

**CZECH NATIONAL BANK**

**BALANCE SHEET**

**AS AT 31 DECEMBER 2007**

	Note	31 December 2007			31 December 2006
		Gross CZK million	Provision CZK million	Net CZK million	CZK million
<b>ASSETS</b>					
1. Gold	3	809	0	809	816
2. Receivables from the International Monetary Fund	4	24,209	0	24,209	26,614
3. Receivables from abroad, including securities	5	719,681	0	719,681	729,455
3.1. Deposits at foreign banks		48,928	0	48,928	120,413
3.2. Loans provided to foreign banks		4,992	0	4,992	522
3.3. Securities		665,645	0	665,645	608,436
3.4. Other receivables from abroad		116	0	116	84
4. Receivables from domestic banks	6	23	(14)	9	27
5. Receivables from clients	7	8,685	(8,585)	100	92
6. Fixed assets	8	11,343	(5,824)	5,519	5,885
6.1. Tangible fixed assets		10,357	(4,884)	5,473	5,803
6.2. Intangible fixed assets		986	(940)	46	82
7. Other assets	9	7,268	(1,085)	6,183	6,676
7.1. Prepayments and accrued income		33	0	33	27
7.2. Other financial assets		2,687	0	2,687	2,816
7.3. Other		4,548	(1,085)	3,463	3,833
<b>TOTAL ASSETS</b>		<b>772,018</b>	<b>(15,508)</b>	<b>756,510</b>	<b>769,565</b>

The accompanying income statement, off-balance sheet and notes are an integral part of the financial statements.

**CZECH NATIONAL BANK****BALANCE SHEET****AS AT 31 DECEMBER 2007**

	<u>Note</u>	<u>31 December 2007</u>	<u>31 December 2006</u>
		CZK million	CZK million
<b>LIABILITIES AND EQUITY</b>			
<b>1. Currency in circulation</b>	<b>10</b>	<b>353,703</b>	<b>321,495</b>
<b>2. Liabilities to the International Monetary Fund</b>	<b>4</b>	<b>22,162</b>	<b>23,765</b>
<b>3. Liabilities abroad</b>	<b>11</b>	<b>97,366</b>	<b>81,626</b>
3.1. Loans from foreign banks		96,962	81,134
3.2. Other liabilities abroad		404	492
<b>4. Liabilities to domestic banks</b>	<b>12</b>	<b>279,197</b>	<b>331,789</b>
4.1. Banks' minimum reserves		21,421	30,611
4.2. Repo transactions		241,530	297,811
4.3. Other liabilities		16,246	3,367
<b>5. Deposits from clients</b>	<b>13</b>	<b>29,798</b>	<b>40,133</b>
<b>6. Liabilities to the state</b>	<b>15</b>	<b>152,359</b>	<b>118,979</b>
<b>7. Provisions</b>	<b>16</b>	<b>208</b>	<b>240</b>
<b>8. Capital</b>	<b>17</b>	<b>1,400</b>	<b>1,400</b>
<b>9. Funds</b>	<b>17</b>	<b>8,087</b>	<b>8,123</b>
<b>10. Securities valuation differences</b>	<b>17</b>	<b>6,655</b>	<b>(1,440)</b>
<b>11. Accumulated losses from previous periods</b>	<b>17</b>	<b>(162,133)</b>	<b>(105,748)</b>
<b>12. Net (loss) / profit for the period</b>	<b>17</b>	<b>(37,507)</b>	<b>(56,385)</b>
<b>13. Other liabilities</b>	<b>18</b>	<b><u>5,215</u></b>	<b><u>5,588</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>756,510</u></b>	<b><u>769,565</u></b>

The accompanying income statement, off-balance sheet and notes are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**OFF-BALANCE SHEET**

**AS AT 31 DECEMBER 2007**

	<u>Note</u>	<u>31 December 2007</u>	<u>31 December 2006</u>
		CZK million	CZK million
<b>OFF-BALANCE SHEET</b>			
1. Guarantees issued	27	161,505	161,583
2. Receivables from spot, term and option transactions	22	115,248	110,479
3. Liabilities from spot, term, option and reverse repo transactions	22	115,710	110,434
4. Guarantees received	27	157,006	157,007
5. Collateral received	27	139,965	105,581
6. Values taken into custody and values in own custody	27	925	1,119

The accompanying income statement, balance sheet and notes are an integral part of the financial statements.



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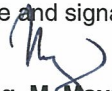
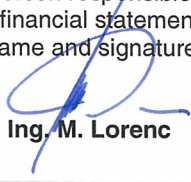
Name of bank: **CZECH NATIONAL BANK**

Sorting code:

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### INCOME STATEMENT

for the year ended 31 December 2007  
(CZK million)

Date of preparation  <b>29 February 2008</b>	Governor's stamp and signature   <b>doc. Ing. Z. Tůma, CSc.</b>  <b>ČESKÁ NÁRODNÍ BANKA</b> Na Příkopě 28, 115 03 Praha 1	Person responsible for accounting Name and signature  <b>Ing. M. Mayer</b>	Person responsible for financial statements Name and signature  <b>Ing. M. Lorenc</b>
		Tel.: 224 414 326	Tel.: 224 414 461

**CZECH NATIONAL BANK**

**INCOME STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

	<u>Note</u>	<u>2007</u> CZK million	<u>2006</u> CZK million
<b>1. Interest income and similar income</b>	<b>19</b>	<b>31,968</b>	<b>27,906</b>
1.1. Interest from fixed income securities		27,427	22,207
1.2. Other		4,541	5,699
<b>2. Interest expense and similar expense</b>	<b>19</b>	<b>(16,914)</b>	<b>(14,269)</b>
<b>3. Income from shares and other interests</b>		<b>47</b>	<b>46</b>
<b>4. Fee and commission income</b>		<b>490</b>	<b>436</b>
<b>5. Fee and commission expense</b>		<b>(47)</b>	<b>(37)</b>
<b>6. Gains less losses from financial operations</b>	<b>20</b>	<b>(50,889)</b>	<b>(69,874)</b>
6.1. Net foreign exchange gains / (losses) and foreign exchange spread		(47,183)	(65,999)
6.2. Other		(3,706)	(3,875)
<b>7. Other operating income</b>		<b>149</b>	<b>411</b>
7.1. Income from money issue		46	327
7.2. Other		103	84
<b>8. Other operating expense</b>		<b>(293)</b>	<b>(281)</b>
8.1. Expenses for production of notes and coins		(264)	(193)
8.2. Other		(29)	(88)
<b>9. Administration expense</b>	<b>21</b>	<b>(1,545)</b>	<b>(1,533)</b>
9.1. Personnel expenses		(1,105)	(1,027)
9.1.1. Wages and salaries		(773)	(722)
9.1.2. Social and health security		(275)	(253)
9.1.3. Training and other expenses		(57)	(52)
9.2. Other administration expenses		(440)	(506)
<b>10. Depreciation and amortisation of fixed assets</b>	<b>8</b>	<b>(480)</b>	<b>(535)</b>
<b>11. Reversal of specific and general provisions for receivables and guarantees, income from receivables already written off</b>	<b>16</b>	<b>12</b>	<b>1,383</b>
<b>12. Write offs, additions and utilisation of specific and general provisions for receivables and guarantees</b>	<b>16</b>	<b>(5)</b>	<b>(38)</b>
<b>13. Net (loss) / profit for the period</b>		<b><u>(37,507)</u></b>	<b><u>(56,385)</u></b>

The accompanying balance sheet, off-balance sheet and notes are an integral part of the financial statements.



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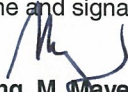
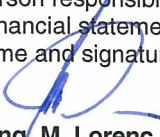
Name of bank: **CZECH NATIONAL BANK**

Sorting code:

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## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007  
(CZK million)

Date of preparation  <b>29 February 2008</b>	Governor's stamp and signature   <b>doc. Ing. Z. Tůma, CSc.</b> <b>ČNB ČESKÁ NÁRODNÍ BANKA</b> Na Příkopě 28, 115 03 Praha 1	Person responsible for accounting Name and signature  <b>Ing. M. Mayer</b>	Person responsible for financial statements Name and signature  <b>Ing. M. Lorenc</b>
		tel.: 224 414 326	tel.: 224 414 461

## **CZECH NATIONAL BANK**

### **NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

#### **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 (hereinafter “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 registered office of the CNB is at Na Příkopě 28, Prague 1, Czech Republic, and its identification number is 48136450.

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 Union. 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 the safe functioning and development of the financial system in the CR. The Bank also manages foreign currency reserves and performs other activities as defined by the CNB Act and by other legislation.

When pursuing its objectives, the Bank cooperates with the central banks of other countries, the authorities supervising the banks and financial markets of other countries, and with international financial 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 System of Central Banks 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 member states which have not yet accepted the euro as their national currency.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

(1)

## CZECH NATIONAL BANK

### NOTES TO FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2007

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 Union authorities, Governments of 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.

There were no changes in the Bank Board in 2007. As at 31 December 2007, the members of the Bank Board were as follows:

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 Hampel	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. Pursuant to the CNB Act, 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 Chamber of Deputies of the Czech Parliament within three months after the calendar year-end.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**Explanation Added for Translation into English**

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Bank that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

**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 No. 501/2002 Coll. issued by the Ministry of Finance of the CR and Czech Accounting Standards for financial institutions. The financial statements are prepared under the historical cost convention as modified by the revaluation of derivatives 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 the CNB are prepared to give a true and fair view of its financial position, financial transactions 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 into 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 (see 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 holds 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.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**(d) Securities**

The Bank holds foreign debt securities, which are reported in receivables from abroad, and shares in subsidiaries or associates, which are recognized in other financial assets.

Foreign debt 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. Interests represent participations reflecting CNB membership of these institutions.

The Bank classifies all securities held in its portfolio as available-for-sale, i.e., no securities are classified as at fair value through profit or loss, held to maturity or ownership interests.

Securities and interests are initially recognized at cost which includes expenses incurred in connection with their acquisition. Interest income on debt securities is accrued based on the difference between the purchase price and the nominal value using effective interest rate method considering also coupon payments if relevant (amortised cost).

As at 31 December, available-for-sale securities are measured at fair value. Gains and losses arising from changes in the fair value 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 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 shares and ownership interests are recognized in equity.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**(e) Repo transactions and securities lending**

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. The value of securities received under reverse repo transactions or under securities lending contracts is reported off balance sheet in collateral received.

Foreign debt securities are deposited with foreign depositories and used in an automatic lending scheme operated by a depository or an agent. As part of the lending scheme, securities are lent to third parties through repo transactions and cash received as securities collateral is reinvested through repo transactions or in deposits or short-term bonds. The agent guarantees that all securities lent will be secured by sufficient collateral and cash collateral will be invested in line with CNB rules ensuring risk mitigation. Securities lent as part of the lending scheme continue to be carried on the CNB balance sheet at the original carrying amount. Received collateral is recorded off balance sheet and measured at the current fair value of investment instruments.

**(f) Currency in circulation**

Notes and coins in circulation represent the liability of the Bank from the issue of currency. The expenses for the production of notes and coins are expensed as incurred.

**(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 transactions with domestic banks (see Note 14).

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.



**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**(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. Receivables and liabilities arising from derivative transactions are reported off balance sheet and remeasured to reflect exchange rate movements.

**(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 interest rate 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.

**(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 less specific provisions for impairment, if any. Irrecoverable receivables are written off upon completion of bankruptcy proceedings against the debtor or on debtor's liquidation.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**(m) Liabilities to the state**

The CNB serves the Czech state by maintaining a system of income and expense accounts and other current and deposit accounts for the state and its organization units and other entities pursuant to Section 33 of Act No. 218/2000 Coll., on budgetary rules. The Bank also provides regular banking services on these accounts. Most account balances are connected to the Single Treasury Account and accordingly, these liabilities represent state funds deposited with the CNB.

**(n) 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. Reversal of provisions in case they are no longer necessary is recognised into income. Movements in provision accounts denominated in foreign currencies arising from revaluations to exchange rates prevailing as at the balance sheet date are recognised or charged, as appropriate, to exchange rate differences.

**(o) 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.

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 reversed. Subsequent recoveries are credited to the current period income statement if previously written off.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**(p) 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.

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.

Estimated useful lives of the tangible and intangible fixed assets are 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.

**(q) 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.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**(r) Income tax and profit transfer to the state budget**

The Bank is exempt from income tax in accordance with Section 17(2) of Act No. 586/92 Coll. 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.

**(s) 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, administered by commercial pension funds. Contributions paid by the Bank are accounted for directly as an expense.

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.

**(t) 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.

**(u) Date of accounting transaction**

Accounting transactions are recognized or charged into income for the period to which they relate. Purchases and sales of foreign currencies and securities are accounted for as at the trade date off balance sheet; they are recognized on the balance sheet as at the settlement date. Credit transactions, including repo transactions, are accounted for as at the settlement date.

**(v) Other off-balance-sheet assets and liabilities**

In compliance with accounting procedures for banks, other off-balance-sheet assets and liabilities are recorded off balance sheet. Off-balance-sheet items are carried at face value or estimated value; carrying amount is used if neither face value nor estimated value can be determined.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**(w) Subsequent events**

The effects of events which occurred between the balance sheet date and the date of compilation 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 compilation 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.

**3 GOLD**

	<u>31 December 2007</u> CZK million	<u>31 December 2006</u> CZK million
Gold at cost	<u>809</u>	<u>816</u>

As at 31 December 2007, the Bank held gold bullion, minted gold coins and other unminted gold stock, including gold deposits, of 429 thousand oz of gold, i.e., 13.3 t (31 December 2006: 433 thousand oz of gold, i.e., 13.5 t).

Gold as at 31 December 2007 included a foreign bank deposit of CZK 341 million denominated in gold; gold as at 31 December 2006 included a gold bond of CZK 283 million.

The total market value of gold as at 31 December 2007 was CZK 6,432 million (31 December 2006: CZK 5,691 million).

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**4 RECEIVABLES FROM AND PAYABLES TO IMF**

	<u>31 December 2007</u>	<u>31 December 2006</u>
	CZK million	CZK million
Membership quota at IMF	22,526	24,111
Deposits in IMF	<u>1,683</u>	<u>2,503</u>
<b>Total receivables from IMF</b>	<b><u>24,209</u></b>	<b><u>26,614</u></b>
Liability to IMF	13,955	15,381
Current account with IMF	<u>8,207</u>	<u>8,384</u>
<b>Total payables to IMF</b>	<b><u>22,162</u></b>	<b><u>23,765</u></b>

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.

**5 RECEIVABLES FROM ABROAD INCLUDING SECURITIES**

	<u>31 December 2007</u>	<u>31 December 2006</u>
	CZK million	CZK million
Current accounts with banks	35	45
Deposits	<u>48,893</u>	<u>120,368</u>
<b>Total deposits at foreign banks</b>	<b><u>48,928</u></b>	<b><u>120,413</u></b>
<b>Total loans provided to foreign banks</b>	<b><u>4,992</u></b>	<b><u>522</u></b>
Treasury bills and other discounted securities	138,943	129,300
Bonds and other coupon securities	<u>526,702</u>	<u>479,136</u>
<b>Total securities</b>	<b><u>665,645</u></b>	<b><u>608,436</u></b>
Cash in foreign currencies and other cash values	116	84
<b>Total other receivables from abroad</b>	<b><u>116</u></b>	<b><u>84</u></b>
<b>Total receivables from abroad including securities</b>	<b><u>719,681</u></b>	<b><u>729,455</u></b>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.



**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

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:

	Fair value <u>31 December 2007</u> CZK million	Fair value <u>31 December 2006</u> CZK million
Treasury bills	45,232	41,834
Other discounted securities	<u>93,711</u>	<u>87,466</u>
Total treasury bills and other discounted securities	<u>138,943</u>	<u>129,300</u>

**Bonds and other coupon securities**

Bonds and other coupon securities can be analysed as follows:

	Fair value <u>31 December 2007</u> CZK million	Fair value <u>31 December 2006</u> CZK million
State bonds	303,182	281,918
Other foreign bonds	<u>223,520</u>	<u>197,218</u>
Total bonds and other coupon securities	<u>526,702</u>	<u>479,136</u>

Of the total securities portfolio of CZK 665,645 million as at 31 December 2007, treasury bills and other discounted securities and bonds and other coupon securities with a fair value of CZK 99,478 million were granted as collateral in repo transactions. Treasury bills and other discounted securities and bonds and other coupon securities with a fair value of CZK 90,648 million were lent under the securities lending scheme. Of the total securities portfolio of CZK 608,436 million as at 31 December 2006, bonds with a total value of CZK 102,484 million were lent through the automatic lending scheme.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**6 RECEIVABLES FROM DOMESTIC BANKS**

	<u>31 December 2007</u> CZK million	<u>31 December 2006</u> CZK million
Non-performing loans	14	14
Loans provided by European Investment Bank (hereinafter the "EIB") funds	<u>9</u>	<u>27</u>
	23	41
Specific provisions against receivables from domestic banks (Note 16)	<u>(14)</u>	<u>(14)</u>
Total net receivables from domestic banks	<u><u>9</u></u>	<u><u>27</u></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. Loans were received and provided in the same amount, have the same maturity date and are not secured (see Note 11). The CNB earns a margin on these loans.

**7 RECEIVABLES FROM CLIENTS**

	<u>31 December 2007</u> CZK million	<u>31 December 2006</u> CZK million
Standard loans	100	92
Loss loans net value	<u>0</u>	<u>0</u>
Total receivables from clients	<u><u>100</u></u>	<u><u>92</u></u>

Loss loans can be analysed as follows:

	<u>31 December 2007</u> CZK million	<u>31 December 2006</u> CZK million
Loss loans of former banks	8,585	8,588
Specific provisions (Note 16)	<u>(8,585)</u>	<u>(8,588)</u>
Net book value	<u><u>0</u></u>	<u><u>0</u></u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**8 TANGIBLE AND INTANGIBLE ASSETS**

**Tangible fixed assets**

<u>Cost</u>	<u>31 December 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>31 December 2007</u>
	CZK million	CZK million	CZK million	CZK million
Land	188	1	0	189
Buildings	6,967	13	0	6,980
Technical equipment	2,500	36	(164)	2,372
Furniture and fittings	328	4	(4)	328
Other	445	16	(6)	455
Tangible assets in the course of construction	8	79	(73)	14
Advance payments for tangible assets	<u>0</u>	<u>22</u>	<u>(3)</u>	<u>19</u>
Total cost	<u>10,436</u>	<u>171</u>	<u>(250)</u>	<u>10,357</u>
<u>Accumulated depreciation</u>				
Buildings	(1,921)	(237)	0	(2,158)
Technical equipment	(1,995)	(165)	164	(1,996)
Furniture and fittings	(306)	(8)	4	(310)
Other	<u>(411)</u>	<u>(15)</u>	<u>6</u>	<u>(420)</u>
Total accumulated depreciation	<u>(4,633)</u>	<u>(425)</u>	<u>174</u>	<u>(4,884)</u>
Net book value	<u>5,803</u>			<u>5,473</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK****NOTES TO FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2007****Intangible fixed assets**

<u>Cost</u>	<u>31 December 2006</u> CZK million	<u>Additions</u> CZK million	<u>Disposals</u> CZK million	<u>31 December 2007</u> CZK million
Software	1,276	18	(320)	974
Other intangible assets	12	0	(1)	11
Intangible assets not yet put into use	0	19	(18)	1
Total cost	<u>1,288</u>	<u>37</u>	<u>(339)</u>	<u>986</u>
<u>Accumulated amortisation</u>				
Software	(1,201)	(52)	320	(933)
Other intangible assets	<u>(5)</u>	<u>(3)</u>	<u>1</u>	<u>(7)</u>
Total accumulated amortisation	<u>(1,206)</u>	<u>(55)</u>	<u>321</u>	<u>(940)</u>
Net book value	<u>82</u>			<u>46</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.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**9 OTHER ASSETS**

	<u>31 December 2007</u>	<u>31 December 2006</u>
	CZK million	CZK million
Prepaid expenses	33	27
Other financial assets	2,687	2,816
Advances in relation to the Agreement and indemnity letter (Note 29)	2,943	2,946
Other precious metals	14	7
Positive fair value of foreign currency forwards (Note 22)	386	766
Positive fair value of interest rate swaps (Note 22)	32	0
Margin account including fair value of futures (Note 22)	28	22
Other operating receivables	<u>1,145</u>	<u>1,180</u>
	7,268	7,764
Specific provisions against other operating receivables (Note 16)	<u>(1,085)</u>	<u>(1,088)</u>
Total other assets	<u>6,183</u>	<u>6,676</u>

Other financial assets include CNB's share in the European Central Bank (hereinafter only the "ECB"), the Bank for International Settlement (hereinafter the "BIS") and SWIFT. In line with Article 29 of the Statute, the membership share in the ECB of 1.3880% (totalling EUR 5.6 million) was calculated as at 31 December 2007 based on the population and gross domestic product.

The BIS and SWIFT shares are non-tradable and their holding results from the participation of the CNB in these institutions. The ECB and SWIFT shares are measured at cost. The BIS shares 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 the BIS.

In addition, other financial assets include shares of former banks acquired by the CNB during the consolidation of the banking sector. The Bank did not incur any losses in this connection. The shares are measured at fair value, which based on the Bank's estimate approximates zero.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**10 CURRENCY IN CIRCULATION**

	<u>31 December 2007</u>	<u>31 December 2006</u>
	CZK million	CZK million
Notes in circulation	344,936	313,279
Coins in circulation	<u>8,767</u>	<u>8,216</u>
Total currency in circulation	<u>353,703</u>	<u>321,495</u>

**11 LIABILITIES ABROAD**

	<u>31 December 2007</u>	<u>31 December 2006</u>
	CZK million	CZK million
Repo transactions	96,953	81,107
Loans from the EIB (Note 6)	<u>9</u>	<u>27</u>
Total loans from abroad	96,962	81,134
Other liabilities abroad	<u>404</u>	<u>492</u>
Total liabilities abroad	<u>97,366</u>	<u>81,626</u>

**12 DUE TO DOMESTIC BANKS**

	<u>31 December 2007</u>	<u>31 December 2006</u>
	CZK million	CZK million
Banks' minimum reserves	21,421	30,611
Repo transactions	241,530	297,811
Short-term deposits received	12,670	0
Other liabilities to domestic banks	<u>3,576</u>	<u>3,367</u>
Total liabilities to domestic banks	<u>279,197</u>	<u>331,789</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.  
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**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**Banks' minimum 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 was 3.5% p.a. as at 31 December 2007 (2006: 2.5% 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.

**13 DEPOSITS FROM CLIENTS**

	<u>31 December 2007</u>	<u>31 December 2006</u>
	CZK million	CZK million
Current accounts	9,954	9,079
Term deposits	1,826	16,849
Deposits of local government bodies	14,058	11,303
Other deposits	<u>3,960</u>	<u>2,902</u>
Total deposits from clients	<u>29,798</u>	<u>40,133</u>

**14 ISSUED DOMESTIC SECURITIES**

	<u>31 December 2007</u>	<u>31 December 2006</u>
	CZK million	CZK million
Treasury bills issued by the Bank	<u>700,000</u>	<u>700,000</u>
Of which:		
- held by the Bank	418,790	406,756
- used in repo transactions (carrying amount)	281,210	293,244
Total issued domestic securities	<u>0</u>	<u>0</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
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**15 LIABILITIES TO THE STATE**

	<u>31 December 2007</u>	<u>31 December 2006</u>
	CZK million	CZK million
State funds' accounts	4,301	9,299
State assets denominated in CZK	133,571	102,801
State assets denominated in foreign currency	<u>14,487</u>	<u>6,879</u>
Total liabilities to the state	<u>152,359</u>	<u>118,979</u>

**16 PROVISIONS, SPECIFIC PROVISIONS AND WRITE-OFFS**

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

	<u>31 December 2007</u>	<u>31 December 2006</u>
	CZK million	CZK million
<b>Specific provisions</b>		
Non-performing loans due from domestic banks (Note 6)	14	14
Classified loans to clients (Note 7)	8,585	8,588
Other (Note 9)	<u>1,085</u>	<u>1,088</u>
Total specific provisions	<u>9,684</u>	<u>9,690</u>
<b>Provisions</b>		
Guarantees for clients	<u>208</u>	<u>240</u>
Total provisions	<u>208</u>	<u>240</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK****NOTES TO FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2007****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 2006	14	8,740	1,084	9,838
Addition	0	0	4	4
Utilisation	0	(17)	0	(17)
Reversal	<u>0</u>	<u>(135)</u>	<u>0</u>	<u>(135)</u>
As at 31 December 2006	<u>14</u>	<u>8,588</u>	<u>1,088</u>	<u>9,690</u>
Addition	0	0	1	1
Reversal	<u>0</u>	<u>(3)</u>	<u>(4)</u>	<u>(7)</u>
As at 31 December 2007	<u>14</u>	<u>8,585</u>	<u>1,085</u>	<u>9,684</u>

**Provisions**

The movements in provisions can be analysed as follows:

	<u>CF</u> CZK million	<u>Other</u> <u>guarantees</u> CZK million	<u>Total</u> CZK million
As at 1 January 2006	3,815	282	4,097
Addition	0	6	6
Utilisation	(3,815)	0	(3,815)
Reversal	<u>0</u>	<u>(48)</u>	<u>(48)</u>
As at 31 December 2006	<u>0</u>	<u>240</u>	<u>240</u>
Addition	0	4	4
Reversal	0	(5)	(5)
Exchange rate differences	<u>0</u>	<u>(31)</u>	<u>(31)</u>
As at 31 December 2007	<u>0</u>	<u>208</u>	<u>208</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

Česká Finanční, s.r.o. (hereinafter "CF") was wound up without liquidation by the take over of net assets by 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 reversed in 2006.

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

	<u>2007</u>	<u>2006</u>
	CZK million	CZK million
Reversal of specific provisions	7	135
Reversal of provisions	5	48
Income from receivables already written off	<u>0</u>	<u>1,200</u>
	<u>12</u>	<u>1,383</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.

**CZECH NATIONAL BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**17 EQUITY**

Changes in equity during 2007 and 2006 were as follows:

	<u>Capital</u>	<u>Funds</u>	<u>Accumulated losses</u>	<u>Securities valuation differences</u>	<u>Profit/(loss) for the period</u>	<u>Equity</u>
	CZK million	CZK million	CZK million	CZK million	CZK million	CZK million
Balance as at						
1 January 2006	1,400	8,044	(125,670)	(433)	19,957	(96,702)
Transfer to accumulated losses	0	0	19,957	0	(19,957)	0
Acquisition of fixed assets						
acquired free of charge	0	75	0	0	0	75
Allocation to funds	0	35	(35)	0	0	0
Use of social fund	0	(31)	0	0	0	(31)
Securities valuation differences	0	0	0	(1,007)	0	(1,007)
Loss for the year 2006	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</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>
Transfer to accumulated losses	0	0	(56,385)	0	56,385	0
Allocation to funds	0	0	0	0	0	0
Use of social fund	0	(36)	0	0	0	(36)
Securities valuation differences	0	0	0	8,095	0	8,095
Loss for the year 2007	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(37,507)</u>	<u>(37,507)</u>
Balance as at						
31 December 2007	<u>1,400</u>	<u>8,087</u>	<u>(162,133)</u>	<u>6,655</u>	<u>(37,507)</u>	<u>(183,498)</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.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

The Social fund of CZK 7 million as at 31 December 2007 (31 December 2006: CZK 9 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.

**18 OTHER LIABILITIES**

	<u>31 December 2007</u> CZK million	<u>31 December</u> <u>2006</u> CZK million
Negative fair value of foreign currency forwards (Note 22)	745	541
Advance received in relation to the State Guarantee (Note 29)	2,956	2,955
Liabilities to the European Union	1,220	1,768
Other liabilities	<u>294</u>	<u>324</u>
Total other liabilities	<u>5,215</u>	<u>5,588</u>

Liabilities to the European Union include funds from the EU budget to be used by the Czech Republic.

Other liabilities totalling CZK 294 million include liabilities of CZK 60 million owing to social security and health insurance premiums. The Bank has no liabilities to social security and health insurance authorities that would be overdue.

**19 INTEREST INCOME, NET**

	<u>2007</u> CZK million	<u>2006</u> CZK million
Interest income and similar income	31,968	27,906
Interest expense and similar expense	<u>(16,914)</u>	<u>(14,269)</u>
Interest income, net	<u>15,054</u>	<u>13,637</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.  
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**CZECH NATIONAL BANK**  
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**Interest income and similar income**

	<u>2007</u>	<u>2006</u>
	CZK million	CZK million
Interest on treasury bills and other discounted securities	13,789	5,097
Interest on coupon bonds	<u>13,638</u>	<u>17,110</u>
Total interest on securities	<u>27,427</u>	<u>22,207</u>
Interest on inter-bank deposits	4,499	5,581
Interest on receivables from the clients	4	36
Other interest	<u>38</u>	<u>82</u>
Total other interest income	<u>4,541</u>	<u>5,699</u>
Total interest income and similar income	<u>31,968</u>	<u>27,906</u>

**Interest expense and similar expense**

	<u>2007</u>	<u>2006</u>
	CZK million	CZK million
Interest on liabilities to the state	159	131
Interest on liabilities to banks	16,629	13,998
Interest on liabilities to clients	<u>126</u>	<u>140</u>
Total interest expense and similar expense	<u>16,914</u>	<u>14,269</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.  
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**CZECH NATIONAL BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**20 GAINS LESS LOSSES FROM FINANCIAL OPERATIONS**

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

	<u>2007</u>	<u>2006</u>
	CZK million	CZK million
Foreign exchange losses	(47,665)	(66,994)
Foreign exchange spread	<u>482</u>	<u>995</u>
Net foreign exchange losses and foreign exchange spread	(47,183)	(65,999)
Realised gain from sales of securities	1,467	353
Realised loss from sales of securities	(4,006)	(4,204)
Net losses from currency forwards	(1,156)	(12)
Net losses from interest futures	<u>(11)</u>	<u>(12)</u>
Total gains less losses from financial operations	<u>(50,889)</u>	<u>(69,874)</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.

**21 ADMINISTRATION EXPENSES**

The administration expenses can be analysed as follows:

	<u>2007</u>	<u>2006</u>
	CZK million	CZK million
Wages and salaries	773	722
Social security and health insurance	275	253
Training and other expense	<u>57</u>	<u>52</u>
Total personnel costs	<u>1,105</u>	<u>1,027</u>
Rent	2	17
Other	<u>438</u>	<u>489</u>
Total other administration expenses	<u>440</u>	<u>506</u>
Total administration expenses	<u>1,545</u>	<u>1,533</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.



**CZECH NATIONAL BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**Staff statistics**

	<u>2007</u>	<u>2006</u>
Average number of employees	1,465	1,458
Of which: Number of members of the Bank Board	7	7

**22 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 23 analyses and categorises the assets and liabilities of the Bank into the relevant maturity bands based on the period from 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 the market value of securities held in the portfolio of the Bank. The rules for investing foreign currency reserves are aimed at limiting the losses resulting from changes in interest rates. The table in Note 24 summarises the Bank's exposure to interest rate risks.

The table lists 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. Most of the assets and liabilities denominated in foreign currency are made up of foreign currency reserves which support the CNB's ability to perform intervention and insure against a Balance of Payments crisis, and result from performing the Bank's currency policy. 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 25 summarises the Bank's exposure to the currency risk. The table lists the Bank's foreign currency-denominated assets and liabilities at carrying amounts, categorised by currency.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**Credit risk**

The Bank manages the levels of credit risk it undertakes during the management of foreign currency reserves by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers and to geographical segments. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review. The geographical concentrations of assets and liabilities are stated in Note 26.

**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 2007</u>	<u>31 December 2006</u>
	CZK million	CZK million
- from future transactions	8,769	224
- from interest rate swap transactions	3,417	0
- from unsettled spot transactions	2,352	12,014
- from forward transactions	56,240	59,554
- from option transactions (Note 27)	<u>44,470</u>	<u>38,687</u>
	<u>115,248</u>	<u>110,479</u>
<u>Off-balance sheet payables:</u>		
- from future transactions	8,769	224
- from interest rate swap transactions	3,417	0
- from unsettled spot transactions	2,352	12,008
- from forward transactions	56,702	59,515
- from option transactions (Note 27)	<u>44,470</u>	<u>38,687</u>
	<u>115,710</u>	<u>110,434</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

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**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

	<u>31 December 2007</u> CZK million	<u>31 December 2006</u> CZK million
Off-balance sheet receivables from forward transactions	56,240	59,554
Off-balance sheet payables from forward transactions	56,702	59,515
Positive fair value (Note 9)	386	766
Negative fair value (Note 18)	745	541

All currency forwards mature in 2008.

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 20).

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

	<u>31 December 2007</u> CZK million	<u>31 December 2006</u> CZK million
Off-balance sheet receivables and payables from futures transactions	8,769	224
Net gain/(loss) from change in fair values of futures transactions open at the year-end	16	(12)

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 2007</u> CZK million	<u>31 December 2006</u> CZK million
Net gain/(loss) from change in fair values of futures transactions open at the year-end	16	(12)
Cash on margin account	<u>12</u>	<u>34</u>
Margin account including settled change in fair value of futures (Note 9)	<u>28</u>	<u>22</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.  
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**CZECH NATIONAL BANK**

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**FOR THE YEAR ENDED 31 DECEMBER 2007**

**23 LIQUIDITY RISK**

<b>As at 31 December 2007</b>	Up to <u>1 month</u> CZK mil.	1-3 <u>months</u> CZK mil.	3-12 <u>months</u> CZK mil.	1-5 <u>years</u> CZK mil.	Over <u>5 years</u> CZK mil.	Un- <u>specified</u> CZK mil.	<u>Total</u> CZK mil.
<b>Assets</b>							
Gold	809	0	0	0	0	0	809
Receivables from IMF	0	0	0	0	0	24,209	24,209
Treasury bills and other discounted securities	48,480	47,374	43,089	0	0	0	138,943
Bonds and other coupon securities	16,366	50,384	70,817	233,680	155,455	0	526,702
Deposits, loans and other receivables from foreign countries	54,036	0	0	0	0	0	54,036
Receivables from domestic banks	0	0	9	0	0	0	9
Receivables from clients	0	0	0	4	96	0	100
Fixed assets	0	0	0	0	0	5,519	5,519
Other assets	<u>520</u>	<u>0</u>	<u>33</u>	<u>0</u>	<u>2,943</u>	<u>2,687</u>	<u>6,183</u>
<b>Total assets</b>	<u>120,211</u>	<u>97,758</u>	<u>113,948</u>	<u>233,684</u>	<u>158,494</u>	<u>32,415</u>	<u>756,510</u>
<b>Liabilities and equity</b>							
Currency in circulation	0	0	0	0	0	353,703	353,703
Liabilities to IMF	0	0	0	0	0	22,162	22,162
Liabilities abroad	97,357	0	9	0	0	0	97,366
Liabilities to domestic banks	279,197	0	0	0	0	0	279,197
Deposits from clients	28,086	0	392	231	1,089	0	29,798
Liabilities to the state	152,359	0	0	0	0	0	152,359
Provisions	0	0	0	0	0	208	208
Equity	0	0	0	0	0	(183,498)	(183,498)
Other liabilities	<u>2,259</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,956</u>	<u>5,215</u>
<b>Total liabilities and equity</b>	<u>559,258</u>	<u>0</u>	<u>401</u>	<u>231</u>	<u>1,089</u>	<u>195,531</u>	<u>756,510</u>
<b>Net liquidity gap</b>	<u>(439,047)</u>	<u>97,758</u>	<u>113,547</u>	<u>233,453</u>	<u>157,405</u>	<u>(163,116)</u>	<u>0</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

<b>As at 31 December 2006</b>	Up to <u>1 month</u> CZK mil.	1 - 3 <u>months</u> CZK mil.	3 - 12 <u>months</u> CZK mil.	1 - 5 <u>years</u> CZK mil.	Over <u>5 years</u> CZK mil.	Un- <u>specified</u> CZK mil.	<u>Total</u> CZK mil.
<b>Assets</b>							
Gold	533	0	283	0	0	0	816
Receivables from IMF	0	0	0	0	0	26,614	26,614
Treasury bills and other discounted securities	45,537	37,713	46,050	0	0	0	129,300
Bonds and other coupon securities	24,054	36,666	42,199	228,676	147,541	0	479,136
Deposits, loans and other receivables from foreign countries	121,019	0	0	0	0	0	121,019
Receivables from domestic banks	0	10	10	7	0	0	27
Receivables from clients	0	0	0	5	87	0	92
Fixed assets	0	0	0	0	0	5,885	5,885
Other assets	<u>565</u>	<u>323</u>	<u>27</u>	<u>0</u>	<u>2,945</u>	<u>2,816</u>	<u>6,676</u>
<b>Total assets</b>	<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>
<b>Liabilities and equity</b>							
Currency in circulation	0	0	0	0	0	321,495	321,495
Liabilities to IMF	0	0	0	0	0	23,765	23,765
Liabilities abroad	80,393	1,216	10	7	0	0	81,626
Liabilities to domestic banks	331,789	0	0	0	0	0	331,789
Deposits from clients	39,564	0	340	229	0	0	40,133
Liabilities to the state	118,979	0	0	0	0	0	118,979
Provisions	0	0	0	0	0	240	240
Equity	0	0	0	0	0	(154,050)	(154,050)
Other liabilities	<u>2,258</u>	<u>355</u>	<u>5</u>	<u>14</u>	<u>0</u>	<u>2,956</u>	<u>5,588</u>
<b>Total liabilities and equity</b>	<u>572,983</u>	<u>1,571</u>	<u>355</u>	<u>250</u>	<u>0</u>	<u>194,406</u>	<u>769,565</u>
<b>Net liquidity gap</b>	<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>0</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**24 INTEREST RATE RISK**

<b>As at 31 December 2007</b>	Up to <u>1 month</u> CZK mil.	1 - 3 <u>months</u> CZK mil.	3 - 12 <u>months</u> CZK mil.	1 - 5 <u>years</u> CZK mil.	Over <u>5 years</u> CZK mil.	<u>Insensitive to</u> <u>interest rate</u> CZK mil.	<u>Total</u> CZK mil.
<b>Assets</b>							
Gold	0	0	0	0	0	809	809
Receivables from IMF	0	0	0	0	0	24,209	24,209
Treasury bills and other discounted securities	48,480	47,374	43,089	0	0	0	138,943
Bonds and other coupon securities	25,089	50,397	70,813	228,069	152,334	0	526,702
Deposits, loans and other receivables							
from foreign countries	54,036	0	0	0	0	0	54,036
Receivables from domestic banks	0	0	9	0	0	0	9
Receivables from clients	0	0	0	4	96	0	100
Fixed assets	0	0	0	0	0	5,519	5,519
Other assets	<u>553</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,630</u>	<u>6,183</u>
<b>Total assets</b>	<u>128,158</u>	<u>97,771</u>	<u>113,911</u>	<u>228,073</u>	<u>152,430</u>	<u>36,167</u>	<u>756,510</u>
<b>Liabilities and equity</b>							
Currency in circulation	0	0	0	0	0	353,703	353,703
Liabilities to IMF	0	0	0	0	0	22,162	22,162
Liabilities abroad	97,357	0	9	0	0	0	97,366
Liabilities to domestic banks	279,197	0	0	0	0	0	279,197
Deposits from clients	28,086	1,712	0	0	0	0	29,798
Liabilities to the state	152,359	0	0	0	0	0	152,359
Provisions	0	0	0	0	0	208	208
Equity	0	0	0	0	0	(183,498)	(183,498)
Other liabilities	<u>2,259</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,956</u>	<u>5,215</u>
<b>Total liabilities and equity</b>	<u>559,258</u>	<u>1,712</u>	<u>9</u>	<u>0</u>	<u>0</u>	<u>195,531</u>	<u>756,510</u>
<b>Net interest sensitivity gap</b>	<u>(431,100)</u>	<u>96,059</u>	<u>113,902</u>	<u>228,073</u>	<u>152,430</u>	<u>(159,364)</u>	<u>0</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

<b>As at 31 December 2006</b>	Up to <u>1 month</u> CZK mil.	1 - 3 <u>months</u> CZK mil.	3 - 12 <u>months</u> CZK mil.	1 - 5 <u>years</u> CZK mil.	Over <u>5 years</u> CZK mil.	<u>Insensitive to</u> <u>interest rate</u> CZK mil.	<u>Total</u> CZK mil.
<b>Assets</b>							
Gold	0	0	0	0	0	816	816
Receivables from IMF	0	2,671	0	0	0	23,943	26,614
Treasury bills and other discounted securities	45,537	37,713	46,050	0	0	0	129,300
Bonds and other coupon securities	73,493	184,863	220,780	0	0	0	479,136
Deposits, loans and other receivables							
from foreign countries	121,019	0	0	0	0	0	121,019
Receivables from domestic banks	0	10	10	7	0	0	27
Receivables from clients	0	0	0	5	87	0	92
Fixed assets	0	0	0	0	0	5,885	5,885
Other assets	<u>465</u>	<u>323</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,888</u>	<u>6,676</u>
<b>Total assets</b>	<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>
<b>Liabilities and equity</b>							
Currency in circulation	0	0	0	0	0	321,495	321,495
Liabilities to IMF	0	0	0	0	0	23,765	23,765
Liabilities abroad	80,393	1,216	10	7	0	0	81,626
Liabilities to domestic banks	331,789	0	0	0	0	0	331,789
Deposits from clients	39,565	568	0	0	0	0	40,133
Liabilities to the state	118,979	0	0	0	0	0	118,979
Provisions	0	0	0	0	0	240	240
Equity	0	0	0	0	0	(154,050)	(154,050)
Other liabilities	<u>181</u>	<u>354</u>	<u>5</u>	<u>14</u>	<u>0</u>	<u>5,034</u>	<u>5,588</u>
<b>Total liabilities and equity</b>	<u>570,907</u>	<u>2,138</u>	<u>15</u>	<u>21</u>	<u>0</u>	<u>196,484</u>	<u>769,565</u>
<b>Net interest sensitivity gap</b>	<u>(330,393)</u>	<u>223,442</u>	<u>266,825</u>	<u>(9)</u>	<u>87</u>	<u>(159,952)</u>	<u>0</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**25 CURRENCY RISK**

<b>As at 31 December 2007</b>	<u>CZK</u>	<u>EUR</u>	<u>USD</u>	<u>JPY</u>	<u>Other</u>	<u>Total</u>
	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.
<b>Assets</b>						
Gold	0	0	0	0	809	809
Receivables from IMF	22,162	0	0	0	2,047	24,209
Treasury bills and other discounted securities	0	50,455	88,488	0	0	138,943
Bonds and other coupon securities	0	306,775	219,927	0	0	526,702
Deposits, loans and other receivables from foreign countries	0	39,471	14,422	1	142	54,036
Receivables from domestic banks	0	9	0	0	0	9
Receivables from clients	100	0	0	0	0	100
Fixed assets	5,509	0	0	0	10	5,519
Other assets	<u>3,354</u>	<u>248</u>	<u>43</u>	<u>0</u>	<u>2,538</u>	<u>6,183</u>
<b>Total assets</b>	<u>31,125</u>	<u>396,958</u>	<u>322,880</u>	<u>1</u>	<u>5,546</u>	<u>756,510</u>
<b>Liabilities</b>						
Currency in circulation	353,703	0	0	0	0	353,703
Liabilities to IMF	22,162	0	0	0	0	22,162
Liabilities abroad	404	28,806	68,156	0	0	97,366
Liabilities to domestic banks	279,197	0	0	0	0	279,197
Deposits from clients	28,583	1,091	124	0	0	29,798
Liabilities to the state	137,873	14,485	1	0	0	152,359
Provisions	0	0	208	0	0	208
Other liabilities	<u>4,968</u>	<u>246</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>5,215</u>
<b>Total liabilities</b>	<u>826,890</u>	<u>44,628</u>	<u>68,489</u>	<u>0</u>	<u>1</u>	<u>940,008</u>
<b>Net assets/(liabilities)</b>	(795,765)	352,330	254,391	1	5,545	(183,498)
<b>Net off-balance sheet assets / (liabilities)</b>	<u>0</u>	<u>238</u>	<u>(52,993)</u>	<u>26,771</u>	<u>25,522</u>	<u>(462)</u>
<b>Net foreign exchange position</b>	<u>(795,765)</u>	<u>352,568</u>	<u>201,398</u>	<u>26,772</u>	<u>31,067</u>	<u>(183,960)</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.



**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

<b>As at 31 December 2006</b>	<u>CZK</u>	<u>EUR</u>	<u>USD</u>	<u>JPY</u>	<u>Other</u>	<u>Total</u>
	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.
<b>Assets</b>						
Gold	0	0	0	0	816	816
Receivables from IMF	23,765	0	0	0	2,849	26,614
Treasury bills and other discounted securities	0	72,075	57,225	0	0	129,300
Bonds and other coupon securities	0	260,511	218,625	0	0	479,136
Deposits, loans and other						
receivables from foreign countries	0	41,807	79,163	1	48	121,019
Receivables from domestic banks	0	27	0	0	0	27
Receivables from clients	92	0	0	0	0	92
Fixed assets	5,875	0	0	0	10	5,885
Other assets	<u>3,747</u>	<u>263</u>	<u>0</u>	<u>0</u>	<u>2,666</u>	<u>6,676</u>
<b>Total assets</b>	<b><u>33,479</u></b>	<b><u>374,683</u></b>	<b><u>355,013</u></b>	<b><u>1</u></b>	<b><u>6,389</u></b>	<b><u>769,565</u></b>
<b>Liabilities</b>						
Currency in circulation	321,495	0	0	0	0	321,495
Liabilities to IMF	23,765	0	0	0	0	23,765
Liabilities abroad	492	5,088	76,046	0	0	81,626
Liabilities to domestic banks	331,789	0	0	0	0	331,789
Deposits from clients	23,841	16,255	37	0	0	40,133
Liabilities to the state	112,100	6,878	1	0	0	118,979
Provisions	240	0	0	0	0	240
Other liabilities	<u>3,866</u>	<u>1,722</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,588</u>
<b>Total liabilities</b>	<b><u>817,588</u></b>	<b><u>29,943</u></b>	<b><u>76,084</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>923,615</u></b>
<b>Net assets/(liabilities)</b>	<b>(784,109)</b>	<b>344,740</b>	<b>278,929</b>	<b>1</b>	<b>6,389</b>	<b>(154,050)</b>
<b>Net off-balance sheet assets / (liabilities)</b>	<b><u>17</u></b>	<b><u>(16)</u></b>	<b><u>(57,355)</u></b>	<b><u>27,387</u></b>	<b><u>30,012</u></b>	<b><u>45</u></b>
<b>Net foreign exchange position</b>	<b><u>(784,092)</u></b>	<b><u>344,724</u></b>	<b><u>221,574</u></b>	<b><u>27,388</u></b>	<b><u>36,401</u></b>	<b><u>(154,005)</u></b>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**26 CREDIT RISK AND CONCENTRATION OF LIABILITIES**

**Geographical concentrations of assets**

	<u>31 December 2007</u>	<u>31 December 2006</u>
	CZK million	CZK million
Czech Republic	10,398	10,352
Germany	170,382	119,184
France	84,709	84,680
Italy	24,551	57,538
Other Eurozone countries	143,502	116,652
Switzerland	21,936	23,757
Great Britain	88,685	90,386
Other European countries	12,509	6,243
USA and Canada	192,943	239,999
Japan	2	2
Other countries	<u>6,893</u>	<u>20,772</u>
	<u>756,510</u>	<u>769,565</u>
Of which:		
Central governments	341,697	360,212
Government agencies	107,201	31,858
Securities hedged by other assets (pfandbriefs)	96,650	76,499
Commercial banks	58,177	171,375
BIS	<u>17,708</u>	<u>8,132</u>
	<u>621,433</u>	<u>648,076</u>

**Geographical concentrations of liabilities**

	<u>31 December 2007</u>	<u>31 December 2006</u>
	CZK million	CZK million
Czech Republic	635,762	662,433
Eurozone countries	1,230	5,623
Other European countries	28,801	1,217
USA and Canada	<u>90,717</u>	<u>100,292</u>
	<u>756,510</u>	<u>769,565</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

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**27 OTHER OFF-BALANCE SHEET ITEMS**

<b>Issued guarantees</b>	<u>31 December 2007</u> CZK million	<u>31 December 2006</u> CZK million
Clients	231	267
In relation to the Agreement and indemnity letter (Note 29)	157,006	157,007
For deposits held by IPB (Note 29)	268	309
Consolidation of the banking sector – sale of part of the business of Agrobanka Praha a. s.	<u>4,000</u>	<u>4,000</u>
Total issued guarantees	<u>161,505</u>	<u>161,583</u>

The identified need for provisions for expected losses on the guarantees issued to clients was CZK 208 million as at 31 December 2007 (2006: CZK 240 million) (Note 16).

<b>Received guarantees</b>	<u>31 December 2007</u> CZK million	<u>31 December 2006</u> CZK million
From the Ministry of Finance of the CR in relation to the State Guarantee (Note 29)	<u>157,006</u>	<u>157,007</u>
Total guarantees received	<u>157,006</u>	<u>157,007</u>

<b>Off-balance sheet receivables and payables from option transactions</b>	<u>31 December 2007</u> CZK million	<u>31 December 2006</u> CZK million
The agreement about the sale option resulting from the sale of part of business of Agrobanka Praha a.s. (Note 22)	<u>44,470</u>	<u>38,687</u>

Receivables and payables from option operations are made up of the notional value of options issued in 1998 in favour of GE Capital International Holdings Corporation in connection with the sale of part of the business of Agrobanka Praha a.s. to GE Capital Bank. This option maturity expires on 22 June 2008.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

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**Collateral received**

The Bank received collateral in relation to reverse repo transactions and agreements on securities lending in the amount of CZK 48,287 million as at 31 December 2007 (31 December 2006: CZK 0).

The Bank recognized off balance sheet liabilities in relation to investments of collateral received as part of securities lending agreements in the amount of CZK 91,678 million as at 31 December 2007 (31 December 2006: CZK 105,581 million).

**Assets held in custody**

The Bank has not received any financial assets from third parties to be held in custody in 2007 and 2006.

In the off-balance sheet the Bank recognizes other assets taken into custody from clients and banks, assets in own custody and other carrying amounts.

In the off-balance sheet, the Bank recognizes at carrying amounts the assets not reflected in the balance sheet which it received in connection with the fulfilment of the Bank's functions, especially in the field of currency. These items (particularly realized and unrealized designs of tender, legal and non-valid foreign and domestic tender and their counterfeits) are important for archiving and documentary needs of the Bank and, mainly, for study and comparative purposes during protecting currency.

**28 CONTINGENCIES AND COMMITMENTS**

CNB charges against income the amounts it pays for the reasonable operating costs of Česká konsolidační agentura acknowledged by the Bank. These payments are effected in accordance with addenda No. 1 to the agreement on the payment of operating costs and losses related to assumed assets that are incurred in connection with the fulfilment of the Consolidation Programme concluded on 29 June 2000. These costs were CZK 1 million in 2007. The Bank does not recognize any provisions against these contingencies and commitments as they are immaterial.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

**Lawsuits**

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

**29 CONSOLIDATION OF THE BANKING SECTOR**

**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 held by IPB (hereinafter "the Guarantee for Deposits") covering all commitments resulting from deposits received by IPB and from bonds issued by IPB, including accrued interest, as at 16 June 2000. Liabilities with a fixed maturity date were guaranteed until the maturity date and liabilities without a fixed maturity date were guaranteed until June 2003.

The Guarantee for Deposits is regularly updated in the CNB off-balance sheet based on an assessment of the liabilities covered by the Guarantee for Deposits performed by CSOB. The balance of the Guarantee for Deposits in the off-balance sheet of the CNB as at 31 December 2007 was CZK 268 million (31 December 2006: CZK 309 million).

The forced administrator of IPB concluded a contract with CSOB regarding the sale of the business on 19 June 2000. Based on this agreement, CSOB took over the assets and liabilities of IPB. On 19 June 2000, the CNB and CSOB concluded the Agreement and indemnity letter (hereinafter the "Indemnity Letter") in which the CNB irrevocably and unconditionally undertook to pay to CSOB certain losses and to indemnify CSOB for certain costs related to the transaction.

On 23 June 2000, the Czech Government issued a State guarantee in which it undertook to refund certain losses incurred by the CNB in connection with the CSOB indemnification based on the Indemnity Letter (hereinafter "the State Guarantee"). The state guarantee covers losses incurred by the CNB resulting from the indemnification of CSOB's losses (damages) arising from unrecorded liabilities relating to IPB that were transferred to CSOB.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

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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; the maximum amount of the compensation is CZK 160 billion. Based on this declaration, the CNB expects the maximum compensation from the State Guarantee to be of the same amount.

The CNB received a Binding Representation from CSOB on 28 June 2004. A final List of Claims is enclosed with this Binding Representation. The CNB accepted this Binding Representation on 28 June 2004. This does not mean that the CNB accepted or approved the individual claims in the enclosure; however, further claims not included in the Binding Representation may not be brought by CSOB.

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

	<u>31 December 2007</u> CZK million	<u>31 December 2006</u> CZK million
Total potential claims under the Indemnity Letter	160,000	160,000
Advances paid to CSOB (Note 9)	(2,943)	(2,946)
Foreign exchange differences	(13)	(9)
Settlement to CSOB	<u>(38)</u>	<u>(38)</u>
Total potential future claims under the Indemnity Letter	<u>157,006</u>	<u>157,007</u>

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

	<u>31 December 2007</u> CZK million	<u>31 December 2006</u> CZK million
Total State Guarantee received	160,000	160,000
Advances received from the State Guarantee (Note 18)	(2,956)	(2,955)
Final settlement from the State Guarantee	<u>(38)</u>	<u>(38)</u>
State Guarantee receivables at year end (Note 29)	<u>157,006</u>	<u>157,007</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.

**CZECH NATIONAL BANK**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

The CNB has not recognised a provision for these claims as the volume of claims settled so far which were not covered by the State Guarantee has been marginal. In addition, 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 the State Guarantee and would, therefore, become an expense of CNB.

**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 the services consisting of maintaining deposit and fixed term accounts and 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**

In connection with the termination of the mandate of Vice-Governor Mr. Luděk Niedermayer, the President of the Czech Republic, Mr. Vaclav Klaus, appointed a new Head Manager and member of the Bank Board, Ms. Eva Zamrazilová, effective as of 1 March 2008. The current Head Manager, Mr. Mojmír Hampl, was appointed CNB Vice-Governor effective as of the same date.

At its meeting of 21 February 2008, the Bank Board approved the write-off of the CNB receivable from Pozemní stavby Zlín – Group, a. s. arising from a penalty imposed for the reconstruction of the headquarters building amounting to CZK 1,057 million and the corresponding release of the specific provision to income.

The CNB's management is not aware of any other subsequent events that would have a material impact on the 2007 financial statements.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements.