



Czech National Bank

Financial Statements for the year ended 31 December 2008 together with Auditor's Report

(Translation of Financial Statements Originally Issued in Czech –
See Note 1 to the Financial Statements)

(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 2008, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of 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 as amended by 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 an 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 2008, and its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.



Ernst & Young Audit, s.r.o.
License No. 401
Represented by Partner



Magdalena Souček
Auditor, License No. 1291

20 February 2009
Prague, Czech Republic

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




Name of bank: **CZECH NATIONAL BANK**

Sorting code:

0	7	1	0
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BALANCE SHEET

as at 31 December 2008
(CZK million)

Date of preparation: 20 February 2009	Governor's stamp and signature  doc. Ing. Z. Tůma, CSc.	Person responsible for accounting Name and signature  Ing. M. Mayer	Person responsible for financial statements Name and signature  Ing. M. Lorenc
		Tel.: 224 414 326	Tel.: 224 414 461

CZECH NATIONAL BANK

BALANCE SHEET

AS AT 31 DECEMBER 2008

		<u>31 December 2008</u>			<u>31 December 2007</u>
	<u>Note</u>	<u>Gross</u> CZK million	<u>Provision</u> CZK million	<u>Net</u> CZK million	CZK million
ASSETS					
1. Gold	3	796	0	796	809
2. Receivables from the International Monetary Fund	4	24,707	0	24,707	24,209
3. Receivables from abroad, including securities	5	707,739	0	707,739	719,681
3.1. Deposits at foreign banks and financial institutions		2,478	0	2,478	48,928
3.2. Loans provided to foreign banks		9,973	0	9,973	4,992
3.3. Securities		695,132	0	695,132	665,645
3.4. Other receivables from abroad		156	0	156	116
4. Receivables from domestic banks	6	38,053	14	38,039	9
5. Fixed assets	7	11,292	6,041	5,251	5,519
5.1. Tangible fixed assets		10,315	5,092	5,223	5,473
5.2. Intangible Assets		977	949	28	46
6. Other assets	8	16,428	8,565	7,863	6,283
6.1. Other financial assets		3,006	0	3,006	2,687
6.2. Receivables from former banks		8,543	8,543	0	0
6.3. Other		<u>4,879</u>	<u>22</u>	<u>4,857</u>	<u>3,596</u>
TOTAL ASSETS		<u>799,015</u>	<u>14,620</u>	<u>784,395</u>	<u>756,510</u>

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 2008

	<u>Note</u>	<u>31 December 2008</u> CZK million	<u>31 December 2007</u> CZK million
LIABILITIES AND EQUITY			
1. Currency in circulation	9	399,248	353,703
2. Liabilities to the International Monetary Fund	4	21,008	22,162
3. Liabilities abroad	10	2,838	97,366
3.1. Loans from foreign banks		1,582	96,962
3.2. Other liabilities abroad		1,256	404
4. Liabilities to domestic banks	11	307,883	279,197
4.1. Bank monetary reserves		31,741	21,421
4.2. Loans received		193,567	241,530
4.3. Other liabilities to banks		82,575	16,246
5. Liabilities to clients	13	178,592	181,004
5.1. Liabilities to the state		156,609	152,359
5.2. Other liabilities to clients		21,983	28,645
6. Provisions	14	222	208
7. Share capital	15	1,400	1,400
8. Funds	15	8,046	8,087
9. Revaluation reserve	15	26,925	6,655
10. Accumulated losses from previous periods	15	(199,640)	(162,133)
11. Net (loss) / profit for the period	15	29,128	(37,507)
12. Other liabilities	16	<u>8,745</u>	<u>6,368</u>
TOTAL LIABILITIES AND EQUITY		<u>784,395</u>	<u>756,510</u>

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 2008

	<u>Note</u>	<u>31 December 2008</u> CZK million	<u>31 December 2007</u> CZK million
OFF-BALANCE SHEET			
1. Guarantees issued	25	161,432	161,505
2. Receivables from spot, term and option transactions	20	91,187	115,248
3. Liabilities from spot, term, option transactions	20	91,166	115,710
4. Guarantees received	25	156,954	157,006
5. Collateral received	25	62,238	139,965
6. Values taken into custody and values in own custody	25	925	925

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

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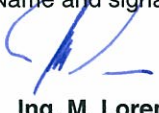
Name of bank: **CZECH NATIONAL BANK**

Sorting code:

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INCOME STATEMENT

for the year ended 31 December 2008
(CZK million)

Date of preparation: 20 February 2009	Governor's stamp and signature  doc. Ing. Z. Tůma, CSc.	Person responsible for accounting Name and signature  Ing. M. Mayer	Person responsible for financial statements Name and signature  Ing. M. Lorenc
		Tel.: 224 414 326	Tel.: 224 414 461

CZECH NATIONAL BANK

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	<u>Note</u>	<u>2008</u> CZK million	<u>2007</u> CZK million
1. Interest income and similar income	17	26,109	31,968
1.1. Interest from fixed income securities		24,891	27,427
1.2. Other		1,218	4,541
2. Interest expense and similar expense	17	(16,836)	(16,914)
3. Income from shares and other interests		139	47
4. Fee and commission income		465	490
5. Fee and commission expense		(48)	(47)
6. Gains less losses from financial operations	18	21,445	(50,889)
6.1. Net foreign exchange gains / (losses) and foreign exchange spread		20,602	(47,183)
6.2. Other		843	(3,706)
7. Other operating income		299	149
7.1. Income from money issue		86	46
7.2. Other		213	103
8. Other operating expense		(432)	(293)
8.1. Expenses for production of notes and coins		(342)	(264)
8.2. Other		(90)	(29)
9. Administration expense	19	(1,582)	(1,545)
9.1. Personnel expenses		(1,159)	(1,105)
9.1.1. Wages and salaries		(822)	(773)
9.1.2. Social and health security		(276)	(275)
9.1.3. Training and other expenses		(61)	(57)
9.2. Other administration expenses		(423)	(440)
10. Depreciation and amortisation of fixed assets	7	(433)	(480)
11. Reversal of provisions for receivables and guarantees, income from receivables already written off	14	1,110	12
12. Write offs, additions and utilisation of provisions for receivables and guarantees	14	<u>(1,108)</u>	<u>(5)</u>
13. Net (loss) / profit for the period		<u>29,128</u>	<u>(37,507)</u>

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

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



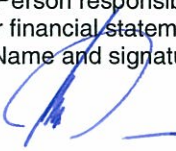
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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008
(CZK million)

Date of preparation:	Governor's stamp and signature	Person responsible for accounting Name and signature	Person responsible for financial statements Name and signature
20 February 2009	 doc. Ing. Z. Tůma, CSc.	 Ing. M. Mayer	 Ing. M. Lorenc
		Tel.: 224 414 326	Tel.: 224 414 461

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

1 GENERAL INFORMATION

The Czech National Bank ("the Bank" or "the CNB") is the central bank of the Czech Republic ("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 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 ("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 2008

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 as defined by the law. The Bank and the Government communicate with each other about 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.

As at 31 December 2008, the members of the Bank Board were as follows:

doc. Ing. Zdeněk Tůma, CSc.	Governor	until 12 February 2011
Ing. Mojmír Hampl, MSc., Ph.D.	Vice-Governor	until 30 November 2012
Ing. Miroslav Singer, Ph.D.	Vice-Governor	until 12 February 2011
prof. Ing. Robert Holman, CSc.	Head Manager	until 12 February 2011
Ing. Pavel Řežábek	Head Manager	until 12 February 2011
doc. Ing. PhDr. Ing.		
Vladimír Tomšík, Ph.D., Ph.D.	Head Manager	until 30 November 2012
Ing. Eva Zamrazilová, CSc.	Head Manager	until 29 February 2014

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 this profit, and for other uses within the Bank's budget. Any remaining profit is transferred by the CNB 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 of the calendar year-end.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (2)

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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 ("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 portfolios 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 denominated and payable in gold are included in the gold balance and valued at historical cost. Interest income resulting from the 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 (3)

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(d) Securities

The Bank holds foreign debt securities and shares that are reported in receivables from abroad, and capital instruments comprising shares and interests in companies other than subsidiaries or associates that are recognized in other financial assets. These shares and interests represent participations reflecting the CNB membership in these institutions.

Foreign debt securities and shares recorded in receivables from abroad 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. The shares are administered by external managers within the passive investment strategy consisting of almost 100% replication of selected share indexes of advanced economies.

The Bank classifies all debt securities held in its portfolio as available-for-sale, i.e., no debt securities are classified as measured at fair value through profit or loss, held to maturity or ownership interests. The Bank also included shares and interests representing the participations in available-for-sale portfolio. The Bank included the shares administered by external managers in the portfolio measured at fair value through profit or loss.

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 the effective interest rate method, considering also coupon payments if relevant (amortised cost).

Available-for-sale debt securities and shares as well as shares measured at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of available-for-sale bonds and shares are recognized directly in equity until the financial asset is derecognized or impaired. In such cases the cumulative gain or loss previously recognized in equity is recognized in the income statement. Gains and losses arising from changes in the fair value of shares measured at fair value through profit or loss are recognized in the income statement. The Bank measures the interests at cost.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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 and dividends on available-for-sale bonds and shares as well as dividends on shares measured at fair value through profit or loss are recognized in the income statement.

(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 may be 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.

In the course of 2008, the Bank temporarily suspended its participation in the securities lending scheme.

(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.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(g) Membership quota at the International Monetary Fund

The membership quota at the International Monetary Fund ("IMF") is denominated in Special Drawing Rights ("SDR") and is translated into 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 12).

(i) Derivative financial instruments

Derivative financial instruments are initially recognised on the balance sheet at cost and are subsequently remeasured 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 in the value of the underlying instruments 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.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(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 the debtor's liquidation.

(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.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(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 receivable 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.

(p) Tangible and intangible fixed assets

Tangible and intangible fixed assets are recorded at cost, which includes value added tax ("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 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	30 years
Machinery and equipment:	
- Motor vehicles	4 years
- Office equipment and computers	3 – 4 years
Furniture and fittings	5 – 6 years
Other:	
- 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.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (8)

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

Repairs and maintenance expenditures are charged to expenses as incurred. Technical 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.

(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 expenses and they also include the Bank Board salaries and benefits.

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.

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 or as the appropriation of profit and loss in approval process. 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.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(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, the CNB records other off-balance sheet assets and liabilities in an off balance sheet account. 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.

(w) Subsequent events

The effects of events which occurred between the balance sheet date and the date of compilation of the financial statements are reflected in the financial statements. This happens 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.

(x) Change in the balance sheet structure

In order to enhance the balance sheet informative value of the CNB balance sheet the structure of asset and liability items reported in the balance sheet as at 31 December 2008 has changed. This change approximates the disclosed information structure more to disclosure requirements within the European System of Central Banks.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

The balance sheet structure has changed as follows:

Assets

	<u>31 December 2007</u>	<u>31 December 2007</u>	<u>31 December 2007</u>
Reported in 2007:	Gross	Provision	Net
	CZK million	CZK million	CZK million
Part 5. Standard loans to employees	100	0	100
Part 5. Loss loans of former banks	<u>8,585</u>	<u>(8,585)</u>	<u>0</u>
5. Receivables from clients	8,685	(8,585)	100

**Reported comparably in 2008
(for 2007):**

6.2. Receivables from former banks	8,585	(8,585)	0
Part 6.3. Other assets (Standard loans to employees) (See Note 8)	<u>100</u>	<u>0</u>	<u>100</u>
	8,685	(8,585)	100

Liabilities

Reported in 2007:	<u>31. December 2007</u>
	CZK million
5. Deposits from clients	29,798
6. Liabilities to the state	<u>152,359</u>
	182,157

Reported comparably in 2008 (for 2007):

5.1. Liabilities to the state	152,359
5.2. Other liabilities to clients	28,645
Part 12. Other liabilities (deposits of employees)	<u>1,153</u>
	182,157

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (11)

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3 GOLD

	<u>31 December 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
Gold at cost	<u>796</u>	<u>809</u>

As at 31 December 2008, the Bank held gold bullion, minted gold coins and other unminted gold stock, including gold deposits, of 422 thousand oz of gold, i.e., 13.1 t (31 December 2007: 429 thousand oz of gold, i.e., 13.3 t).

Gold as at 31 December 2008 included a foreign bank deposit of CZK 341 million (5.6 t) denominated in gold (31 December 2007: 341 million oz of gold, i.e., 5.6 t).

The total market value of gold as at 31 December 2008 was CZK 6,934 million (31 December 2007: CZK 6,432 million).

4 RECEIVABLES FROM AND PAYABLES TO IMF

	<u>31 December 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
Membership quota at IMF	21,410	22,526
Deposits in IMF	<u>3,297</u>	<u>1,683</u>
Total receivables from IMF	<u>24,707</u>	<u>24,209</u>
Liability to IMF	14,185	13,955
Current account with IMF	<u>6,823</u>	<u>8,207</u>
Total payables to IMF	<u>21,008</u>	<u>22,162</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. The membership quota is translated to CZK at the rate as advised by the IMF.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

5 RECEIVABLES FROM ABROAD INCLUDING SECURITIES

	<u>31 December 2008</u> CZK million	<u>31 December 2007</u> CZK million
Current accounts with banks	106	35
Deposits	<u>2,372</u>	<u>48,893</u>
Total deposits at foreign banks and financial institutions	2,478	48,928
Loans provided to foreign banks	9,973	4,992
Treasury bills and other discounted securities	155,354	138,943
Bonds and other coupon securities	529,987	526,702
Shares	<u>9,791</u>	<u>0</u>
Total securities	695,132	665,645
Other receivables from abroad	156	116
Total receivables from abroad including securities	<u>707,739</u>	<u>719,681</u>

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

Receivables from loans provided to foreign banks are represented by reverse repo transactions for which collateral was received in the amount of CZK 9,537 million as at 31 December 2008 (31 December 2007: CZK 4,525 million) (see Note 25).

Treasury bills and other discounted securities

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

	<u>Fair value</u> <u>31 December 2008</u> CZK million	<u>Fair value</u> <u>31 December 2007</u> CZK million
Treasury bills	93,719	45,232
Other discounted securities	<u>61,635</u>	<u>93,711</u>
Total treasury bills and other discounted securities	<u>155,354</u>	<u>138,943</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (13)

CZECH NATIONAL BANK**NOTES TO FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008****Bonds and other coupon securities**

Bonds and other coupon securities can be analysed as follows:

	Fair value <u>31 December 2008</u> CZK million	Fair value <u>31 December 2007</u> CZK million
State bonds	320,649	303,182
Other foreign bonds	<u>209,338</u>	<u>223,520</u>
Total bonds and other coupon securities	<u>529,987</u>	<u>526,702</u>

Of the total portfolio of bonds and other coupon securities and treasury bills and other discounted securities with a fair value of CZK 685,341 million, an amount of CZK 1,651 million was granted as collateral in repo transactions as at 31 December 2008 (see Note 10). In the course of 2008, the Bank temporarily suspended its participation in the securities lending scheme.

Of the total securities portfolio with a fair value of CZK 665,645 million, bonds with a fair value of CZK 99,478 million were granted as collateral in repo transactions as at 31 December 2007. Bonds and other coupon securities and treasury bills and other discounted securities with a fair value of CZK 90,648 million were lent under the securities lending scheme (see Note 10).

Shares

Share indexes selected by the Bank for investing a part of foreign reserves portfolio are as follows:

MSCI Euro	MSCI EMU Large Cap index comprises the shares of 132 companies having their registered office in a country included in the European Monetary Union
S&P 500	Index comprising 500 most traded US companies on the NYSE and NASDAQ
FTSE 100	A British index comprising 100 best companies (blue chips) by reference to market capitalization on the London Stock Exchange
Nikkei 225	A Japanese index comprising 225 share titles of 400 most liquid Japanese companies traded on the Tokyo Stock Exchange.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

With respect to selected share indexes, the Bank's share portfolio is diversified as follows:

Share indexes selected by the Bank for investing the part of foreign currency reserves portfolio:	Fair value <u>31 December 2008</u> CZK million	Fair value <u>31 December 2007</u> CZK million
MSCI Euro (EUR)	6,627	0
S&P 500 (USD)	2,056	0
FTSE 100 (GBP)	404	0
Nikkei 225 (JPY)	<u>704</u>	<u>0</u>
Total shares	9,791	0
Of which: financial institutions		
MSCI Euro (EUR)	1,560	0
S&P 500 (USD)	252	0
FTSE 100 (GBP)	68	0
Nikkei 225 (JPY)	37	0

6 RECEIVABLES FROM DOMESTIC BANKS

	<u>31 December 2008</u> CZK million	<u>31 December 2007</u> CZK million
Non-performing loans	14	14
Loans provided by European Investment Bank ("EIB") funds	0	9
Receivables from loans provided	<u>38,039</u>	<u>0</u>
	38,053	23
Specific provisions against receivables from domestic banks (Note 14)	<u>(14)</u>	<u>(14)</u>
Total net receivables from domestic banks	<u>38,039</u>	<u>9</u>

Receivables from loans provided to domestic banks are represented by reverse repo transactions for which collateral was received in the amount of CZK 52,701 million as at 31 December 2008 (31 December 2007: CZK 43,762 million) (see Note 25).

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (15)

CZECH NATIONAL BANK**NOTES TO FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008****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, had the same maturity date and were not secured (see Note 10). The CNB earned a margin on these loans in the previous years.

7 TANGIBLE AND INTANGIBLE ASSETS**Tangible fixed assets**

<u>Cost</u>	<u>31 December 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>31 December 2007</u>
	CZK million	CZK million	CZK million	CZK million
Land	189	0	(1)	188
Buildings	6,980	12	(11)	6,981
Technical equipment	2,372	136	(156)	2,352
Furniture and fittings	328	22	(25)	325
Other	455	11	(6)	460
Tangible assets				
in the course of construction	14	176	(181)	9
Advance payments				
for tangible assets	<u>19</u>	<u>19</u>	<u>(38)</u>	<u>0</u>
Total cost	<u>10,357</u>	<u>376</u>	<u>(418)</u>	<u>10,315</u>
<u>Accumulated depreciation</u>				
Buildings	(2,158)	(243)	11	(2,390)
Technical equipment	(1,996)	(141)	156	(1,981)
Furniture and fittings	(310)	(10)	25	(295)
Other	<u>(420)</u>	<u>(12)</u>	<u>6</u>	<u>(426)</u>
Total accumulated depreciation	<u>(4,884)</u>	<u>(406)</u>	<u>198</u>	<u>(5,092)</u>
Net book value	<u>5,473</u>			<u>5,223</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (16)

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

Intangible fixed assets

<u>Cost</u>	<u>31 December 2008</u> CZK million	<u>Additions</u> CZK million	<u>Disposals</u> CZK million	<u>31 December 2007</u> CZK million
Software	974	18	(26)	966
Other intangible assets	11	0	0	11
Intangible assets not yet put into use	<u>1</u>	<u>15</u>	<u>(16)</u>	<u>0</u>
Total cost	<u>986</u>	<u>33</u>	<u>(42)</u>	<u>977</u>
<u>Accumulated amortisation</u>				
Software	(933)	(33)	25	(941)
Other intangible assets	<u>(7)</u>	<u>(1)</u>	<u>0</u>	<u>(8)</u>
Total accumulated amortisation	<u>(940)</u>	<u>(34)</u>	<u>25</u>	<u>(949)</u>
Net book value	<u>46</u>			<u>28</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 2008

8 OTHER ASSETS

	<u>31 December 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
Other financial assets	3,006	2,687
Loss loans of former banks	8,543	8,585
Specific provisions against loss loans of former banks (Note 14)	<u>(8,543)</u>	<u>(8,585)</u>
Total receivables from former banks	0	0
Prepaid expenses	21	33
Advances in relation to the Indemnity letter (see Note 27)	2,945	2,943
Other precious metals	19	14
Positive fair value of foreign currency forwards (Note 20)	1,655	386
Positive fair value of interest rate swaps (Note 20)	12	32
Margin account including fair value of futures (Note 20)	39	28
Standard loans to employees	103	100
Other operating receivables	85	1,145
Specific provisions against other operating receivables (see Note 14)	<u>(22)</u>	<u>(1,085)</u>
Other	4,857	3,596
Total other assets	<u>7,863</u>	<u>6,283</u>

Other financial assets include CNB's share in the European Central Bank ("ECB"), the Bank for International Settlement ("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 2008 based on the population and gross domestic product.

The BIS and SWIFT shares are non-tradeable 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.

CZECH NATIONAL BANK**NOTES TO FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008**

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.

After the distribution proceedings in bankruptcy were fulfilled, the Bank approved the write-off of the CNB receivable from Pozemní stavby Zlín – Group, a. s. due to the sanction imposed for the reconstruction of the headquarters building amounting to CZK 1,057 million and the related release of the specific provision to income.

9 CURRENCY IN CIRCULATION

	<u>31 December 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
Notes in circulation	389,891	344,936
Coins in circulation	<u>9,357</u>	<u>8,767</u>
Total currency in circulation	<u>399,248</u>	<u>353,703</u>

10 LIABILITIES ABROAD

	<u>31 December 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
Loans received - repo transactions	1,582	96,953
Loans from the EIB (Note 6)	0	9
Other liabilities abroad	<u>1,256</u>	<u>404</u>
Total liabilities abroad	<u>2,838</u>	<u>97,366</u>

Other liabilities abroad include a liability from securities trading in the amount of CZK 566 million due to unsettled transactions over the year end.

In connection with the repo transactions with foreign banks, collateral of CZK 1,651 million was provided in the form of debt securities as at 31 December 2008 (see Note 5). As at 31 December 2007 this stood at the amount of CZK 99,478 million.

CZECH NATIONAL BANK**NOTES TO FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008****11 LIABILITIES TO DOMESTIC BANKS**

	<u>31 December 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
Banks' monetary reserves	31,741	21,421
Loans received - repo transactions	193,567	241,530
Short-term deposits received	76,196	12,670
Other liabilities to banks	<u>6,379</u>	<u>3,576</u>
Total liabilities to domestic banks	<u>307,883</u>	<u>279,197</u>

In connection with the repo transactions with domestic banks, collateral of CZK 205,712 million was provided in form of the Bank's treasury bills as at 31 December 2008 (31 December 2007: CZK 281,210 million) (see Note 12).

Banks' monetary reserves

Obligatory minimum reserves represent deposits of the banks in the CR held at the CNB which banks cannot dispose of. The CNB pays interest equal to the CZK two-week repo interest rate on these deposits, which was 2.25% p.a. as at 31 December 2008 (2007: 3.5% p.a.). Obligatory minimum reserves are defined as 2% of received deposits and loans from non-banking clients or selected issued securities with maturity of less than 2 years.

12 ISSUED DOMESTIC SECURITIES

	<u>31 December 2008</u>	<u>31 December 2007</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	494,288	418,790
- used in repo transactions (carrying amount)	205,712	281,210
Total issued domestic securities	<u>0</u>	<u>0</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

13 LIABILITIES TO CLIENTS

	<u>31 December 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
State funds' accounts	12,074	4,301
State assets denominated in CZK	103,133	133,571
State assets denominated in foreign currency	<u>41,402</u>	14,487
Total liabilities to the state	156,609	152,359
Off-budget funds deposits	9,827	14,058
Other deposits	<u>12,156</u>	<u>14,587</u>
Total other liabilities to clients	21,983	28,645
Total liabilities to clients	<u>178,592</u>	<u>181,004</u>

14 PROVISIONS, SPECIFIC PROVISIONS AND WRITE-OFFS

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

	<u>31 December 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
Specific provisions		
Non-performing loans due from domestic banks (Note 6)	14	14
Classified loans to clients (Note 8)	8,543	8,585
Other operating receivables (Note 8)	<u>22</u>	<u>1,085</u>
Total specific provisions	<u>8,579</u>	<u>9,684</u>
Provisions		
Guarantees for clients (Note 25)	<u>222</u>	<u>208</u>
Total provisions	<u>222</u>	<u>208</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (21)

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

Specific provisions

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

	Non-performing loans due from <u>domestic banks</u> CZK million	Classified loans to <u>clients</u> CZK million	Other operating <u>receivables</u> CZK million	Total specific <u>provisions</u> CZK million
As at 1 January 2007	<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>
Addition	0	0	0	0
Reversal	<u>0</u>	<u>(42)</u>	<u>(1,063)</u>	<u>(1,105)</u>
As at 31 December 2008	<u>14</u>	<u>8,543</u>	<u>22</u>	<u>8,579</u>

Provisions

The movements in provisions can be analysed as follows:

	Other <u>guarantees</u> CZK million	<u>Total</u> CZK million
As at 1 January 2007	240	240
Additions	4	4
Utilisation	(5)	(5)
Foreign exchange differences	<u>(31)</u>	<u>(31)</u>
As at 31 December 2007	<u>208</u>	<u>208</u>
Additions	5	5
Utilisation	(5)	(5)
Foreign exchange differences	<u>14</u>	<u>14</u>
As at 31 December 2008	<u>222</u>	<u>222</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (22)

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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

	<u>2008</u> CZK million	<u>2007</u> CZK million
Reversal of specific provisions	1,105	7
Reversal of provisions	5	5
	<u>1,110</u>	<u>12</u>

15 EQUITY

Changes in equity during 2008 and 2007 were as follows:

	<u>Share capital</u> CZK million	<u>Funds</u> CZK million	<u>Accumulated losses</u> CZK million	<u>Revaluation reserve</u> CZK million	<u>Profit/(loss) for the period</u> CZK million	<u>Equity</u> CZK million
Balance as at 1 January 2007	1,400	8,123	(105,748)	(1,440)	(56,385)	(154,050)
Transfer to accumulated losses	0	0	(56,385)	0	56,385	0
Use of social fund	0	(36)	0	0	0	(36)
Revaluation reserve	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>
Transfer to accumulated losses	0	0	(37,507)	0	37,507	0
Use of social fund	0	(41)	0	0	0	(41)
Revaluation reserve	0	0	0	20,270	0	20,270
Profit for the year 2008	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>29,128</u>	<u>29,128</u>
Balance as at 31 December 2008	<u>1,400</u>	<u>8,046</u>	<u>(199,640)</u>	<u>26,925</u>	<u>29,128</u>	<u>(134,141)</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.

CZECH NATIONAL BANK**NOTES TO FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008**

The Social fund of CZK 3 million as at 31 December 2008 (31 December 2007: CZK 7 million) is used to cover 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.

16 OTHER LIABILITIES

	<u>31 December 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
Negative fair value of foreign currency forwards (Note 20)	1,660	745
Negative fair value of interest rate swaps (Note 20)	862	0
Advance received in relation to the State Guarantee (Note 27)	2,956	2,956
Liabilities to the European Union	1,541	1,220
Employee accounts	1,439	1,153
Other liabilities	<u>287</u>	<u>294</u>
Total other liabilities	<u>8,745</u>	<u>6,368</u>

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

Other liabilities totalling CZK 287 million include liabilities of CZK 38 million owing to social security and health insurance premiums as at 31 December 2008. The Bank has no liabilities to social security and health insurance authorities that would be overdue.

17 INTEREST INCOME, NET

	<u>2008</u>	<u>2007</u>
	CZK million	CZK millions
Interest income and similar income	26,109	31,968
Interest expense and similar expense	<u>(16,836)</u>	<u>(16,914)</u>
Interest income, net	<u>9,273</u>	<u>15,054</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (24)

CZECH NATIONAL BANK**NOTES TO FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008****Interest income and similar income**

	<u>2008</u>	<u>2007</u>
	CZK million	CZK million
Interest on treasury bills and other discounted securities	9,419	13,789
Interest on coupon bonds	<u>15,472</u>	<u>13,638</u>
Total interest on securities	<u>24,891</u>	<u>27,427</u>
Interest on inter-bank deposits	1,197	4,499
Interest on receivables from the clients	4	4
Other interest	<u>17</u>	<u>38</u>
Total other interest income	<u>1,218</u>	<u>4,541</u>
Total interest income and similar income	<u>26,109</u>	<u>31,968</u>

Interest expense and similar expense

	<u>2008</u>	<u>2007</u>
	CZK million	CZK million
Interest on liabilities to the state	313	159
Interest on liabilities to banks	16,454	16,629
Interest on liabilities to clients	<u>69</u>	<u>126</u>
Total interest expense and similar expense	<u>16,836</u>	<u>16,914</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (25)

CZECH NATIONAL BANK**NOTES TO FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008****18 GAINS LESS LOSSES FROM FINANCIAL OPERATIONS**

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

	<u>2008</u>	<u>2007</u>
	CZK million	CZK million
Foreign exchange gains / (losses)	20,214	(47,665)
Foreign exchange spread	<u>388</u>	<u>482</u>
Net foreign exchange gains / (losses) and foreign exchange spread	<u>20,602</u>	<u>(47,183)</u>
Realised gain from sales of securities	8,275	1,467
Realised loss from sales of securities	(2,013)	(4,006)
Realised loss from revaluation of shares	(4,637)	0
Net gains / (losses) from currency forwards	187	(1,156)
Net losses from interest futures	(304)	(60)
Net gains / (losses) from interest rate swaps	(660)	49
Net losses from share futures	<u>(5)</u>	<u>0</u>
Total gains less losses from financial operations	<u>21,445</u>	<u>(50,889)</u>

The foreign exchange spread represents the difference between the 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.

CZECH NATIONAL BANK**NOTES TO FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008****19 ADMINISTRATION EXPENSES**

The administration expenses can be analysed as follows:

	<u>2008</u> CZK million	<u>2007</u> CZK million
Wages and salaries	822	773
Social security and health insurance	276	275
Training and other expense	<u>61</u>	<u>57</u>
Total personnel costs	<u>1,159</u>	<u>1,105</u>
Rent	2	2
Other	<u>421</u>	<u>438</u>
Total other administration expenses	<u>423</u>	<u>440</u>
Total administration expenses	<u>1,582</u>	<u>1,545</u>

Staff statistics

	<u>2008</u>	<u>2007</u>
Average number of employees	1,459	1,465
Of which: Number of members of the Bank Board	7	7

20 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 21 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.

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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; for USD in horizon of 3 years and for EUR in horizon of 1 year. The table in Note 22 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 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 23 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.

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 24.

CZECH NATIONAL BANK**NOTES TO FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008****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 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
- from future transactions	11,952	8,769
- from interest swap transactions	5,262	3,417
- from unsettled interest spot transactions	21,727	2,100
- from unsettled currency spot transactions	426	252
- from currency forward transactions	51,820	56,240
- from option transactions (Note 25)	<u>0</u>	<u>44,470</u>
	<u>91,187</u>	<u>115,248</u>

<u>Off-balance sheet payables:</u>		
- from future transactions	11,952	8,769
- from interest swap transactions	5,262	3,417
- from unsettled interest spot transactions	21,727	2,100
- from unsettled currency spot transactions	432	252
- from forward transactions	51,793	56,702
- from option transactions (Note 25)	<u>0</u>	<u>44,470</u>
	<u>91,166</u>	<u>115,710</u>

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

	<u>31 December 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
Off-balance sheet receivables from forward transactions	51,820	56,240
Off-balance sheet payables from forward transactions	51,793	56,702
Positive fair value (Note 8)	1,655	386
Negative fair value (Note 16)	1,660	745

All currency forwards mature in 2009.

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (29)

CZECH NATIONAL BANK**NOTES TO FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008**

The foreign currency forwards do not qualify for hedge accounting as defined by Czech accounting regulations and, accordingly, are treated as derivatives held for trading. 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 18).

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

	<u>31 December 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
Off-balance sheet receivables from swap transactions	5,262	3,417
Off-balance sheet payables from swap transactions	5,262	3,417
Positive fair value (Note 8)	12	32
Negative fair value (Note 16)	862	0

The interest rate swaps do not qualify for hedge accounting as defined by the Czech accounting regulations and, accordingly, are treated as derivatives held for trading. Gains and losses from the change of the fair value of these interest rate swaps are recorded in the gain less loss from financial operations (Note 18).

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

	<u>31 December 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
Off-balance sheet receivables and payables from futures transactions	11,952	8,769
Net gain/(loss) from change in fair values of futures transactions open at the year-end	(304)	16

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

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (30)

CZECH NATIONAL BANK

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	<u>31 December 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
Net gain/(loss) from change in fair values of futures transactions open at the year-end	(304)	16
Cash on margin account	<u>343</u>	<u>12</u>
Margin account including settled change in fair value of futures (Note 8)	<u>39</u>	<u>28</u>

21 LIQUIDITY RISK

As at 31 December 2008	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.
Assets							
Gold	796	0	0	0	0	0	796
Receivables from IMF	0	0	0	0	0	24,707	24,707
Treasury bills and other discounted securities	6,455	27,952	118,394	2,553	0	0	155,354
Bonds and other coupon securities	9,516	14,658	41,595	256,661	207,557	0	529,987
Deposits, loans and other receivables from abroad	22,398	0	0	0	0	0	22,398
Receivables from domestic banks	35,740	2,299	0	0	0	0	38,039
Fixed assets	0	0	0	0	0	5,251	5,251
Other assets	<u>1,790</u>	<u>0</u>	<u>21</u>	<u>5</u>	<u>3,041</u>	<u>3,006</u>	<u>7,863</u>
Total assets	<u>76,695</u>	<u>44,909</u>	<u>160,010</u>	<u>259,219</u>	<u>210,598</u>	<u>32,964</u>	<u>784,395</u>
Liabilities and equity							
Currency in circulation	0	0	0	0	0	399,248	399,248
Liabilities to IMF	0	0	0	0	0	21,008	21,008
Liabilities abroad	2,838	0	0	0	0	0	2,838
Liabilities to domestic banks	307,883	0	0	0	0	0	307,883
Liabilities to clients	177,466	0	24	0	1,102	0	178,592
Provisions	0	0	0	0	0	222	222
Equity	0	0	0	0	0	(134,141)	(134,141)
Other liabilities	<u>4,926</u>	<u>0</u>	<u>554</u>	<u>310</u>	<u>0</u>	<u>2,955</u>	<u>8,745</u>
Total liabilities and equity	<u>493,113</u>	<u>0</u>	<u>578</u>	<u>310</u>	<u>1,102</u>	<u>289,292</u>	<u>784,395</u>
Net liquidity gap	<u>(416,418)</u>	<u>44,909</u>	<u>159,432</u>	<u>258,909</u>	<u>209,496</u>	<u>(256,328)</u>	<u>0</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (31)

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

As at 31 December 2007	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.
Assets							
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 abroad	54,036	0	0	0	0	0	54,036
Receivables from domestic banks	0	0	9	0	0	0	9
Fixed assets	0	0	0	0	0	5,519	5,519
Other assets	<u>520</u>	<u>0</u>	<u>33</u>	<u>4</u>	<u>3,039</u>	<u>2,687</u>	<u>6,283</u>
Total assets	<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>
Liabilities and equity							
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
Liabilities to clients	179,915	0	0	0	1,089	0	181,004
Provisions	0	0	0	0	0	208	208
Equity	0	0	0	0	0	(183,498)	(183,498)
Other liabilities	<u>2,789</u>	<u>0</u>	<u>392</u>	<u>231</u>	<u>0</u>	<u>2,956</u>	<u>6,368</u>
Total liabilities and equity	<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>
Net liquidity gap	<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 (32)

CZECH NATIONAL BANK

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22 INTEREST RATE RISK

As at 31 December 2008	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.	Insensitive to <u>interest rate</u> CZK mil.	<u>Total</u> CZK mil.
Assets							
Gold	0	0	0	0	0	796	796
Receivables from IMF	0	0	0	0	0	24,707	24,707
Treasury bills and other discounted securities	6,455	27,952	118,394	2,553	0	0	155,354
Bonds and other coupon securities	9,874	15,037	41,751	256,011	207,314	0	529,987
Deposits, loans and other receivables from abroad	22,398	0	0	0	0	0	22,398
Receivables from domestic banks	38,039	0	0	0	0	0	38,039
Fixed assets	0	0	0	0	0	5,251	5,251
Other assets	<u>1,811</u>	<u>0</u>	<u>0</u>	<u>5</u>	<u>97</u>	<u>5,950</u>	<u>7,863</u>
Total assets	<u>78,577</u>	<u>42,989</u>	<u>160,145</u>	<u>258,569</u>	<u>207,411</u>	<u>36,704</u>	<u>784,395</u>
Liabilities and equity							
Currency in circulation	0	0	0	0	0	399,248	399,248
Liabilities to IMF	0	0	0	0	0	21,008	21,008
Liabilities abroad	2,838	0	0	0	0	0	2,838
Liabilities to domestic banks	307,883	0	0	0	0	0	307,883
Liabilities to clients	177,466	1,126	0	0	0	0	178,592
Provisions	0	0	0	0	0	222	222
Equity	0	0	0	0	0	(134,141)	(134,141)
Other liabilities	<u>4,926</u>	<u>864</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,955</u>	<u>8,745</u>
Total liabilities and equity	<u>493,113</u>	<u>1,990</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>289,292</u>	<u>784,395</u>
Net interest sensitivity gap	<u>(414,536)</u>	<u>40,999</u>	<u>160,145</u>	<u>258,569</u>	<u>207,411</u>	<u>(252,588)</u>	<u>0</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (33)

CZECH NATIONAL BANK

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As at 31 December 2007	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.	Insensitive to <u>interest rate</u> CZK mil.	<u>Total</u> CZK mil.
Assets							
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 abroad	54,036	0	0	0	0	0	54,036
Receivables from domestic banks	0	0	9	0	0	0	9
Fixed assets	0	0	0	0	0	5,519	5,519
Other assets	<u>553</u>	<u>0</u>	<u>0</u>	<u>4</u>	<u>96</u>	<u>5,630</u>	<u>6,283</u>
Total assets	<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>
Liabilities and equity							
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
Liabilities to clients	179,915	1,089	0	0	0	0	181,004
Provisions	0	0	0	0	0	208	208
Equity	0	0	0	0	0	(183,498)	(183,498)
Other liabilities	<u>2,789</u>	<u>623</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,956</u>	<u>6,368</u>
Total liabilities and equity	<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>
Net interest sensitivity gap	<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 (34)

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

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23 CURRENCY RISK

As at 31 December 2008	<u>CZK</u> CZK mil.	<u>EUR</u> CZK mil.	<u>USD</u> CZK mil.	<u>JPY</u> CZK mil.	<u>GBP</u> CZK mil.	<u>Other</u> CZK mil.	<u>Total</u> CZK mil.
Assets							
Gold	0	0	0	0	0	796	796
Receivables from IMF	21,008	0	0	0	0	3,699	24,707
Treasury bills and other discounted securities	0	87,267	65,952	2,135	0	0	155,354
Bonds and other coupon securities	0	337,829	192,158	0	0	0	529,987
Deposits, loans and other receivables from abroad	0	16,703	4,402	712	409	172	22,398
Receivables from domestic banks	38,039	0	0	0	0	0	38,039
Fixed assets	5,241	0	0	0	0	10	5,251
Other assets	<u>4,726</u>	<u>256</u>	<u>24</u>	<u>2</u>	<u>0</u>	<u>2,855</u>	<u>7,863</u>
Total assets	<u>69,014</u>	<u>442,055</u>	<u>262,536</u>	<u>2,849</u>	<u>409</u>	<u>7,532</u>	<u>784,395</u>
Liabilities							
Currency in circulation	399,248	0	0	0	0	0	399,248
Liabilities to IMF	21,008	0	0	0	0	0	21,008
Liabilities abroad	404	37	2,395	0	0	2	2,838
Liabilities to domestic banks	307,883	0	0	0	0	0	307,883
Liabilities to clients	136,058	42,507	27	0	0	0	178,592
Provisions	0	0	222	0	0	0	222
Other liabilities	<u>6,814</u>	<u>1,067</u>	<u>862</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>8,745</u>
Total liabilities	<u>871,415</u>	<u>43,611</u>	<u>3,506</u>	<u>1</u>	<u>0</u>	<u>3</u>	<u>918,536</u>
Net assets/(liabilities)	(802,401)	398,444	259,030	2,848	409	7,529	(134,141)
Net off-balance sheet assets / (liabilities)	<u>1,111</u>	<u>(972)</u>	<u>(46,748)</u>	<u>26,898</u>	<u>19,732</u>	<u>0</u>	<u>21</u>
Net foreign exchange position	<u>(801,290)</u>	<u>397,472</u>	<u>212,282</u>	<u>29,746</u>	<u>20,141</u>	<u>7,529</u>	<u>(134,120)</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (35)

CZECH NATIONAL BANK

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As at 31 December 2007	<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.
Assets						
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 abroad	0	39,471	14,422	1	142	54,036
Receivables from domestic banks	0	9	0	0	0	9
Fixed assets	5,509	0	0	0	10	5,519
Other assets	<u>3,454</u>	<u>248</u>	<u>43</u>	<u>0</u>	<u>2,538</u>	<u>6,283</u>
Total assets	<u>31,125</u>	<u>396,958</u>	<u>322,880</u>	<u>1</u>	<u>5,546</u>	<u>756,510</u>
Liabilities						
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
Liabilities to clients	165,303	15,576	125	0	0	181,004
Provisions	0	0	208	0	0	208
Other liabilities	<u>6,121</u>	<u>246</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>6,368</u>
Total liabilities	<u>826,890</u>	<u>44,628</u>	<u>68,489</u>	<u>0</u>	<u>1</u>	<u>940,008</u>
Net assets/(liabilities)	(795,765)	352,330	254,391	1	5,545	(183,498)
Net off-balance sheet assets / (liabilities)	<u>0</u>	<u>238</u>	<u>(52,993)</u>	<u>26,771</u>	<u>25,522</u>	<u>(462)</u>
Net foreign exchange position	<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 (36)

CZECH NATIONAL BANK

NOTES TO FINANCIAL STATEMENTS

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24 CREDIT RISK AND CONCENTRATION OF LIABILITIES

Geographical concentrations of assets

	<u>31 December 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
Czech Republic	48,604	10,398
Germany	194,507	170,382
France	67,108	84,709
Italy	86,526	24,551
Ireland	95,234	73,140
Austria	31,438	15,759
Greece	39,924	17,986
Other Eurozone countries	37,627	36,617
Switzerland	5,982	21,936
Great Britain	4,116	88,685
Other European countries	18,762	12,509
USA and Canada	151,726	192,943
Japan	2,840	2
Other countries	<u>1</u>	<u>6,893</u>
	<u>784,395</u>	<u>756,510</u>
Of which deposits and bonds:		
Central governments	414,854	341,697
Government agencies	164,295	107,201
Securities hedged by other assets (pfandbriefs)	101,488	96,650
Commercial banks	9,832	58,177
BIS	<u>2,626</u>	<u>17,708</u>
	<u>693,095</u>	<u>621,433</u>

Geographical concentrations of liabilities

	<u>31 December 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
Czech Republic	759,008	635,762
Eurozone countries	1,542	1,230
Other European countries	4	28,801
USA and Canada	<u>23,841</u>	<u>90,717</u>
	<u>784,395</u>	<u>756,510</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (37)

CZECH NATIONAL BANK

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25 OTHER OFF-BALANCE SHEET ITEMS

Issued guarantees	<u>31 December 2008</u> CZK million	<u>31 December 2007</u> CZK million
Clients	248	231
In relation to the Indemnity letter (Note 27)	156,954	157,006
For deposits held by IPB (Note 27)	230	268
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>161,432</u>	<u>161,505</u>

The identified need for provisions for expected losses on the guarantees issued to clients was CZK 222 million as at 31 December 2008 (2007: CZK 208 million) (see Note 14).

The CNB has not recognised a provision for claims for guarantees issued in connection with the sale of part of the business of Agrobanka Praha a.s. because it considers the claim-related risk to be insignificant based on the available information.

Received guarantees	<u>31 December 2008</u> CZK million	<u>31 December 2007</u> CZK million
From the Ministry of Finance of the CR in relation to the State Guarantee (Note 27)	<u>156,954</u>	<u>157,006</u>
Total guarantees received	<u>156,954</u>	<u>157,006</u>

Off-balance sheet receivables and payables from option transactions	<u>31 December 2008</u> CZK million	<u>31 December 2007</u> CZK million
The agreement about the sale option resulting from the sale of part of business of Agrobanka Praha a.s. (Note 20)	<u>0</u>	<u>44,470</u>

Receivables and payables from option transactions were made up of the notional value of an option 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 expired on 22 June 2008 when the time of its exercise lapsed to no effect.

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Collateral received

The total collateral received in the form of debt securities as at 31 December 2008 was CZK 62,238 million (2007: CZK 139,965 million).

As at 31 December 2008, the Bank received collateral of CZK 52,701 million in connection with reverse repo transactions (see Note 6) and collateral of CZK 9,537 million in foreign currency (2007: CZK 43,762 million and CZK 4,525 million in foreign currency) (see Note 5).

In the course of 2008, the Bank temporarily suspended its participation in the securities lending scheme (see Note 5). Accordingly, the Bank recorded no liabilities in relation to investments of collateral received as part of securities lending agreements as at 31 December 2008 (2007: CZK 91,678 million).

Assets held in custody

The Bank has not received any financial assets from third parties to be held in custody in 2008 and 2007.

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 the Bank received in connection with the fulfilment of its 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 documentation purposes and, mainly, for studying and comparative purposes in order to ensure currency protection.

26 CONTINGENCIES AND COMMITMENTS

CNB charges against income the amounts it pays for the reasonable operating costs of the Ministry of Finance of the Czech Republic (until 31 December 2007 the Ceska Konsolidacni Agentura a.s.) 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 2008 (2007: CZK 1 million). The Bank does not recognize any provisions against these contingencies and commitments as they are immaterial.

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Pending lawsuits

Pursuant to its role in supporting and maintaining the stability of the banking sector, the CNB or third parties are defendants in several litigations and arbitration proceedings. 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.

27 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. ("IPB"). On 16 June 2000, the CNB issued a guarantee for deposits held by IPB ("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 2008 was CZK 230 million (31 December 2007: CZK 268 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 Indemnity Letter and Agreement ("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 ("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.

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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 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
Total potential claims under the Indemnity Letter	160,000	160,000
Advances paid to CSOB (Note 8)	(2,945)	(2,943)
Foreign exchange differences	(12)	(13)
Settlement to CSOB	<u>(89)</u>	<u>(38)</u>
Total potential future claims under the Indemnity Letter	<u>156,954</u>	<u>157,006</u>

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

	<u>31 December 2008</u>	<u>31 December 2007</u>
	CZK million	CZK million
Total State Guarantee received	160,000	160,000
Advances received from the State Guarantee (Note 16)	(2,956)	(2,956)
Final settlement from the State Guarantee	<u>(90)</u>	<u>(38)</u>
State Guarantee receivables at year end (Note 25)	<u>156,954</u>	<u>157,006</u>

The accompanying income statement, balance sheet and off-balance sheet are an integral part of the financial statements (41)

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The CNB has so far not recognised a provision for future possible claims under the Indemnity Letter 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 unable to reliably assess 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.

The CNB refused to satisfy the claims of CSOB under the Indemnity Letter for which the CNB believes that they do not qualify for indemnification.

28 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 a special reserve funds 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.

29 SUBSEQUENT EVENTS

The CNB increased its membership share in the ECB capital by EUR 239 thousand to EUR 5,836 thousand.

At the end of January 2009, the CNB settled an advance paid to CSOB in accordance with the Indemnity Letter in the amount of CZK 300 million, which was covered by a state guarantee of 23 June 2000 and, therefore, the state guarantee was refunded by the Czech Ministry of Finance.

The CNB's management is not aware of any other subsequent events that would have a material impact on financial statements for 2008.

