




**FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2011
TOGETHER WITH AUDITOR'S REPORT**

2011

FINANCIAL STATEMENTS
OF THE CZECH NATIONAL BANK
FOR THE YEAR
ENDED 31 DECEMBER 2011

Date of preparation:	Governor's signature	Person responsible for accounting Name and signature	Person responsible for financial statements: Name and signature
24 February 2012	 Ing. M. Singer, Ph.D.	 Ing. M. Mayer	 Ing. M. Lorenc

ASSETS

	<u>Note</u>	<u>31 December</u> <u>2011</u> CZK million	<u>31 December</u> <u>2010</u> CZK million
1. Gold	3	755	770
2. Receivables from the International Monetary Fund	4	57,337	48,499
3. Receivables from abroad, including securities	5	758,856	761,500
3.1. Deposits at foreign banks and financial institutions		71,767	11,749
3.2. Loans provided to foreign banks		52,671	44,222
3.3. Securities		634,315	705,450
3.4. Other receivables from abroad		103	79
4. Receivables from domestic banks	6	3,500	1,500
5. Fixed assets	7	4,413	4,692
5.1. Tangible fixed assets		4,390	4,657
5.2. Intangible assets		23	35
6. Other assets	8	7,245	6,689
6.1. Other financial assets		3,883	3,478
6.2. Other		<u>3,362</u>	<u>3,211</u>
TOTAL ASSETS		<u>832,106</u>	<u>823,650</u>

LIABILITIES AND EQUITY

	<u>Note</u>	<u>31 December 2011</u> CZK million	<u>31 December 2010</u> CZK million
1. Notes and coins in circulation	9	411,953	391,694
2. Liabilities to the International Monetary Fund	4	44,830	41,358
3. Liabilities abroad	10	4,984	6,180
3.1. Loans from foreign banks		4,818	5,153
3.2. Other liabilities abroad		166	1,027
4. Liabilities to domestic banks	11	389,520	394,275
4.1. Loans received		328,046	339,838
4.2. Bank monetary reserves		50,317	40,256
4.3. Other liabilities to banks		11,157	14,181
5. Liabilities to the state and other public institutions	13	76,000	123,690
5.1. Liabilities to the state		70,906	119,318
5.2. Other liabilities		5,094	4,372
6. Provisions	14	229	215
7. Share capital	15	1,400	1,400
8. Funds	15	8,050	8,050
9. Revaluation reserve	15	12,239	8,667
10. Accumulated losses from previous periods	15	-161,836	-152,102
11. Net (loss) / profit for the period	15	35,425	-9,734
12. Other liabilities	16	<u>9,312</u>	<u>9,957</u>
TOTAL LIABILITIES AND EQUITY		<u>832,106</u>	<u>823,650</u>

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

	<u>Note</u>	<u>31 December 2011</u> CZK million	<u>31 December 2010</u> CZK million
1. Guarantees issued	25	158,120	158,135
2. Issued loan commitments	4	17,482	24,690
3. Receivables from spot, term and futures transactions	20	143,467	173,097
4. Liabilities from spot, term and futures transactions	20	143,462	174,542
5. Guarantees received	25	156,952	156,952
6. Collateral received	25	77,841	68,065
7. Values taken into custody and values in own custody	25	0	292

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

	Note	2011 CZK million	2010 CZK million
1. Interest income and similar income	17	9,836	10,552
1.1. Interest from fixed income securities		9,133	10,288
1.2. Other		703	264
2. Interest expense and similar expense	17	-3,380	-4,024
3. Income from shares and other interests		1,277	1,232
4. Fee and commission income		354	309
5. Fee and commission expense		-70	-74
6. Gains less losses from financial operations	18	29,258	-15,503
6.1. Net foreign exchange gains / (losses) and foreign exchange spread		29,818	-16,386
6.2. Other		-560	883
7. Other operating income		438	262
7.1. Income from money issue		239	124
7.2. Other		199	138
8. Other operating expense		-354	-452
8.1. Expenses for production of notes and coins		-276	-414
8.2. Other		-78	-38
9. Administration expense	19	-1,593	-1,640
9.1. Personnel expenses		-1,238	-1,262
9.1.1. Wages and salaries		-863	-872
9.1.2. Social and health security		-290	-297
9.1.3. Training and employee benefits		-85	-93
9.2. Other administration expenses		-355	-378
10. Depreciation and amortization of fixed assets	7	-345	-398
11. Reversal of provisions for receivables and guarantees, income from receivables already written off	14	168	4,953
12. Write offs, additions and utilization of provisions for receivables and guarantees	14	-164	-4,951
13. Net (loss) / profit for the period		<u>35,425</u>	<u>-9,734</u>

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

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, securities traders, issuers of securities, collective investment undertakings, insurance companies and pension funds etc.) and ensures the safe functioning and development of the financial system in the CR. The supervision performed by the Bank focuses on the area of client protection with entities operating on the financial market and supervised by the Bank. 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 organizations and international organizations involved in the supervision of banks and financial markets.

Based on the Treaty on the Functioning of the European Union 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.

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. Disclosure obligations of the Bank to the Chamber of Deputies of the Czech Parliament, Senate and Government are 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 for a maximum of two terms of office. The Bank Board, inter alia, sets the monetary rules and instruments for their implementation and decides about the primary monetary-political measures of the Bank and about the measures on the supervision of financial markets.

As at 31 December 2011, the members of the Bank Board were as follows:

Ing. Miroslav Singer, Ph.D.	Governor	until 1 July 2016
Ing. Mojmír Hampl, MSc., Ph.D.	Vice-Governor	until 30 November 2012
prof. PhDr. Ing. Vladimír Tomšík, Ph.D.	Vice-Governor	until 30 November 2012
prof. Ing. Kamil Janáček, CSc.	Head Manager	until 30 June 2016
doc. Ing. Lubomír Lízal, Ph.D.	Head Manager	until 12 February 2017
Ing. Pavel Řežábek, Ph.D.	Head Manager	until 12 February 2017
Ing. Eva Zamrazilová, CSc.	Head Manager	until 28 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 or to 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.

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 also 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.

Exchange rates	Quantity	31 December 2011	31 December 2010
EUR	1	25,800	25,060
USD	1	19,940	18,751
GBP	1	30,886	29,108
JPY	100	25,754	23,058
CAD	1	19,524	18,795
AUD	1	20,277	19,080
SEK	1	2,895	2,792
Special drawing rights (XDR)	1	30,613	28,877
Troy ounce of gold (ozs)	1	993,583	861,963

All resulting realized and unrealized foreign exchange gains and losses are recognized 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 recognized 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.

(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 companies.

Foreign debt securities and shares recorded in receivables from abroad are purchased in relation to the foreign currency reserves administration, in accordance with predefined internal CNB rules. 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 or held to maturity securities. The Bank also included shares and interests representing the participations in companies 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. Booking is performed based on information from external managers.

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 (amortized cost).

Available-for-sale debt securities, shares and interests representing the participations, 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 representing the participations 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.

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 expected 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 recognized 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 securities deposited with foreign depositories may be used pursuant to an agreement in a lending scheme ("securities lending") operated by a depository or an agent.

As part of the lending scheme operated by agents, securities are lent to third parties and the Bank receives cash or other securities as collateral in exchange. Received cash is reinvested in line with CNB rules. Received collateral is recorded off balance sheet, securities at fair value remain in the balance sheet.

As for the automatic lending scheme operated by the depository, the Bank does not receive collateral and the depository guarantees that the lent securities are returned or reimbursed for in cash.

With both of the lending schemes, securities continue to be carried on the Bank's balance sheet at the original carrying amount; income from these operations is recognized in the income statement.

(f) Notes and coins 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) Receivables from and liabilities to the International Monetary Fund

Receivables from and payables to the International Monetary Fund ("IMF") are recorded on the gross basis, i.e. receivables and payables do not balance out. The membership quota at IMF comprises a membership deposit and reserve position. The membership deposit is translated into CZK at the rate advised by the IMF.

(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 records 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 recognized 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 expected 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 or changes in the fair value of securities.

(j) Interest income and expense

Interest income and interest expense on all interest bearing tools are accrued. For loans, and deposits and available-for-sale coupon bonds with a floating interest rate "floaters" using the straight-line method, for available-for-sale zero coupon and coupon bonds with a fixed interest rate interest is accrued using the effective interest rate method derived from acquisition cost. Accrued interest is recorded together with underlying assets and liabilities.

The effective interest rate is the rate that 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. No interest is paid on receivables in case of a debtor's default. 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 recognized on an accrual basis, usually monthly. One-off fees are recognized 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 generally 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. 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 recognized in the income statement, their utilization is recognized 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 recognized into income. Movements in provision accounts denominated in foreign currencies arising from revaluations to exchange rates prevailing as at the balance sheet date are recognized or charged, as appropriate, to exchange rate differences.

(o) Specific provisions

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 / amortized 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 amortized 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 / amortized 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	20-50 years
Machinery and equipment	
- Motor vehicles	4 - 5 years
- Office equipment and computers	3 - 4 years
- Cash processing machines	5 - 8 years
Furniture and fittings	5 - 10 years
Other	
- Software	3 - 4 years
- Other intangible assets	6 years

In the case of a change in the annual depreciation or amortization rate or classification or valuation of the property, the depreciation charge is modified in the month of the change; depreciation or amortization charged before that date is not adjusted.

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 Bank uses its income to cover the necessary costs of its operations. 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 employee benefits

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 provides contributions for its employees to selected commercial pension funds. Contributions paid by the Bank are accounted for directly as an expense.

With effect from 1 January 2010, employee benefits are charged directly from expenses of the Bank.

(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, 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.

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 fulfillment 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.

(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, the effects of these events are disclosed, but are not themselves reflected in the financial statements.

3 GOLD

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Gold at cost	<u>755</u>	<u>770</u>

As at 31 December 2011, the Bank held gold bullion, minted gold coins and other unminted gold stock, including gold deposits, of 400 thousand oz of gold, i.e., 12.5 t (31 December 2010: 408 thousand oz of gold, i.e., 12.7 t).

Gold as at 31 December 2011 included a foreign bank deposit of CZK 341 million (5.6 t) denominated in gold (31 December 2010: 341 million oz of gold, i.e., 5.6 t).

The total market value of gold as at 31 December 2011 was CZK 12,372 million (31 December 2010: CZK 10,947 million).

4 RECEIVABLES FROM AND PAYABLES TO IMF

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Membership deposit	20,938	18,814
Reserve position	9,541	5,034
Membership quota at IMF	<u>30,479</u>	<u>23,848</u>
 Loan provided to IMF	 173	 164
Long-term loan provided to IMF	3,546	1,516
Deposits in IMF	23,139	22,971
 Total receivables from IMF	 <u>57,337</u>	 <u>48,499</u>
 Liability from the SDR allocation	 23,891	 22,544
Liability to IMF from the bill of exchange	17,268	12,611
Current account with IMF	<u>3,671</u>	<u>6,203</u>
 Total payables to IMF	 <u>44,830</u>	 <u>41,358</u>

Receivables from IMF result from the membership of the Czech Republic in this organization. They include membership deposit, reserve position, bank funds at SDR, an interest-free loan provided within the IMF programme for the support of less developed countries and a long-term loan provided to IMF. The reserve position of CNB at IMF represents a part of membership quota paid in foreign currency and is denominated in SDR.

Liabilities to IMF include IMF deposits in CNB, reflecting the sum of CZK held by IMF, and are largely covered by an interest-free bill of exchange of the Bank, long-term liabilities and from SDR allocations.

Pursuant to a bilateral agreement, CNB committed to grant the International Monetary Fund a loan denominated in SDR, up to the equivalent of EUR 1,030 million. The undrawn element of the facility was EUR 678 million as at 31 December 2011 (CZK 17,482 million).

5 RECEIVABLES FROM ABROAD, INCLUDING SECURITIES

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Current accounts with banks	68,152	340
Deposits	<u>3,615</u>	<u>11,409</u>
Total deposits at foreign banks and financial institutions	71,767	11,749
Loans provided to foreign banks	52,671	44,222
Treasury bills and other discounted securities	139,368	209,578
Bonds and other coupon securities	419,258	449,228
Shares	<u>75,689</u>	<u>46,644</u>
Total securities	634,315	705,450
Other receivables from abroad	103	79
Total receivables from abroad including securities	<u>758,856</u>	<u>761,500</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 56,670 million as at 31 December 2011 (31 December 2010: CZK 43,416 million) (see Note 25).

Deposits include also provided collateral in form of cash placed in foreign banks in total amount of CZK 3,614 million (31 December 2010: CZK 2,810 million) provided based on the framework agreements on derivatives transactions (ISDA Master Agreement, ISDA Credit Support Annex).

TREASURY BILLS AND OTHER DISCOUNTED SECURITIES

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

	Fair value <u>31 December 2011</u> CZK million	Fair value <u>31 December 2010</u> CZK million
Treasury bills	122,609	202,180
Other discounted securities	<u>16,759</u>	<u>7,398</u>
Total treasury bills and other discounted securities	<u>139,368</u>	<u>209,578</u>

BONDS AND OTHER COUPON SECURITIES

Bonds and other coupon securities can be analyzed as follows:

	Fair value <u>31 December 2011</u> CZK million	Fair value <u>31 December 2010</u> CZK million
Government bonds	306,106	304,367
Other foreign bonds	<u>113,152</u>	<u>144,861</u>
Total bonds and other coupon securities	<u>419,258</u>	<u>449,228</u>

Of the total portfolio of bonds and other coupon securities and treasury bills and other discounted securities with a fair value of CZK 558,626 million as at 31 December 2011 (CZK 658,806 million as at 31 December 2010) bonds in total amount of CZK 4,970 million (as at 31 December 2010 CZK 5,308 million) were granted as collateral in accordance with the agreement on repo transactions (see Note 10).

As at 31 December 2011, bonds and other coupon securities and treasury bills and other discounted securities with a fair value of CZK 5 389 million (31 December 2010: CZK 11,493 million) were lent out within the automatic lending scheme.

In 2010 and 2011, the Bank used no lending scheme operated by agents.

SHARES

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

MSCI Euro	Large Cap index comprises the liquid shares of large companies having their registered office in a country included in the European Monetary Union; the total number of companies included in the index oscillates, 121 companies were included as at 31 December 2011
S&P 500	Index comprising 500 Large Cap US companies traded on the NYSE and NASDAQ
FTSE 100	Index comprising 100 largest companies by reference to market capitalization on the London Stock Exchange
Nikkei 225	Index comprising 225 share titles of the best rated Japanese companies traded on the Tokyo Stock Exchange.

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 2011</u> CZK million	Fair value <u>31 December 2010</u> CZK million
MSCI Euro (EUR)	56,460	30,668
S&P 500 (USD)	13,287	10,894
FTSE 100 (GBP)	2,871	2,236
Nikkei 225 (JPY)	<u>3,071</u>	<u>2,846</u>
Total shares	<u>75,689</u>	<u>46,644</u>
Of which: financial institutions		
MSCI Euro (EUR)	10,900	6,884
S&P 500 (USD)	1,537	1,589
FTSE 100 (GBP)	432	433
Nikkei 225 (JPY)	112	108

The 2011 increase in the share portfolio was a result of reaching the target volume for this portfolio.

As at 31 December 2011, shares with a fair value of CZK 3,893 million (31 December 2010: CZK 0 million) were lent out within the automatic lending scheme. Collateral in the form of other assets at a total value of CZK 4,098 million (31 December 2010: CZK 0 million) was received against this lending (see Note 25).

6 RECEIVABLES FROM DOMESTIC BANKS

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Receivables from loans provided	3,500	1,500
Total net receivables from domestic banks	<u>3,500</u>	<u>1,500</u>

Receivables from loans provided to domestic banks are represented by reverse repo transactions. Collateral received was CZK 3,748 million as at 31 December 2011 (31 December 2010: CZK 1,747 million), reported off balance sheet (see Note 25).

In addition, reverse repo transactions in form of securities (collateral) switch are concluded with domestic banks. As a result of these transactions, collateral received from this type of transactions was CZK 17,423 million as at 31 December 2011 (31 December 2010: CZK 22,902 million), reported off balance sheet (see Note 25).

7 FIXED ASSETS

Tangible fixed assets

	<u>31 December 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>31 December 2011</u>
	CZK million	CZK million	CZK million	CZK million
<u>Cost</u>				
Land	187	0	-3	184
Buildings	6,990	4	-1	6,993
Machinery and equipment	2,122	62	-72	2,112
Furniture and fittings	322	6	-8	320
Other	470	3	-6	467
Tangible assets in the course of construction	7	74	-75	6
Advance payments for tangible assets	<u>9</u>	<u>0</u>	<u>-9</u>	<u>0</u>
Total cost	<u>10,107</u>	<u>149</u>	<u>-174</u>	<u>10,082</u>
 <u>Accumulated depreciation</u>				
Buildings	-2,865	-185	0	-3,050
Machinery and equipment	-1,853	-124	72	-1,905
Furniture and fittings	-296	-12	8	-300
Other	<u>-436</u>	<u>-4</u>	<u>3</u>	<u>-437</u>
Total accumulated depreciation	<u>-5,450</u>	<u>-325</u>	<u>83</u>	<u>-5,692</u>
Net book value	<u>4,657</u>			<u>4,390</u>

Intangible assets

<u>Cost</u>	<u>31 December 2010</u> CZK million	<u>Additions</u> CZK million	<u>Disposals</u> CZK million	<u>31 December 2011</u> CZK million
Software	998	12	-103	907
Other intangible assets	11	1	0	12
Intangible assets not yet put into use	<u>0</u>	<u>13</u>	<u>-13</u>	<u>0</u>
Total cost	<u>1,009</u>	<u>26</u>	<u>-116</u>	<u>919</u>
<u>Accumulated amortization</u>				
Software	-963	-24	102	-885
Other intangible assets	<u>-11</u>	<u>0</u>	<u>0</u>	<u>-11</u>
Total accumulated amortization	<u>-974</u>	<u>-24</u>	<u>102</u>	<u>-896</u>
Net book value	<u>35</u>			<u>23</u>

As at 31 December 2011, the depreciation of tangible assets was CZK 321 million, depreciation of intangible assets was CZK 24 million and the net book value of assets sold was CZK 4 million (as at 31 December 2010, the depreciation of tangible assets was CZK 372 million and the depreciation of intangible assets was CZK 26 million).

A vast majority of the Bank's assets is used for its operating needs. The Bank did not provide any fixed tangible or intangible assets as collateral and does not hold any fixed assets under finance lease contracts.

8 OTHER ASSETS

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Share in the ECB	151	146
BIS and SWIFT shares	<u>3,732</u>	<u>3,332</u>
Other financial assets	3,883	3,478
Loss loans of former banks	3,294	3,456
Specific provisions against loss loans of former banks (Note 14)	<u>-3,294</u>	<u>-3,456</u>
Total receivables from former banks	0	0
Prepaid expenses	50	40
Advances in relation to the Indemnity letter (see Note 27)	2,600	2,625
Other precious metals	67	62
Positive fair value of interest rate swaps (Note 20)	113	75
Positive fair value of share swaps (Note 20)	0	21
Margin account including profit/(loss) from change in fair value of futures (Note 20)	245	113
Loans to employees	155	141
Other operating receivables	153	156
Specific provisions against other operating receivables (see Note 14)	<u>-21</u>	<u>-22</u>
Other	3,362	3,211
Total other assets	<u>7,245</u>	<u>6,689</u>

Other financial assets include CNB's share in the European Central Bank ("ECB"), the Bank for International Settlement ("BIS") and SWIFT. As a result of the ECB decision to increase its subscribed capital and the reduction in the minimum percentage of the subscribed capital, which the non-euro area national central banks are required to pay as a contribution from 7% to 3.75%, the Bank adjusted its membership share in the ECB on 29 December 2010. In line with Article 29 of the Statute, the membership share in the ECB of 1.4472% (totaling EUR 5.8 million) was calculated as at 31 December 2011 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.

9 NOTES AND COINS IN CIRCULATION

	<u>31 December 2011</u> CZK million	<u>31 December 2010</u> CZK million
Notes in circulation	400,302	380,802
Coins in circulation	<u>11,651</u>	<u>10,892</u>
Total notes and coins in circulation	<u>411,953</u>	<u>391,694</u>

10 LIABILITIES ABROAD

	<u>31 December 2011</u> CZK million	<u>31 December 2010</u> CZK million
Loans received from abroad- repo transactions	4,818	5,153
Other liabilities abroad	<u>166</u>	<u>1,027</u>
Total liabilities abroad	<u>4,984</u>	<u>6,180</u>

Loans from foreign banks represent the repo transactions with foreign banks. As at 31 December 2011, collateral provided was CZK 4,970 million (as at 31 December 2010, collateral was provided for repo transactions in the form of debt securities totaling CZK 5,308 million) (see Note 5).

In addition, foreign banks provided deposits of CZK 79 million (CZK 499 million as at 31 December 2010) and collateral in form of cash deposit in total amount of CZK 87 million (CZK 528 million as at 31 December 2010) in accordance with the master agreements on derivatives transactions (ISDA Master Agreement, ISDA Credit Support Annex).

11 LIABILITIES TO DOMESTIC BANKS

	<u>31 December 2011</u> CZK million	<u>31 December 2010</u> CZK million
Payment system accounts	46,044	33,878
Balances on cash withdrawal and deposit accounts	<u>4,273</u>	<u>6,378</u>
Total bank reserves	50,317	40,256
 Loans received - repo transactions	 328,046	 339,838
Short-term deposits received	11,155	14,180
Other liabilities	<u>2</u>	<u>1</u>
Total other liabilities to banks	11,157	14,181
 Total liabilities to domestic banks	 <u>389,520</u>	 <u>394,275</u>

Bank reserves include liabilities from obligatory minimum reserves, i.e. balances held with the CNB's Clearing Centre (payment system account) and cash withdrawal and deposit accounts. Obligatory minimum reserves represent obligatory 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 0.75% p.a. as at 31 December 2011 (31 December 2010: 0.75% p.a.). Obligatory minimum reserves are defined as 2% of received deposits and loans from non-banking clients and selected issued securities with maturity of less than 2 years.

In connection with the repo transactions with domestic banks, collateral of CZK 322,317 million was provided in form of the Bank's treasury bills as at 31 December 2011 (31 December 2010: CZK 333,575 million) (see Note 12).

In addition, repo transactions in form of securities (collateral) switch are entered into with domestic banks, reported off balance sheet. In connection with these transactions, collateral of CZK 17,081 million was provided in form of the Bank's treasury bills as at 31 December 2011 (31 December 2010: CZK 22,476 million) (see Note 12).

12 ISSUED DOMESTIC SECURITIES

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Treasury bills issued	-1,400,000	-700,000
Treasury bills in repo transactions (carrying amount)	322,317	333,575
Borrowed treasury bills (collateral switch)	17,081	22,476
Available treasury bills	<u>1,060,602</u>	<u>343,949</u>
Total	<u>0</u>	<u>0</u>

for details see Note 2 (h) of accounting procedures.

13 LIABILITIES TO THE STATE AND OTHER PUBLIC INSTITUTIONS

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
State funds' accounts	21,832	28,021
State assets denominated in CZK including the Single Treasury Account (see Note 2 m)	4,422	3,729
State assets denominated in foreign currency	27,298	70,776
Off-budget funds deposits	<u>17,354</u>	<u>16,792</u>
Total liabilities to the state	70,906	119,318
Other deposits	<u>5,094</u>	<u>4,372</u>
Total other liabilities	5,094	4,372
Total liabilities to the State and other public institutions	<u>76,000</u>	<u>123,690</u>

14 PROVISIONS, SPECIFIC PROVISIONS AND WRITE-OFFS

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

	<u>31 December 2011</u> CZK million	<u>31 December 2010</u> CZK million
Specific provisions		
Classified loans of former banks (Note 8)	3,294	3,456
Other operating receivables (Note 8)	<u>21</u>	<u>22</u>
Total specific provisions	<u>3,315</u>	<u>3,478</u>
Provisions		
Guarantees for clients (Note 25)	<u>229</u>	<u>215</u>
Total provisions	<u>229</u>	<u>215</u>

Specific provisions

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

	Classified loans of former banks CZK million	Other operating receivables CZK million	Total provisions CZK million
As at 1 January 2010	8,404	23	8,427
Addition	0	0	0
Depreciation	-4,947	0	-4,947
Reversal	<u>-1</u>	<u>-1</u>	<u>-2</u>
As at 31 December 2010	<u>3,456</u>	<u>22</u>	<u>3,478</u>
Addition	0	0	0
Depreciation	-159	0	-159
Reversal	<u>-3</u>	<u>-1</u>	<u>-4</u>
As at 31 December 2011	<u>3,294</u>	<u>21</u>	<u>3,315</u>

Provisions

The movements in provisions can be analyzed as follows:

	Guarantees for clients CZK million	<u>Total</u> CZK million
As at 1 January 2010	211	211
Addition	4	4
Utilization	-4	-4
Foreign exchange differences	<u>4</u>	<u>4</u>
As at 31 December 2010	<u>215</u>	<u>215</u>
Addition	5	5
Utilization	-5	-5
Foreign exchange differences	<u>14</u>	<u>14</u>
As at 31 December 2011	<u>229</u>	<u>229</u>

Creation and reversal of provisions for receivables and guarantees can be analyzed as follows:

	<u>2011</u> <u>CZK million</u>	<u>2010</u> <u>CZK million</u>
Creation of specific provisions	<u>-159</u>	<u>-4,947</u>
Creation of provisions	<u>-5</u>	<u>-4</u>
	<u>-164</u>	<u>-4,951</u>
	<u>2011</u> CZK million	<u>2010</u> CZK million
Reversal of specific provisions (see Note 8)	163	4,949
Reversal of provisions	5	4
	<u>168</u>	<u>4,953</u>

15 EQUITY

Changes in equity during 2011 and 2010 were as follows:

	Share capital CZK million	Funds CZK million	Accumulated losses CZK million	Revaluation reserve CZK million	Net profit/ (loss) for the period CZK million	Equity CZK million
Balance as at 1 January 2010	1,400	8,050	-170,555	6,633	18,454	-136,018
Profit distribution for 2009	0	0	18,454	0	-18,454	0
Other (rounding effect)	0	0	-1	0	0	-1
Revaluation reserve not included in profit	0	0	0	2,034	0	2,034
Loss for 2010	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-9,734</u>	<u>-9,734</u>
Balance as at 31 December 2010	<u>1,400</u>	<u>8,050</u>	<u>-152,102</u>	<u>8,667</u>	<u>-9,734</u>	<u>-143,719</u>
2010 loss distribution	0	0	-9,734	0	9,734	0
Revaluation reserve not included in profit	0	0	0	3,572	0	3,572
Profit (Loss) for 2011	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>35,425</u>	<u>35,425</u>
Balance as at 31 December 2011	<u>1,400</u>	<u>8,050</u>	<u>-161,836</u>	<u>12,239</u>	<u>35,425</u>	<u>-104,722</u>

Revaluation reserves

The revaluation reserve represents the change in the real value of available-for-sale debt securities, shares and interests representing the participations until the time of sale or impairment (see Note 2 (d)).

Funds

The Bank's only fund is the general reserve fund which has been created from profit and is restricted to cover accumulated losses, increase share capital or for any other purpose approved by the Bank Board of the CNB.

As at 31 December 2011, the general reserve fund's balance is CZK 8,050 million (2010: CZK 7,891 million). In 2011, pursuant to the Bank Board's decision the balance of CZK 159 million of the Fund for the coverage of employee loans was credited to the general reserve fund.

16 OTHER LIABILITIES

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Negative fair value of foreign currency forwards (Note 20)	132	1,499
Negative fair value of interest rate swaps (Note 20)	1,726	830
Negative fair value of share swaps (Note 20)	1,718	0
Advance received in relation to the State Guarantee (Note 27)	2,616	2,642
Liabilities to the European Union	1,404	3,239
Employee accounts	1,349	1,451
Other liabilities	<u>367</u>	<u>296</u>
Total other liabilities	<u>9,312</u>	<u>9,957</u>

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

Other liabilities totaling CZK 367 million include liabilities of CZK 34 million owing to social security and health insurance premiums as at 31 December 2011. The Bank has no liabilities related to social security and health insurance that would be overdue.

17 INTEREST INCOME, NET

	<u>2011</u>	<u>2010</u>
	CZK million	CZK million
Interest income and similar income	9,836	10,552
Interest expense and similar expense	<u>-3,380</u>	<u>-4,024</u>
Interest income, net	<u>6,456</u>	<u>6,528</u>
Interest income and similar income		
	<u>2011</u>	<u>2010</u>
	CZK million	CZK million
Interest on treasury bills and other discounted securities	1,357	1,194
Interest on coupon bonds	<u>7,776</u>	<u>9,094</u>
Total interest on securities	<u>9,133</u>	<u>10,288</u>
Interest on inter-bank deposits	698	259
Interest on receivables from the clients	5	5
Total other interest income	<u>703</u>	<u>264</u>
Total interest income and similar income	<u>9,836</u>	<u>10,552</u>

Interest expense and similar expense

	<u>2011</u>	<u>2010</u>
	CZK million	CZK million
Interest on liabilities to the state	189	418
Interest on liabilities to banks	3,170	3,562
Interest on liabilities to clients	<u>21</u>	<u>44</u>
Total interest expense and similar expense	<u>3,380</u>	<u>4,024</u>

18 GAINS LESS LOSSES FROM FINANCIAL OPERATIONS

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

	<u>2011</u>	<u>2010</u>
	CZK million	CZK million
Foreign exchange gains / (losses)	29,207	-17,056
Foreign exchange spread	<u>611</u>	<u>670</u>
Net foreign exchange gains / (losses) and foreign exchange spread	<u>29,818</u>	<u>-16,386</u>
Realized gain from sales of securities	7,914	3,334
Realized loss from sales of securities	-560	-1,187
Realized profit / (loss) from revaluation and sale of shares	-3,201	1,267
Net gains / (losses) from currency forwards	294	84
Net gains / (losses) from interest futures	-265	-684
Net gains / (losses) from total return swaps	-1,763	31
Net gains / (losses) from interest rate swaps	-2,790	-1,964
Net gains / (losses) from share futures	<u>-189</u>	<u>2</u>
Other	<u>-560</u>	<u>883</u>
Total gains less losses from financial operations	<u>29,258</u>	<u>-15,503</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.

19 ADMINISTRATION EXPENSE

The administration expenses can be analyzed as follows:

	<u>2011</u> CZK million	<u>2010</u> CZK million
Wages and salaries	863	872
Social and health security	290	297
Training and employee benefits	<u>85</u>	<u>93</u>
Total personnel costs	<u>1,238</u>	<u>1,262</u>
Rent	1	1
Other	<u>354</u>	<u>377</u>
Total other administration expenses	<u>355</u>	<u>378</u>
Total administration expenses	<u>1,593</u>	<u>1,640</u>

Of the total wages and salaries of CZK 863 million as at 31 December 2011 (CZK 872 million as at 31 December 2010) the wages, compensations and bonuses of the Bank's Board members totaled CZK 23 million (CZK 25 million as at 31 December 2010).

Staff statistics

	<u>2011</u>	<u>2010</u>
Average number of employees	1,449	1,462
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 categorizes 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; for USD in horizon of 3 years and for EUR in horizon of 1 year. The table in Note 22 summarizes the Bank's exposure to interest rate risks. The table lists the Bank's interest-bearing assets and liabilities at carrying amounts, categorized 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 summarizes the Bank's exposure to the currency risk. The table lists the Bank's foreign currency-denominated assets and liabilities at carrying amounts, categorized by currency.

Credit risk

The Bank manages the levels of credit risk it undertakes 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 review at least once per year. The geographical concentrations of assets and liabilities are stated in Note 24.

Spot transactions and derivative financial instruments

The receivables and payables from spot, forward, swap and futures transactions can be analyzed as follows:

Off-balance sheet receivables:

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
- from interest futures transactions	4,829	4,068
- from share futures transactions	1,004	519
- from interest swap transactions	36,515	42,161
- from unsettled interest spot transactions	2,595	43,372
- from unsettled currency spot transactions	156	349
- from currency forward transactions	87,187	82,149
- from share total return swaps	<u>11,181</u>	<u>479</u>
	<u>143,467</u>	<u>173,097</u>

Off-balance sheet payables:

- from interest futures transactions	4,829	4,068
- from share futures transactions	1,004	519
- from interest swap transactions	36,515	42,161
- from unsettled interest spot transactions	2,595	43,372
- from unsettled currency spot transactions	156	347
- from currency forward transactions	87,182	83,596
- from share total return swaps	<u>11,181</u>	<u>479</u>
	<u>143,462</u>	<u>174,542</u>

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

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Off-balance sheet receivables from forward transactions	87,187	82,149
Off-balance sheet payables from forward transactions	87,182	83,596
Negative fair value (Note 16)	132	1,499

All currency forwards mature in 2012.

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 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Off-balance sheet receivables from interest swap transactions	36,515	42,161
Off-balance sheet payables from interest swap transactions	36,515	42,161
Positive fair value (Note 8)	113	75
Negative fair value (Note 16)	1,726	830

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Off-balance sheet receivables from share total return swaps	11,181	479
Off-balance sheet payables from share total return swaps	11,181	479
Positive fair value (Note 8)	0	21
Negative fair value (Note 16)	1,718	0

The interest rate and share total return swaps also 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 are recorded in the gain or loss from financial operations (Note 18).

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

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Off-balance sheet receivables from interest futures transactions	4,829	4,068
Off-balance sheet payables from interest futures transactions	4,829	4,068
Net gain/(loss) from change in fair values of interest futures transactions open at the year-end	-266	-684

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Off-balance sheet receivables from share futures transactions	1,004	519
Off-balance sheet payables from share futures transactions	1,004	519
Net gain/(loss) from change in fair values of futures transactions open at the year-end	-189	0

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Net gain/(loss) from change in fair values of futures transactions open at the year-end	-455	-684
Cash on margin account	<u>700</u>	<u>797</u>
Margin account including settled change in fair value of interest futures transactions (Note 8)	<u>245</u>	<u>113</u>

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

The interest rate and share futures transactions 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 are recorded in the gain or loss from financial operations (see Note 18).

21 LIQUIDITY RISK

As at 31 December 2011

	Up to 1 <u>month</u>	1 - 3 <u>months</u>	3 - 12 <u>months</u>	1 - 5 <u>years</u>	Over 5 <u>years</u>	Un- <u>specified</u>	<u>Total</u>
	CZK million	CZK million	CZK million	CZK million	CZK million	CZK million	CZK million
Assets							
Gold	755	0	0	0	0	0	755
Receivables from IMF	0	0	0	0	0	57,337	57,337
Treasury bills and other discounted securities	14,154	57,888	61,585	5,741	0	0	139,368
Bonds and other coupon securities	15,436	18,609	107,420	197,276	80,517	0	419,258
Deposits, loans and other receivables from abroad	195,057	5,173	0	0	0	0	200,230
Receivables from domestic banks	3,500	0	0	0	0	0	3,500
Fixed assets	0	0	0	0	0	4,413	4,413
Other assets	<u>556</u>	<u>0</u>	<u>50</u>	<u>4</u>	<u>2,752</u>	<u>3,883</u>	<u>7,245</u>
Total assets	<u>229,458</u>	<u>81,670</u>	<u>169,055</u>	<u>203,021</u>	<u>83,269</u>	<u>65,633</u>	<u>832,106</u>
Liabilities and equity							
Notes and coins in circulation	0	0	0	0	0	411,953	411,953
Liabilities to IMF	0	0	0	0	0	44,830	44,830
Liabilities abroad	0	0	4,894	0	0	90	4,984
Liabilities to domestic banks	389,520	0	0	0	0	0	389,520
Liabilities to the state	74,945	0	0	0	1,055	0	76,000
Provisions	0	0	0	0	0	229	229
Equity	0	0	0	0	0	-104,722	-104,722
Other liabilities	<u>5,913</u>	<u>0</u>	<u>509</u>	<u>274</u>	<u>0</u>	<u>2,616</u>	<u>9,312</u>
Total liabilities and equity	<u>470,378</u>	<u>0</u>	<u>5,403</u>	<u>274</u>	<u>1,055</u>	<u>354,996</u>	<u>832,106</u>
Net liquidity gap	<u>-240,920</u>	<u>81,670</u>	<u>163,652</u>	<u>202,747</u>	<u>82,214</u>	<u>-289,363</u>	<u>0</u>

As at 31 December 2010	<u>Up to 1 month</u> CZK million	<u>1 - 3 months</u> CZK million	<u>3 - 12 months</u> CZK million	<u>1 - 5 years</u> CZK million	<u>Over 5 years</u> CZK million	<u>Un- specified</u> CZK million	<u>Total</u> CZK million
Assets							
Gold	770	0	0	0	0	0	770
Receivables from IMF	0	0	0	0	0	48,499	48,499
Treasury bills and other discounted securities	28,907	83,473	94,170	3,028	0	0	209,578
Bonds and other coupon securities	30,967	18,760	83,825	231,820	83,856	0	449,228
Deposits, loans and other receivables from abroad	102,694	0	0	0	0	0	102,694
Receivables from domestic banks	1,500	0	0	0	0	0	1,500
Fixed assets	0	0	0	0	0	4,692	4,692
Other assets	<u>406</u>	<u>0</u>	<u>40</u>	<u>5</u>	<u>2,760</u>	<u>3,478</u>	<u>6,689</u>
Total assets	<u>165,244</u>	<u>102,233</u>	<u>178,035</u>	<u>234,853</u>	<u>86,616</u>	<u>56,669</u>	<u>823,650</u>
Liabilities and equity							
Notes and coins in circulation	0	0	0	0	0	391,694	391,694
Liabilities to IMF	0	0	0	0	0	41,358	41,358
Liabilities abroad	6,180	0	0	0	0	0	6,180
Liabilities to domestic banks	394,275	0	0	0	0	0	394,275
Liabilities to the state	122,665	0	0	0	1,025	0	123,690
Provisions	0	0	0	0	0	215	215
Equity	0	0	0	0	0	-143,719	-143,719
Other liabilities	<u>6,448</u>	<u>0</u>	<u>556</u>	<u>311</u>	<u>0</u>	<u>2,642</u>	<u>9,957</u>
Total liabilities and equity	<u>529,568</u>	<u>0</u>	<u>556</u>	<u>311</u>	<u>1,025</u>	<u>292,190</u>	<u>823,650</u>
Net liquidity gap	<u>-364,324</u>	<u>102,233</u>	<u>177,479</u>	<u>234,542</u>	<u>85,591</u>	<u>-235,521</u>	<u>0</u>

22 INTEREST RATE RISK

As at 31 December 2011	<u>Up to 1 month</u> CZK million	<u>1 - 3 months</u> CZK million	<u>3 - 12 months</u> CZK million	<u>1 - 5 years</u> CZK million	<u>Over 5 years</u> CZK million	<u>Un- specified</u> CZK million	<u>Total</u> CZK million
Assets							
Gold	0	0	0	0	0	755	755
Receivables from IMF	0	0	0	0	0	57,337	57,337
Treasury bills and other discounted securities	15,746	57,888	61,585	4,149	0	0	139,368
Bonds and other coupon securities	57,103	97,492	264,663	0	0	0	419,258
Deposits, loans and other receivables from abroad	200,230	0	0	0	0	0	200,230
Receivables from domestic banks	3,500	0	0	0	0	0	3,500
Fixed assets	0	0	0	0	0	4,413	4,413
Other assets	<u>589</u>	<u>0</u>	<u>0</u>	<u>4</u>	<u>150</u>	<u>6,502</u>	<u>7,245</u>
Total assets	<u>277,168</u>	<u>155,380</u>	<u>326,248</u>	<u>4,153</u>	<u>150</u>	<u>69,007</u>	<u>832,106</u>
Liabilities and equity							
Notes and coins in circulation	0	0	0	0	0	411,953	411,953
Liabilities to IMF	0	0	0	0	0	44,830	44,830
Liabilities abroad	4,984	0	0	0	0	0	4,984
Liabilities to domestic banks	389,520	0	0	0	0	0	389,520
Liabilities to the state	74,945	1,055	0	0	0	0	76,000
Provisions	0	0	0	0	0	229	229
Equity	0	0	0	0	0	-104,722	-104,722
Other liabilities	<u>5,913</u>	<u>783</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,616</u>	<u>9,312</u>
Total liabilities and equity	<u>475,362</u>	<u>1,838</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>354,906</u>	<u>832,106</u>
Net interest sensitivity gap	<u>-198,194</u>	<u>153,542</u>	<u>326,248</u>	<u>4,153</u>	<u>150</u>	<u>-285,899</u>	<u>0</u>

As at 31 December 2010	<u>Up to 1 month</u> CZK million	<u>1 - 3 months</u> CZK million	<u>3 - 12 months</u> CZK million	<u>1 - 5 years</u> CZK million	<u>Over 5 years</u> CZK million	<u>Un- specified</u> CZK million	<u>Total</u> CZK million
Assets							
Gold	0	0	0	0	0	770	770
Receivables from IMF	0	0	0	0	0	48,499	48,499
Treasury bills and other discounted securities	28,907	83,473	94,170	3,028	0	0	209,578
Bonds and other coupon securities	92,089	120,647	236,492	0	0	0	449,228
Deposits, loans and other receivables from abroad	102,694	0	0	0	0	0	102,694
Receivables from domestic banks	1,500	0	0	0	0	0	1,500
Fixed assets	0	0	0	0	0	4,692	4,692
Other assets	<u>429</u>	<u>0</u>	<u>0</u>	<u>5</u>	<u>135</u>	<u>6,120</u>	<u>6,689</u>
Total assets	<u>225,619</u>	<u>204,120</u>	<u>330,662</u>	<u>3,033</u>	<u>135</u>	<u>60,081</u>	<u>823,650</u>
Liabilities and equity							
Notes and coins in circulation	0	0	0	0	0	391,694	391,694
Liabilities to IMF	0	0	0	0	0	41,358	41,358
Liabilities abroad	6,180	0	0	0	0	0	6,180
Liabilities to domestic banks	394,275	0	0	0	0	0	394,275
Liabilities to the state	122,665	1,025	0	0	0	0	123,690
Provisions	0	0	0	0	0	215	215
Equity	0	0	0	0	0	-143,719	-143,719
Other liabilities	<u>6,448</u>	<u>867</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,642</u>	<u>9,957</u>
Total liabilities and equity	<u>529,568</u>	<u>1,892</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>292,190</u>	<u>823,650</u>
Net interest sensitivity gap	<u>-303,949</u>	<u>202,228</u>	<u>330,662</u>	<u>3,033</u>	<u>135</u>	<u>-232,109</u>	<u>0</u>

23 CURRENCY RISK

As at 31 December 2011	<u>CZK</u> CZK million	<u>EUR</u> CZK million	<u>USD</u> CZK million	<u>JPY</u> CZK million	<u>GBP</u> CZK million	<u>CAD</u> CZK million	<u>AUD</u> CZK million	<u>SEK</u> CZK million	<u>Other</u> CZK million	<u>Total</u> CZK million
Assets										
Gold	0	0	0	0	0	0	0	0	755	755
Receivables from IMF	20,938	0	0	0	0	0	0	0	36,399	57,337
Treasury bills and other discounted securities	0	94,505	0	24,462	0	19,004	77	1,320	0	139,368
Bonds and other coupon securities	0	213,015	149,226	0	0	33,625	13,315	10,077	0	419,258
Deposits, loans and other receivables from abroad	0	147,542	31,662	3,104	2,889	2	0	14,923	108	200,230
Receivables from domestic banks	3,500	0	0	0	0	0	0	0	0	3,500
Fixed assets	4,406	0	0	0	0	0	0	0	7	4,413
Other assets	<u>2,950</u>	<u>454</u>	<u>78</u>	<u>6</u>	<u>25</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,732</u>	<u>7,245</u>
Total assets	<u>31,794</u>	<u>455,516</u>	<u>180,966</u>	<u>27,572</u>	<u>2,914</u>	<u>52,631</u>	<u>13,392</u>	<u>26,320</u>	<u>41,001</u>	<u>832,106</u>
Liabilities and equity										
Notes and coins in circulation	411,953	0	0	0	0	0	0	0	0	411,953
Liabilities to IMF	20,938	0	0	0	0	0	0	0	23,892	44,830
Liabilities abroad	79	4,825	80	0	0	0	0	0	0	4,984
Liabilities to domestic banks	389,520	0	0	0	0	0	0	0	0	389,520
Liabilities to the state	48,629	27,356	15	0	0	0	0	0	0	76,000
Provisions	0	0	229	0	0	0	0	0	0	229
Other liabilities	<u>5,539</u>	<u>2,870</u>	<u>888</u>	<u>3</u>	<u>11</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>9,312</u>
Total liabilities	<u>876,658</u>	<u>35,051</u>	<u>1,212</u>	<u>3</u>	<u>11</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>23,893</u>	<u>936,828</u>
Net assets/(liabilities)	-844,864	420,465	179,754	27,569	2,903	52,631	13,392	26,320	17,108	-104,722
Net off-balance sheet assets / (liabilities)	<u>103</u>	<u>-10,895</u>	<u>-24,785</u>	<u>-7,408</u>	<u>16,327</u>	<u>0</u>	<u>26,663</u>	<u>0</u>	<u>0</u>	<u>5</u>
Net foreign exchange position	<u>-844,761</u>	<u>409,570</u>	<u>154,969</u>	<u>20,161</u>	<u>19,230</u>	<u>52,631</u>	<u>40,055</u>	<u>26,320</u>	<u>17,108</u>	<u>104,717</u>

As at 31 December 2010	<u>CZK</u> CZK million	<u>EUR</u> CZK million	<u>USD</u> CZK million	<u>JPY</u> CZK million	<u>GBP</u> CZK million	<u>CAD</u> CZK million	<u>SEK</u> CZK million	<u>Other</u> CZK million	<u>Total</u> CZK million
Assets									
Gold	0	0	0	0	0	0	0	770	770
Receivables from IMF	18,814	0	0	0	0	0	0	29,685	48,499
Treasury bills and other discounted securities	0	139,957	8,988	36,656	0	16,579	7,398	0	209,578
Bonds and other coupon securities	0	223,235	181,342	0	0	34,622	10,029	0	449,228
Deposits, loans and other receivables from abroad	0	72,750	16,399	2,879	2,261	383	7,941	81	102,694
Receivables from domestic banks	1,500	0	0	0	0	0	0	0	1,500
Fixed assets	4,682	0	0	0	0	0	0	10	4,692
Other assets	<u>2,849</u>	<u>326</u>	<u>70</u>	<u>27</u>	<u>25</u>	<u>0</u>	<u>0</u>	<u>3,392</u>	<u>6,689</u>
Total assets	<u>27,845</u>	<u>436,268</u>	<u>206,799</u>	<u>39,562</u>	<u>2,286</u>	<u>51,584</u>	<u>25,368</u>	<u>33,938</u>	<u>823,650</u>
Liabilities and equity									
Notes and coins in circulation	391,694	0	0	0	0	0	0	0	391,694
Liabilities to IMF	18,814	0	0	0	0	0	0	22,544	41,358
Liabilities abroad	499	1,597	4,084	0	0	0	0	0	6,180
Liabilities to domestic banks	394,275	0	0	0	0	0	0	0	394,275
Liabilities to the state	52,853	70,826	11	0	0	0	0	0	123,690
Provisions	0	0	215	0	0	0	0	0	215
Other liabilities	<u>9,004</u>	<u>722</u>	<u>228</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>	<u>9,957</u>
Total liabilities	<u>867,139</u>	<u>73,145</u>	<u>4,538</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>22,547</u>	<u>967,369</u>
Net assets/(liabilities)	-839,294	363,123	202,261	39,562	2,286	51,584	25,368	11,391	-143,719
Net off-balance sheet assets / (liabilities)	<u>102</u>	<u>36,577</u>	<u>-39,263</u>	<u>-17,233</u>	<u>18,372</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-1,445</u>
Net foreign exchange position	<u>-839,192</u>	<u>399,700</u>	<u>162,998</u>	<u>22,329</u>	<u>20,658</u>	<u>51,584</u>	<u>25,368</u>	<u>11,391</u>	<u>-145,164</u>

24 CREDIT RISK AND CONCENTRATION OF LIABILITIES**Geographical concentrations of assets**

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Czech Republic	11,638	9,834
Germany	283,387	216,728
France	119,130	177,532
Netherlands	17,241	13,139
Austria	8,593	28,216
Spain	6,675	11,128
Italy	4,773	17,894
Ireland	458	5,791
Greece	0	89
Other Eurozone countries	44,588	33,777
Great Britain	30,269	10,094
Sweden	18,954	17,360
Switzerland	3,875	12,023
Other European countries	12,539	12,098
USA	177,166	165,536
Canada	51,847	52,847
Japan	27,534	39,503
Australia	13,392	0
Other countries	<u>47</u>	<u>34</u>
	<u>832,106</u>	<u>823,650</u>
Of which deposits and bonds:		
Central governments	424,119	496,492
Government agencies	130,689	152,084
Securities hedged by other assets (Covered bonds, Pfandbriefs)	4,712	17,655
Commercial banks	113,367	37,806
BIS	<u>0</u>	<u>8,597</u>
	<u>672,887</u>	<u>712,634</u>

Geographical concentrations of liabilities

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Czech Republic	780,888	772,874
Eurozone countries	1,407	3,241
Other European countries	4,905	5,153
USA and Canada	<u>44,906</u>	<u>42,382</u>
	<u>832,106</u>	<u>823,650</u>

25 OTHER OFF-BALANCE SHEET ITEMS**Guarantees issued**

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Clients	229	215
In relation to the Indemnity Letter (Note 27)	156,952	156,952
For deposits held by IPB (Note 27)	139	168
Consolidation of the banking sector – sale of part of the business of Agrobanka Praha a.s.	<u>800</u>	<u>800</u>
Total issued guarantees	<u>158,120</u>	<u>158,135</u>

The identified need for provisions for expected losses on the guarantees issued to clients was CZK 229 million as at 31 December 2011 (31 December 2010: CZK 215 million) (see Note 14).

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

The CNB has not recognized a provision for claims for guarantees under Indemnity Letter or for claims for guarantees issued in connection with deposits held by IPB (see Note 27).

Guarantees received

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
From the Ministry of Finance of CR received in relation to the State Guarantee (Note 27)	<u>156,952</u>	<u>156,952</u>
Total guarantees received	<u>156,952</u>	<u>156,952</u>

Collateral received

The total collateral received in the form of debt securities as at 31 December 2011 was CZK 77,841 million (31 December 2010: CZK 68,065 million).

As at 31 December 2011, the Bank received collateral of CZK 52,572 million (31 December 2010: CZK 43,416 million) within repo transactions and CZK 4,098 million within the securities lending program in foreign currencies with respect to foreign banks. The Bank also received collateral of CZK 3,748 million within reverse repo transactions concluded with domestic banks and also collateral of CZK 17,423 million in CZK (31 December 2010: CZK 22,902 million) within "Collateral switch" transactions concluded with domestic banks (see Note 5 and 6).

Assets held in custody

The Bank has not received any financial assets from third parties to be held in custody in 2011 and 2010. The Bank has other custody in the off-balance sheet evidence (see Note 2 (v)).

26 CONTINGENCIES AND COMMITMENTS

The 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 Česká konsolidační agentura a.s.) acknowledged by the Bank. These payments are effected in accordance with 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. In 2011 these costs were CZK 0.1 million (2010: CZK 0.2 million). The Bank does not recognize any provisions against these contingencies and commitments as they are immaterial.

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 court proceedings. 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 recognized any provisions. Similarly, the Bank evaluates the contingencies and commitments from legal cases which relate to the activities of the former authorities of financial market supervision and which the Bank keeps on the basis of Act No. 57/2006 Col., an amendment connected to the unification of financial market supervision. According to this Act, any financial liabilities arising from these legal cases would be reimbursed by the state.

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 2011 was CZK 139 million (31 December 2010: CZK 168 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.

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 analyzed as follows:

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Total potential claims under the Indemnity Letter	160,000	160,000
Advances provided to CSOB (Note 8)	-2,600	-2,625
Foreign exchange differences	-17	-18
Settlement to CSOB	<u>-431</u>	<u>-405</u>
Total potential future claims under the Indemnity Letter (see Note 25)	<u>156,952</u>	<u>156,952</u>

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

	<u>31 December 2011</u>	<u>31 December 2010</u>
	CZK million	CZK million
Total State Guarantee received	160,000	160,000
Advances received from the State Guarantee (Note 16)	-2,616	-2,642
Final settlement from the State Guarantee	<u>-432</u>	<u>-406</u>
Unused amount of State Guarantee (see Note 25)	<u>156,952</u>	<u>156,952</u>

The CNB has so far not recognized 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 TRANSACTIONS WITH RELATED PARTIES

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

CNB grants members of the Bank Board and senior management in accordance with internal rules the services consisting of maintaining current and deposit accounts and special purpose loans, especially for housing. The loans to the members of the Bank Board and senior management are provided under the same conditions as loans to other employees of the Bank.

29 SUBSEQUENT EVENTS

The CNB's management is not aware of any other subsequent events that would have a material impact on financial statements for 2011.

The accompanying balance sheet, off-balance sheet and income statement are an integral part of 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 2011, 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 and 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.

A member firm of Ernst & Young Global Limited
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has been incorporated in the Commercial Register administered by the Municipal Court
in Prague, Section C, entry no. 88504, under Identification No. 26704153.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Česká národní banka as at 31 December 2011, and its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

A handwritten signature in black ink, appearing to read 'Ernst & Young', written over the printed name of the firm.

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

A handwritten signature in black ink, appearing to read 'Magdalena Soucek', written over the printed name of the auditor.

Magdalena Soucek
Auditor, License No. 1291

24 February 2012
Prague, Czech Republic

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