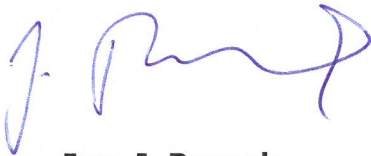

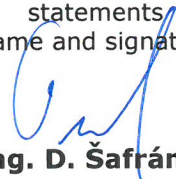


FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 31 DECEMBER 2017  
TOGETHER WITH AUDITOR'S REPORT

2017



FINANCIAL STATEMENTS OF  
THE CZECH NATIONAL BANK  
FOR THE YEAR  
ENDED 31 DECEMBER 2017

Date of preparation:	Signature of the Governor	Person responsible for accounting Name and signature	Person responsible for the financial statements Name and signature
2 March 2018	 Ing. J. Rusnok	 Ing. M. Mayer, LL.M.	 Ing. D. Šafránek

The financial statements and notes to the financial statements were approved by the CNB's Bank Board on 21 March 2018.

## BALANCE SHEET

<b>ASSETS</b>		Note	2017 CZK million	2016 CZK million
<b>1.</b>	<b>Gold</b>	3.1.	<b>602</b>	<b>630</b>
<b>2.</b>	<b>Receivables from the International Monetary Fund</b>	3.2.	<b>81 008</b>	<b>89 557</b>
<b>3.</b>	<b>Receivables from abroad, including securities</b>	3.3.	<b>3 120 494</b>	<b>2 167 721</b>
3.1.	Deposits at foreign banks and financial institutions		1 323 050	614 180
3.2.	Securities		1 764 109	1 515 053
3.3.	Other receivables from abroad		33 335	38 488
<b>4.</b>	<b>Receivables from domestic banks</b>	3.4.	<b>0</b>	<b>0</b>
<b>5.</b>	<b>Fixed assets</b>	3.5.	<b>3 308</b>	<b>3 449</b>
5.1.	Tangible fixed assets		3 228	3 421
5.2.	Intangible assets		80	28
<b>6.</b>	<b>Other assets</b>	3.6.	<b>6 729</b>	<b>6 836</b>
6.1.	Other financial assets		4 302	4 696
6.2.	Other		2 427	2 140
<b>TOTAL ASSETS</b>			<b>3 212 141</b>	<b>2 268 193</b>

<b>LIABILITIES AND EQUITY</b>		Note	2017 CZK million	2016 CZK million
<b>1.</b>	<b>Notes and coins in circulation</b>	3.7.	<b>593 854</b>	<b>556 689</b>
<b>2.</b>	<b>Liabilities to the International Monetary Fund</b>	3.2.	<b>81 282</b>	<b>88 714</b>
<b>3.</b>	<b>Liabilities abroad</b>	3.8.	<b>140 992</b>	<b>66 307</b>
3.1.	Loans from foreign banks		27 248	15 351
3.2.	Other liabilities abroad		113 744	50 956
<b>4.</b>	<b>Liabilities to domestic banks</b>	3.9.	<b>2 294 920</b>	<b>1 291 306</b>
4.1.	Loans received		1 758 566	541 506
4.2.	Bank monetary reserves		92 721	201 561
4.3.	Other liabilities to banks		443 633	548 239
<b>5.</b>	<b>Liabilities to the state and other public institutions</b>	3.10.	<b>269 895</b>	<b>182 585</b>
<b>6.</b>	<b>Provisions</b>	3.11.	<b>245</b>	<b>294</b>
<b>7.</b>	<b>Share capital</b>	3.12.	<b>1 400</b>	<b>1 400</b>
<b>8.</b>	<b>Funds</b>	3.12.	<b>60 081</b>	<b>14 161</b>
<b>9.</b>	<b>Revaluation reserve</b>	3.12.	<b>-2 044</b>	<b>4 400</b>
<b>10.</b>	<b>Accumulated losses from previous periods</b>	3.12.	<b>0</b>	<b>-549</b>
<b>11.</b>	<b>Net profit or loss for the period</b>	3.12.	<b>-243 243</b>	<b>46 469</b>
<b>12.</b>	<b>Other liabilities</b>	3.13.	<b>14 759</b>	<b>16 417</b>
<b>TOTAL LIABILITIES AND EQUITY</b>			<b>3 212 141</b>	<b>2 268 193</b>

<b>OFF BALANCE SHEET</b>		Note	2017 CZK million	2016 CZK million
<b>1.</b>	<b>Guarantees issued</b>	3.18.	<b>1 049</b>	<b>157 272</b>
<b>2.</b>	<b>Issued loan commitments</b>	3.2.	<b>0</b>	<b>40 530</b>
<b>3.</b>	<b>Receivables from spot, term and futures transactions</b>	3.18.	<b>398 115</b>	<b>468 645</b>
<b>4.</b>	<b>Liabilities from spot, term and futures transactions</b>	3.18.	<b>397 498</b>	<b>471 518</b>
<b>5.</b>	<b>Guarantees received</b>	3.18.	<b>64 616</b>	<b>224 515</b>
<b>6.</b>	<b>Collateral received</b>	3.18.	<b>40 602</b>	<b>45 034</b>

INCOME STATEMENT		Note	2017 CZK million	2016 CZK million
<b>1.</b>	<b>Interest income and similar income</b>	3.14.	<b>14 457</b>	<b>8 585</b>
1.1.	Interest from fixed income securities		13 864	8 401
1.2.	Other		593	184
<b>2.</b>	<b>Interest expense and similar expense</b>	3.14.	<b>-13 843</b>	<b>-4 182</b>
<b>3.</b>	<b>Income from shares and other interests</b>		<b>6 764</b>	<b>4 873</b>
<b>4.</b>	<b>Fee and commission income</b>		<b>613</b>	<b>427</b>
<b>5.</b>	<b>Fee and commission expense</b>		<b>-176</b>	<b>-142</b>
<b>6.</b>	<b>Gains less losses from financial operations</b>	3.15.	<b>-249 789</b>	<b>39 298</b>
6.1.	Net foreign exchange gains / (losses) and foreign exchange spread		-270 365	23 978
6.2.	Other		20 576	15 320
<b>7.</b>	<b>Other operating income</b>		<b>1 367</b>	<b>1 044</b>
7.1.	Income from money issue		848	273
7.2.	Other		519	771
<b>8.</b>	<b>Other operating expense</b>		<b>-579</b>	<b>-1 444</b>
8.1.	Expenses for production of notes and coins		-453	-486
8.2.	Other		-126	-958
<b>9.</b>	<b>Administration expense</b>	3.16.	<b>-1 819</b>	<b>-1 747</b>
9.1.	Personnel expenses		-1 494	-1 407
9.1.1.	Wages and salaries		-1 056	-991
9.1.2.	Social and health security		-352	-328
9.1.3.	Training and employee benefits		-86	-88
9.2.	Other administration expenses		-325	-340
<b>10.</b>	<b>Depreciation and amortisation of fixed assets</b>	3.5.	<b>-238</b>	<b>-243</b>
<b>11.</b>	<b>Reversal of provisions for receivables and guarantees, income from receivables already written off</b>	3.11.	<b>6</b>	<b>6</b>
<b>12.</b>	<b>Write offs, additions and utilisation of provisions for receivables and guarantees</b>	3.11.	<b>-6</b>	<b>-6</b>
<b>13.</b>	<b>Net PROFIT or LOSS for the period</b>		<b>-243 243</b>	<b>46 469</b>

## 1. GENERAL INFORMATION

The Czech National Bank ("the Bank" or "the CNB") is the central bank of the Czech Republic ("the CR"), and an authority exercising supervision over the financial market and tasked with resolving financial market crises. The Bank was established by the Constitution of the Czech Republic 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 conducts its activities in line with Act No. 6/1993 Coll., on the Czech National Bank, as amended ("the CNB Act") and other legal regulations. Its registered office is at Na Příkopě 28, Prague 1, Czech Republic, and its identification number is 48136450. The Bank has seven regional offices: in Prague, Ústí nad Labem, Plzeň, České Budějovice, Hradec Králové, Brno and Ostrava.

The primary objective of the Bank is to maintain price stability. In addition, the Bank ensures the financial stability and safe functioning of the financial system in the CR. 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 as well as the general economic policies of the European Union in line with the objectives of the European Union. The Bank acts in accordance with the principle of an open market economy.

The Bank sets the monetary policy, issues bank notes and coins, manages the circulation of currency and inter-bank clearing and the settlement system of banks and foreign bank branches, 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, pension funds, consumer loan providers) and supervises a specific area of client protection with entities operating on the financial market which are subject to the CNB's supervision pursuant to other legal regulations. As a central bank, it provides banking services to the state and the public sector, and maintains the accounts of organisations and entities connected to the state budget. Based on an agreement with the Ministry of Finance of the Czech Republic (the "MF") and in accordance with budgetary rules, the Bank performs transactions related to the issuing of government bonds and to financial market investments. In addition, it 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 institutions and international authorities involved in the supervision of the financial market, and negotiates relevant agreements.

The Bank is a part of the European Central Banks System and contributes to the achievement of its objectives and tasks. It is also a part of the European

System of Financial Supervision and cooperates with the European Systemic Risk Board and with European supervisory authorities.

When carrying out its business, the Bank is independent of any instructions 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, Government and the public are defined by law. The Bank and the Government communicate with each other about the principles and measures of monetary, macroprudential and general economic policy.

The Bank uses its income to cover the necessary costs of its operations. The generated profit is allocated to its reserve fund and 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. The CNB submits an annual report on its operations to the Chamber of Deputies of the Czech Parliament within three months of the calendar year-end.

The supreme management body of the Bank is the Bank Board of the CNB. 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, among others, sets monetary and macroprudential policies, including instruments for their implementation, and decides about measures concerning the supervision of financial markets.

As at 31 December 2017, the members of the Bank Board and their office termination dates were as follows:

**Ing. Jiří Rusnok**

- Governor, until 30 June 2022

**Ing. Mojmír Hampl, MSc., Ph.D.**

- Vice-Governor, until 30 November 2018

**prof. PhDr. Ing. Vladimír Tomšík, Ph.D.**

- Vice-Governor, until 30 November 2018

**prof. Ing. Oldřich Dědek, CSc.**

- Member of the Bank Board, until 12 February 2023

**Ing. Marek Mora M.E.**

- Member of the Bank Board, until 12 February 2023

**Ing. Vojtěch Benda**

- Member of the Bank Board, until 30 June 2022

**Ing. Tomáš Nidetzky**

- Member of the Bank Board, until 30 June 2022

The statutory representative of the Bank is the Governor. A Vice-Governor is appointed by the Governor to represent him in full extent.

## 2. ACCOUNTING POLICIES

### 2.1. Basis of Preparation

The financial statements 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 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 prepared in compliance with the going concern assumption and the historical cost convention as modified by the revaluation of derivatives, shares and available-for-sale securities to fair values.

The financial statements comprise a balance sheet, income statement and accompanying notes including also a statement of changes in equity.

The financial statements are presented in millions of Czech Crowns ("CZK million") unless stated otherwise. As they have been rounded off, the total sums presented in the tables (totals and sub-totals) may not correspond to the sum of the partial amounts.

### 2.2. 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 at the balance sheet date.

Exchange rates	Quantity	31 Dec 2017	31 Dec 2016
EUR	1	25.540	27.020
USD	1	21.291	25.639
JPY	100	18.915	21.907
GBP	1	28.786	31.586
CHF	1	21.824	25.166
CAD	1	16.983	19.048
AUD	1	16.639	18.523
SEK	1	2.594	2.829
SDR	1	30.249	34.359

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 (refer to Note 2.4.).

### 2.3. Gold and Other Precious Metals

For accounting and revaluation purposes, the Bank divides its precious metal inventory into four groups:

- **Long-term reserve** – gold placed abroad (marketable bars) and precious metals held at the Bank in the long term (bars, coins, medals).
- **Operating reserve** – precious metals held for the production of coins (bars, semi-finished

products for the production of coins – “blanks”, demonetised coins etc.). Precious metals are either purchased for the reserve or transferred to it from the long-term reserve or from the cash reserve.

- **Collections reserve** – collections of coins, medals, counterfeits, legal tender specimens etc. The inventory includes precious metals recorded as other assets of the Bank rather than as gold and other precious metals.
- **Cash reserve** – valid coins made of precious metals. They are not recorded as gold and other precious metals on the face of the balance sheet – they are recorded off balance sheet as valid currency in circulation in their nominal value.

Gold and other precious metals are valued at average cost. Long-term reserves are valued at original cost, with the actual cost applied upon purchases. The Bank reduces its gold reserves depending on the regular issue of gold coins.

### 2.4. Securities

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

Foreign debt securities and shares recorded in receivables from abroad are purchased in relation to the foreign currency reserves administration, in accordance with the CNB's predefined internal rules. They consist of money market and capital market securities. The shares are administered by external managers within the passive investment strategy consisting of maximum achievable 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 international institutions in the available-for-sale portfolio. The Bank included the shares administered by external managers in the portfolio measured at fair value through profit or loss and accounts for them on an aggregate basis based on information from external managers.

Securities and interests are initially recognised at cost which includes direct transaction costs. In respect of bonds, receivables/payables arising from the security are reported off balance sheet as at the spot trade date of the purchase/sale of the security and subsequently revalued due to movements in exchange rates and market prices. Gains and losses from the revaluation of unsettled transactions are recognised through equity (Note 3.12.). The moment the transaction is realised, the security is derecognised off balance sheet and is accounted for through on-balance sheet securities. The price of the bond is gradually increased (or decreased)

using the effective interest rate method to include interest income (interest expense). In respect of floating interest rate securities, interest income from coupons is calculated using the straight-line method. In respect of inflation linked bonds, interest income changes depending on changes in inflation coefficients. Interest from available-for-sale bonds is reported in income statement line item 1.1. Gains and losses realised upon the sale of the security are recognised as the difference between the selling price and the current value of the security in the accounting books as at the sale date. Gains and losses from sales are recognised in income statement line item 6.2.

Available-for-sale debt securities and shares are measured at fair value. The fair value is determined as a market price listed by a relevant stock exchange or another active market. If such fair value is not available, available-for-sale debt securities and shares are measured at cost including the straight-line amortisation of the capital gain/loss and interest accrued on a straight-line basis.

Gains and losses arising from changes in the fair value of available-for-sale bonds and shares representing the participations are recognised directly in equity until the financial asset is derecognised or impaired. In such cases the cumulative gain or loss previously recognised in equity is recognised 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 recognised in income statement line item 6.2. The Bank typically measures the interests at cost (refer to Note 3.6.).

Dividends on available-for-sale shares as well as dividends on shares measured at fair value through profit or loss are recognised in income statement line item 3.

## 2.5. 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 securities deposited with foreign depositories may be used pursuant to an agreement in a lending scheme ("securities lending") operated by a depository performing the role of an agent or a direct borrower.

As part of the agent-type lending scheme, securities are lent to third parties and the Bank receives other securities as collateral in exchange. Received collateral is recorded off balance sheet, securities at fair value remain in the balance sheet.

As for the automatic lending scheme, the Bank does not receive collateral, but 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 recognised in income statement line item 4.

## 2.6. 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.

## 2.7. Receivables from and Liabilities to the International Monetary Fund

Receivables from and payables to the International Monetary Fund ("IMF") are recorded on a gross basis, i.e. receivables and payables do not balance out. The membership quota at the IMF comprises a membership deposit and reserve position. The membership deposit represents a share of the IMF quota paid in CZK, while the reserve position is a share of the quota paid in foreign currency and forms part of foreign exchange reserves. The quota is denominated in SDR but expressed in the local currency. Translation into Czech Crowns is performed using the exchange rate promulgated by the IMF.

## 2.8. 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 (refer to Note 3.9.).

## 2.9. Derivative Financial Instruments

In terms of the types of derivatives, the Bank performs fixed term transactions (forwards, swaps and futures), which it further classifies based on the underlying instruments into interest rate, currency and equity derivatives. Derivatives are accounted for off balance sheet as well as on the balance sheet.

Off balance sheet, receivables and payables from interest rate, currency or equity derivatives are recognised from the derivative trade date to the final settlement date in the amount of the underlying asset. The receivables and payables are subsequently remeasured to reflect changes in foreign exchange rates.

On the balance sheet, derivatives are recognised at their fair values in CZK, while the fair values of interest rate derivatives are recognised in foreign currencies (in the currency of the underlying instrument).

Fair values of futures are obtained from quoted market prices, in other cases the fair value is derived from discounted future cash-flow models (for swap and forward transactions) using the ruling foreign exchange rates. Fair values of derivatives are presented in other assets or in other liabilities when they are positive or negative, respectively. Changes in the fair value of derivatives are included in the gains less losses from



financial operations. The Bank recognises all derivatives as available-for-sale derivatives and does not use hedge accounting.

## 2.10. Interest Income and Expense

Interest income and interest expense on all interest bearing instruments are accrued. Negative interest rates on assets, if any, are recognised as interest expense. Negative interest rates on liabilities are recognised as interest income.

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 the underlying assets and liabilities.

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 bankruptcy. Non-interest earning assets, such as long-term receivables, are not discounted.

## 2.11. Fee Income

Fee income from the maintenance of current accounts and effected transactions are recognised to clients in accordance with the CNB's Schedule of Charges for Financial and Business Services on an accrual basis, at the end of the month. One-off fees are recognised immediately in the income statement when the service is provided.

## 2.12. Payables to and Receivables from Domestic Banks

Bank monetary reserves of banks, foreign bank branches and savings and credit societies ("domestic banks") include deposits with the CNB relating to mandatory minimum reserves ("MMR") on accounts in the CERTIS payment system (payment system account), cash withdrawal and deposit accounts, or in special accounts reserved for the MMR.

The MMR requirement is 2% of payables to non-banking entities arising from received deposits, loans and issued non-trading and other debt securities with maturity up to 2 years.

The above deposits bear interest equal to the current CZK two-week repo interest rate up to the pre-specified volume of minimum reserves, while the domestic banks are required to maintain the average MMR balance over the relevant maintenance period rather than on a daily basis.

Liabilities to domestic banks from repo transactions (loans received) include the banks' surplus liquidity deposited with the CNB through monetary policy repo tenders. The CNB provides CNB treasury bills or other securities as collateral in these transactions. The basic

duration of these operations is 14 days, while repos with shorter/longer maturities are executed from time to time depending on the interbank money market liquidity changes.

Domestic banks also have an option to make overnight deposits of surplus liquidity with the CNB (deposit facility for deposit rates) or borrow overnight liquidity from the CNB against collateral (Lombard repo lending facility for Lombard rates).

A list of acceptable financial instruments (collateral) to secure such operations (repo tenders, Lombard repo transactions) is published on the CNB's website.

## 2.13. Other 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.

## 2.14. Payables to the State

The CNB serves the Czech state by maintaining a system of income and expense accounts and other accounts for the state and its organisational units and other entities pursuant to Section 3(h) of Act No. 218/2000 Coll., on Budgetary Rules. The Bank also provides selected banking services on these accounts. Account balances in CZK and EUR are reflected in the balance of the Single Treasury Account. Accordingly, these liabilities represent state funds deposited with the CNB.

## 2.15. 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 in income. Movements in provision accounts denominated in foreign currencies arising from revaluations to exchange rates prevailing at the balance sheet date are recognised or charged, as appropriate, to exchange rate differences.

## 2.16. 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.

## 2.17. 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 assets with a unit cost not exceeding CZK 40,000, as well as low-value intangible assets with a unit cost not exceeding CZK 60,000, are fully depreciated/amortised upon the inception of use. Land, art and art collections are not depreciated.

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; the depreciation or amortisation charged before that date is not adjusted.

### Estimated useful lives of tangible and intangible fixed assets in years

Buildings and structures	20 – 50
Machinery and equipment	
motor vehicles	4 – 5
office equipment and computers	3 – 4
cash processing machines	5 – 8
Furniture and fittings	5 – 10
Software	3 – 4
Other intangible assets	6

Repairs and maintenance expenditures are charged to expenses as incurred. Technical improvements exceeding CZK 40,000 in one year are included in the cost of the asset.

## 2.18. 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.

## 2.19. 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 costs of its operations. The profit is allocated to funds and other usage (e.g. settlement of accumulated losses from previous periods) in the budgeted amount. Any remaining profit is transferred to the state budget.

## 2.20. Staff Costs, Additional Pension Insurance and Employee Benefits

Staff costs, including costs of the Bank Board members, are included in administration expenses. The Bank does not administer any transformed pension fund or participation fund as a pension company. However, the Bank provides contributions to its employees for additional pension insurance or supplementary pension insurance administered by pension companies, and also provides contributions for capital pension schemes and life and casualty insurance. These contributions are accounted for directly as an expense.

Since 1 January 2010, employee benefits have been charged directly from the Bank's expenses.

## 2.21. Cash Flow Statement

In accordance with the Act on Accounting, the CNB is not obliged to prepare a cash flow statement as part of its financial statements. As the Bank is the central bank of the CR, the Bank's management is of the opinion that the presentation of a cash flow statement would not provide further significant information to the users of these financial statements.

## 2.22. Accounting Transaction Date

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

## 2.23. 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. The carrying amount is used if neither face value nor estimated value can be determined.

In the off-balance sheet the Bank recognises other assets taken into custody from clients and banks, assets in own custody and other carrying amounts including money supply (refer to Note 3.18.).

## 2.24. Subsequent Events

The effects of events which occur 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 reflecting post balance sheet facts occur subsequent to the balance sheet date but prior to the compilation of the financial statements, the effects of these events are disclosed in the notes, but are not reported in the financial statements.

### 3. ADDITIONAL INFORMATION ON THE BALANCE SHEET, OFF BALANCE SHEET AND INCOME STATEMENT

#### 3.1. Gold

	2017	2016
<b>Gold (CZK million)</b>	<b>602</b>	<b>630</b>
Long-term reserve	518	522
Operating reserve	84	108
<b>Gold (thousand Troy ounces)</b>	<b>303</b>	<b>314</b>
Long-term reserve	272	274
Operating reserve	31	40
<b>Gold (tonnes)</b>	<b>9.4</b>	<b>9.8</b>
Long-term reserve	8.4	8.5
Operating reserve	1.0	1.3
<b>Gold (market value – CZK million)</b>	<b>8 377</b>	<b>9 330</b>
Long-term reserve	7 504	8 143
Operating reserve	873	1 187

The Bank records other gold reserves reported separately.

CZK million	2017	2016
Collections reserve (part of other assets)	11	11
Cash reserve (off balance sheet)	6	5

As at 31 December 2017, a foreign bank deposit denominated in gold amounted to CZK 345 million (5.6 t). As at 31 December 2016: CZK 345 million (5.6 t).

#### 3.2. Receivables from and Payables to the International Monetary Fund

CZK million	2017	2016
Membership quota at the IMF	66 984	73 645
Membership deposit	57 654	61 897
Reserve position	9 330	11 748
Long-term loan provided to the IMF	171	195
Deposits in the IMF	13 853	15 717
<b>Total receivables from the IMF</b>	<b>81 008</b>	<b>89 557</b>
Payable from the SDR allocation	23 628	26 817
Payable to the IMF from the bill of exchange	44 755	48 924
Current account with the IMF	12 899	12 973
<b>Total payables to the IMF</b>	<b>81 282</b>	<b>88 714</b>

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

deposits in the CNB, reflecting the sum of CZK held by the IMF, an interest-free bill of exchange and SDR allocation.

All the conditions for an increase in the quota (as part of the 14th general review of quotas) specified in Resolution No. 66-2 adopted on 15 December 2010 had been met. As such, the quota was increased from SDR 1,000 million to SDR 2,180 million on 23 February 2016 in line with Government Resolution No. 733 of 3 October 2012.

Pursuant to a two-year bilateral agreement from 2013, the CNB committed to granting the International Monetary Fund a loan denominated in SDR, up to the equivalent of EUR 1,500 million. The validity of the agreement has been extended to 11 August 2017. The undrawn element of the facility was EUR 0 million as at 31 December 2017, i.e. CZK 0 million (EUR 1,500 million as at 31 December 2016, i.e. CZK 40,530 million). The loan collateral is disclosed in Note 3.18.

#### 3.3. Receivables from Abroad Including Securities

CZK million	2017	2016
<b>Total deposits at foreign banks and financial institutions</b>	<b>1 323 050</b>	<b>614 180</b>
Current accounts with banks	1 290 116	591 063
Deposits	32 934	23 117
<b>Total securities</b>	<b>1 764 109</b>	<b>1 515 053</b>
Zero-coupon bonds	88 222	155 036
Government	88 222	148 639
Other	0	6 397
Coupon bonds	1 411 590	1 170 161
Government	1 126 369	917 098
Other	285 221	253 063
Shares	264 297	189 856
MSCI euro (in EUR)	178 651	118 843
Of which financial institutions	39 433	24 736
S&P 500 (in USD)	38 611	33 824
Of which financial institutions	5 732	5 022
FTSE 100 (in GBP)	5 655	4 465
Of which financial institutions	1 232	928
Nikkei 225 (in JPY)	8 132	6 387
Of which financial institutions	234	194
S&P TSX (in CAD)	21 261	17 085
Of which financial institutions	7 361	5 976
S&P ASX 200 (in AUD)	11 987	9 252
Of which financial institutions	4 272	3 541
<b>Total other receivables from abroad</b>	<b>33 335</b>	<b>38 488</b>

Funds from reverse repo transactions	33 194	38 298
Foreign currencies	141	190
<b>Total receivables from abroad including securities</b>	<b>3 120 494</b>	<b>2 167 721</b>

Foreign currency reserves are used to conduct the Bank's own independent currency policy and as a source of liquidity for performing transactions of the CNB's clients. Foreign currency reserves are invested in compliance with its policy regulating foreign currency reserves management. The bonds portfolio is managed actively. The shares portfolio represents approximately 10% of the invested foreign currency reserves and is managed by two selected companies.

Foreign banks are banks with registered offices abroad. Foreign banks do not include branches of foreign banks with the registered office in the Czech Republic.

Other receivables from foreign banks are particularly represented by reverse repo transactions for which collateral was received in the amount of CZK 32,805 million as at 31 December 2017 (31 December 2016: CZK 37,794 million) (refer to Note 3.18.).

Deposits also include provided collateral in the form of cash placed in foreign banks in the total amount of CZK 1,527 million (31 December 2016: CZK 6,583 million) provided based on the framework agreements on derivatives transactions (ISDA Master Agreement, ISDA Credit Support Annex).

Collateral was additionally provided in the form of bonds and shares.

<b>CZK million</b>	<b>2017</b>	<b>2016</b>
<b>Bonds</b>		
Collateral under repo transaction contracts (refer to Note 3.8.)	27 192	15 356
Collateral for transactions concluded with the counterparty (refer to Note 3.8.)	134	2 642
Automated lending scheme	519	50 713
<b>Shares</b>		
Lending scheme	7 171	6 833
Collateral in the form of other assets (refer to Note 3.18.)	7 573	7 240

### The CNB's foreign exchange rate commitment

On 7 November 2013, the Bank Board resolved to use the foreign exchange rate as a monetary policy tool. If necessary, the CNB intervened, as part of its foreign exchange rate commitment, on the foreign exchange market against the strengthening of the Czech Crown (i.e. purchased foreign exchange reserves) so that the rate of the Czech Crown against the Euro was around CZK 27 per EUR.

Following the decision of the Bank Board of 6 April 2017, the Bank discontinued its foreign exchange rate commitment.

<b>Course of Interventions</b>				
	<b>CZK million</b>		<b>EUR million</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
January	369 832	58 201	14 481	2 154
February	207 857	16 833	8 138	623
March	491 849	0	19 258	0
April	16 678	10 619	653	393
May	0	15 537	0	575
June	0	8 457	0	313
July	0	8 295	0	307
August	0	28 614	0	1 059
September	0	99 569	0	3 685
October	0	107 026	0	3 961
November	0	14 158	0	524
December	0	88 004	0	3 257
<b>Total</b>	<b>1 086 216</b>	<b>455 314</b>	<b>42 530</b>	<b>16 851</b>

In applying the foreign exchange rate as at 31 December 2017.

### 3.4. Receivables from Domestic Banks

The CNB concludes reverse repo transactions with domestic banks in the form of:

- Provided loans – as at 31 December 2017 and 2016, no transactions were concluded; and
- Securities (collateral) switch – as at 31 December 2017 and 2016, no transactions were concluded.

### 3.5. Tangible and Intangible Fixed Assets

Approximately 98% of the Bank's assets at net book value are 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.

Other tangible assets include the collection of coins and medals made of precious metals in the amount of CZK 11 million as at 31 December 2017 (CZK 11 million as at 31 December 2016).

#### Tangible fixed assets

CZK million	Land	Buildings	Machinery, furniture and fittings and other	Acquisition of assets and prepayments made	Total
Cost at 31 December 2016	184	7 031	2 793	11	10 019
Accumulated depreciation at 31 December 2016	0	3 925	2 673	0	6 598
<b>Net book value at 31 December 2016</b>	<b>184</b>	<b>3 106</b>	<b>120</b>	<b>11</b>	<b>3 421</b>
Additions	0	27	64	99	190
Disposals	20	123	116	95	354
Depreciation	0	174	45	0	219
<b>Net book value at 31 December 2017</b>	<b>164</b>	<b>2 913</b>	<b>136</b>	<b>15</b>	<b>3 228</b>
Cost at 31 December 2017	164	6 935	2 741	15	9 855
Accumulated depreciation at 31 December 2017	0	4 022	2 605	0	6 627

#### Intangible fixed assets

CZK million	Software	Other intangible assets	Acquisition of intangible assets and prepayments made	Total
Cost at 31 December 2016	738	18	4	760
Accumulated amortisation at 31 December 2016	719	13	0	732
<b>Net book value at 31 December 2016</b>	<b>19</b>	<b>5</b>	<b>4</b>	<b>28</b>
Additions	67	4	99	170
Disposals	45	4	98	147
Amortisation	18	1	0	19
<b>Net book value at 31 December 2017</b>	<b>67</b>	<b>8</b>	<b>5</b>	<b>80</b>
Cost at 31 December 2017	760	18	5	783
Accumulated amortisation at 31 December 2017	693	10	0	703

### 3.6. Other Assets

Other financial assets include the CNB's share in the European Central Bank ("ECB"), the Bank for International Settlement ("BIS") and the Society for Worldwide Interbank Financial Telecommunication ("SWIFT"). The share of the Czech Republic in the ECB's capital as at 31 December 2017 amounts to 1.6075% totalling EUR 6.5 million (as at 31 December 2016 it amounted to 1.6075% totalling EUR 6.5 million). The share was calculated in line with Article 29 of the Statute using the population number and gross domestic product.

The BIS, SWIFT and ECB 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 the CNB's share on the paid-up portion of the BIS's net assets (or equity) reduced by 30%, which reflects the valuation of shares used by the BIS.

In addition, the Bank's other financial assets include shares of a former bank. The shares are measured at fair value, which based on the Bank's estimate approximates zero.

CZK million	2017	2016
<b>Other financial assets</b>	<b>4 302</b>	<b>4 696</b>
Share in the ECB	167	176
BIS and SWIFT shares	4 135	4 520
<b>Total receivables from former banks</b>	<b>0</b>	<b>0</b>
Loss-making loans provided to former banks	2 343	2 343
Specific provision to loss-making loans provided to former banks (refer to Note 3.11.)	-2 343	-2 343
<b>Other</b>	<b>2 427</b>	<b>2 140</b>
Deferred expenses	53	64
Other precious metals	44	46
Positive fair value of interest rate swaps (refer to Note 3.18.)	710	1 045
Positive fair value of currency forwards (refer to Note 3.18.)	407	0
Margin account including profit/(loss) from change in fair value of futures (refer to Note 3.18.)	443	298
Loans to employees	151	140
Other operating receivables	640	569
Specific provisions against other operating receivables (refer to Note 3.11.)	-21	-22
<b>Total other assets</b>	<b>6 729</b>	<b>6 836</b>

### 3.7. Notes and Coins in Circulation

In accordance with the law (the CNB Act), the Bank has the exclusive right to issue notes and coins (including commemorative coins) to be put into circulation and to manage circulation. The CNB withdraws worn-out or damaged notes and coins from circulation and replaces them with new ones. There are three types of damaged notes:

- **Worn-out by circulation** – e.g. crumpled or stained notes;
- **Regularly damaged** – e.g. partially or fully torn notes, notes that have been written on; and
- **Extraordinarily damaged** – e.g. partly burnt notes or notes whose surface is less than or equal to 50%.

Furthermore, the Bank ensures the artistic and technical execution of notes and coins, examines their validity and participates in the preparation of legal and technical protection.

	Million pieces		CZK million	
	2017	2016	2017	2016
<b>Notes in circulation</b>	<b>461</b>	<b>446</b>	<b>576 447</b>	<b>540 448</b>
CZK 5,000	31	30	155 464	149 625
CZK 2,000	118	106	236 509	212 586
CZK 1,000	145	141	144 807	140 729
CZK 500	42	38	20 986	19 156
CZK 200	63	59	12 477	11 806
CZK 100	62	60	6 204	5 965
CZK 50	0	12	0	581
<b>Coins in circulation</b>	<b>1 861</b>	<b>1 760</b>	<b>17 407</b>	<b>16 241</b>
CZK 50	125	114	6 261	5 686
CZK 20	196	186	3 927	3 721
CZK 10	225	214	2 245	2 140
CZK 5	265	250	1 324	1 251
CZK 2	474	448	948	896
CZK 1	573	546	574	546
Commemorative coins	3	2	2 128	2 001
<b>Total notes and coins in circulation</b>	<b>2 322</b>	<b>2 206</b>	<b>593 854</b>	<b>556 689</b>



### 3.8. Liabilities Abroad

CZK million	2017	2016
Funds from repo transactions	27 248	15 351
Other liabilities abroad	113 744	50 956
<b>Total liabilities abroad</b>	<b>140 992</b>	<b>66 307</b>

The funds received represent the repo transactions with foreign banks. As at 31 December 2017, collateral provided for repo transactions in the form of debt securities was CZK 27,326 million (as at 31 December 2016: CZK 17,998 million) (refer to Note 3.3.).

In addition, foreign banks provided deposits of CZK 112,651 million (31 December 2016: CZK 48,574 million) and collateral in the form of cash deposits in the total amount of CZK 1,093 million (31 December 2016: CZK 2,382 million) in accordance with the master agreements on derivatives transactions (ISDA Master Agreement, ISDA Credit Support Annex).

### 3.9. Payables to Domestic Banks

CZK million	2017	2016
<b>Loans received - repo transactions</b>	<b>1 758 566</b>	<b>541 506</b>
<b>Total domestic bank reserves</b>	<b>92 721</b>	<b>201 561</b>
Payment system accounts	87 507	196 688
Balances on cash withdrawal and deposit accounts	5 170	4 845
Special MMR accounts	44	28
<b>Total other liabilities to domestic banks</b>	<b>443 633</b>	<b>548 239</b>
Short-term deposits received	443 529	547 907
Other liabilities	104	332
<b>Total liabilities to domestic banks</b>	<b>2 294 920</b>	<b>1 291 306</b>

The CNB concludes reverse repo transactions with domestic banks in the form of:

- Received loans (collateral of the CNB's treasury bills) – in the amount of CZK 1,734,540 million as at 31 December 2017 (as at 31 December 2016: CZK 531,181 million); and
- Securities (collateral) switch – in the amount of CZK 0 million as at 31 December 2017 (as at 31 December 2016: CZK 0 million) accounted for off balance sheet.

For more information refer to Note 2.8 of Accounting Policies.

### 3.10. Payables to the State and Other Public Institutions

CZK million	2017	2016
<b>Total CZK funds</b>	<b>268 349</b>	<b>180 902</b>
Single Treasury Account and other state funds in CZK (refer to Note 2.14.)	234 618	153 928
Other deposits in CZK	33 731	26 974
of which Deposit Insurance Fund	33 062	26 381
<b>Total foreign currency funds</b>	<b>1 546</b>	<b>1 683</b>
Single Treasury Account in EUR	119	147
Other deposits in foreign currencies	1 427	1 536
<b>Total state and public institution deposits</b>	<b>269 895</b>	<b>182 585</b>

The Bank maintains a system of CZK, EUR and selected foreign-currency accounts for the purposes of Treasury and provides an agreed scope of banking services in respect of these accounts. The accounts are maintained pursuant to Section 3 (h) of Act No. 218/2000 Coll., on Budgetary Rules and Change to Certain Acts (budgetary rules).

The CNB followed up on the announcement of the ECB's negative rates and decided to determine a negative interest rate for above-the-limit volumes of EUR funds of clients. Based on a decision adopted by the Ministry of Finance, it has assumed a more active approach to managing the liquidity of EUR funds.

Effective from 1 January 2016, the Deposit Insurance Fund was transformed into a public institution, the Financial Market Guarantee System (the "FMGS"), which comprises the funds of the existing Deposit Insurance Fund. The FMGS was formed:

- Following the adoption of Act No. 374/2015 Coll., on Remedial Procedures and Financial Market Crisis Resolution;
- Following the adoption of Act No. 375/2015 Coll. amending certain acts with respect to the adoption of the Act on Remedial Procedures and Financial Market Crisis Resolution; and
- In connection with the adjustment to the deposit insurance system.

**3.11. Provisions, Specific Provisions and Write-offs of Assets**

CZK million	1 January 2016	Additions	Write-offs	Release	31 December 2016	Additions	Write-offs	Release	31 December 2017
<b>Specific provisions</b>	<b>2 365</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2 365</b>	<b>0</b>	<b>-1</b>	<b>0</b>	<b>2 364</b>
Classified loans of former banks (refer to Note 3.6.)	2 343	0	0	0	<b>2 343</b>	0	0	0	<b>2 343</b>
Other operating receivables (refer to Note 3.6.)	22	0	0	0	<b>22</b>	0	-1	0	<b>21</b>

CZK million	1 January 2016	Additions	Usage	FX differences	31 December 2016	Additions	Usage	FX differences	31 December 2017
<b>Provisions</b>	<b>285</b>	<b>6</b>	<b>-6</b>	<b>9</b>	<b>294</b>	<b>5</b>	<b>-5</b>	<b>-49</b>	<b>245</b>
Guarantees for clients (refer to Note 3.18)	285	6	-6	9	<b>294</b>	5	-5	-49	<b>245</b>

**3.12. Equity**

CZK million	Share capital	Funds	Accumulated losses	Revaluation reserve	Profit/loss for the reporting period	Total equity
Balance as at 1 January 2016	1 400	14 161	0	7 838	-549	22 850
Profit distribution for 2015	0	0	-549	0	549	0
General reserve fund subsidy	0	0	0	0	0	0
Revaluation reserve not included in profit	0	0	0	-3 438	0	-3 438
Profit for 2016	0	0	0	0	46 469	46 469
<b>Balance at 31 December 2016</b>	<b>1 400</b>	<b>14 161</b>	<b>-549</b>	<b>4 400</b>	<b>46 469</b>	<b>65 881</b>
Profit distribution for 2016	0	0	549	0	-549	0
General reserve fund subsidy	0	45 920	0	0	-45 920	0
Revaluation reserve not included in profit	0	0	0	-6 444	0	-6 444
Loss for 2017	0	0	0	0	-243 243	-243 243
<b>Balance at 31 December 2017</b>	<b>1 400</b>	<b>60 081</b>	<b>0</b>	<b>-2 044</b>	<b>-243 243</b>	<b>-183 806</b>

The profit for 2016 was used to settle the loss for the prior periods of CZK 549 million. The remaining profit of CZK 45,920 million was transferred to the reserve fund.

**Revaluation reserve**

The revaluation reserve represents the change in the fair value of available-for-sale debt securities, shares and interests representing the participations until the time of sale or permanent impairment (refer to Note 2.4.).

**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 in the share capital or for any other purpose approved by the Bank Board of the CNB. As at 31 December 2017, the reserve fund balance was CZK 60,081 million (as at 31 December 2016: CZK 14,161 million).



**3.13. Other Liabilities**

CZK million	2017	2016
Negative fair value of foreign currency forwards (refer to Note 3.18.)	0	2 712
Negative fair value of interest rate swaps (refer to Note 3.18.)	486	1 154
Payables to the European Commission	6 529	9 677
Employee accounts	1 332	1 277
Other liabilities	6 412	1 597
<b>Total other liabilities</b>	<b>14 759</b>	<b>16 417</b>

Payables to the European Commission include funds from the EU budget to be used by the Czech Republic.

Other liabilities totalling CZK 6,412 million include liabilities of CZK 79 million owing to social security and health insurance premiums as at 31 December 2017 (2016: CZK 50 million). The Bank has no liabilities related to social security and health insurance that would be overdue.

**3.14. Net Interest Income**

CZK million	2017	2016
<b>Total interest income and similar income</b>	<b>14 457</b>	<b>8 585</b>
Total interest on securities	13 864	8 401
Interest on zero-coupon bonds	290	285
Interest on coupon bonds	13 574	8 116
Total other interest income	593	184
Interest on inter-bank deposits	590	181
Interest on employees loans	3	3
<b>Total interest expense and similar expense</b>	<b>13 843</b>	<b>4 182</b>
Interest on liabilities to banks	13 832	4 178
Interest on liabilities to employees and other clients	11	4
<b>Net interest income</b>	<b>614</b>	<b>4 403</b>

Net interest income represents the difference between interest received and interest paid on securities and deposits.

**3.15. Gains less Losses from Financial Operations**

CZK million	2017	2016
<b>Net foreign exchange gains / (losses) and foreign exchange spread</b>	<b>-270 365</b>	<b>23 978</b>
Foreign exchange gains / (losses)	-270 981	22 864
Foreign exchange spread	616	1 114
<b>Other</b>	<b>20 576</b>	<b>15 320</b>
Gains from sales of bonds	3 279	4 275
Losses from sales of bonds	-3 498	-456
Profit / (loss) from revaluation and sale of shares	22 891	12 213
Net gains / (losses) from currency forwards	-1 935	-648
Net gains / (losses) from interest rate futures	-26	-18
Net gains / (losses) from interest rate swaps	-386	-190
Net gains / (losses) from share futures	251	144
<b>Gains less losses from financial operations</b>	<b>-249 789</b>	<b>39 298</b>

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

**3.16. Other Expenses****Administration expenses**

CZK million	2017	2016
<b>Total personnel costs</b>	<b>1 494</b>	<b>1 407</b>
Salaries	1 056	991
of which the Bank Board	30	29
Social and health security	352	328
Other social costs and employee benefits	67	62
Costs of personnel training	19	26
<b>Total other administration expense</b>	<b>325</b>	<b>340</b>
Rental	3	3
Other	322	337
<b>Total administration expenses</b>	<b>1 819</b>	<b>1 747</b>

As at 31 December 2017, the average recalculated headcount including the Bank Board amounted to 1,375 employees (as at 31 December 2016: 1,336 employees).

### 3.17. Financial Risks

#### Liquidity risk

The Bank monitors and manages the structure and duration of its foreign currency reserves in compliance with its missions.

CZK million		Up to 1 month	1 – 3 months	3 - 12 months	1 – 5 years	Over 5 years	Unspecified	Total
Gold	2017	0	0	0	0	0	602	<b>602</b>
	2016	0	0	0	0	0	630	630
Receivables from the IMF	2017	0	0	0	0	0	81 008	<b>81 008</b>
	2016	0	0	0	0	0	89 557	89 557
Zero-coupon bonds	2017	15 093	19 189	11 062	42 878	0	0	<b>88 222</b>
	2016	10 279	12 376	76 323	56 058	0	0	155 036
Coupon bonds	2017	2 006	15 413	95 235	888 000	410 936	0	<b>1 411 590</b>
	2016	15 237	35 233	116 537	856 044	147 110	0	1 170 161
Shares	2017	0	0	0	0	0	264 297	<b>264 297</b>
	2016	0	0	0	0	0	189 856	189 856
Deposits, loans and other receivables from abroad	2017	1 356 385	0	0	0	0	0	<b>1 356 385</b>
	2016	652 668	0	0	0	0	0	652 668
Receivables from domestic banks	2017	0	0	0	0	0	0	<b>0</b>
	2016	0	0	0	0	0	0	0
Tangible and intangible assets	2017	0	0	0	0	0	3 308	<b>3 308</b>
	2016	0	0	0	0	0	3 449	3 449
Other assets	2017	2 223	0	53	1	150	4 302	<b>6 729</b>
	2016	1 937	0	64	1	138	4 696	6 836
<b>Total assets</b>	2017	<b>1 375 707</b>	<b>34 602</b>	<b>106 350</b>	<b>930 879</b>	<b>411 086</b>	<b>353 517</b>	<b>3 212 141</b>
	2016	680 121	47 609	192 924	912 103	147 248	288 188	2 268 193
Notes and coins in circulation	2017	0	0	0	0	0	593 854	<b>593 854</b>
	2016	0	0	0	0	0	556 689	556 689
Liabilities to the IMF	2017	0	0	0	0	0	81 282	<b>81 282</b>
	2016	0	0	0	0	0	88 714	88 714
Liabilities abroad	2017	140 916	0	76	0	0	0	<b>140 992</b>
	2016	66 231	0	76	0	0	0	66 307
Liabilities to domestic banks	2017	2 294 920	0	0	0	0	0	<b>2 294 920</b>
	2016	1 291 306	0	0	0	0	0	1 291 306
Liabilities to the state	2017	269 895	0	0	0	0	0	<b>269 895</b>
	2016	182 585	0	0	0	0	0	182 585
Provisions	2017	0	0	0	0	0	245	<b>245</b>
	2016	0	0	0	0	0	294	294
Equity	2017	0	0	0	0	0	-183 806	<b>-183 806</b>
	2016	0	0	0	0	0	65 881	65 881
Other liabilities	2017	14 106	0	471	182	0	0	<b>14 759</b>
	2016	15 792	0	438	187	0	0	16 417
<b>Total liabilities</b>	2017	<b>2 719 837</b>	<b>0</b>	<b>547</b>	<b>182</b>	<b>0</b>	<b>491 575</b>	<b>3 212 141</b>
	2016	1 555 914	0	514	187	0	711 578	2 268 193
<b>Net liquidity gap</b>	2017	<b>-1 344 130</b>	<b>34 602</b>	<b>105 803</b>	<b>930 697</b>	<b>411 086</b>	<b>-138 058</b>	<b>0</b>
	2016	-875 793	47 609	192 410	911 916	147 248	-423 390	0

**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.

<b>CZK million</b>		Up to 1 month	1 – 3 months	3 - 12 months	1 – 5 years	Over 5 years	Not sensitive to the interest rate	<b>Total</b>
Gold	2017	0	0	0	0	0	602	<b>602</b>
	2016	0	0	0	0	0	630	630
Receivables from the IMF	2017	0	0	0	0	0	81 008	<b>81 008</b>
	2016	0	0	0	0	0	89 557	89 557
Zero-coupon bonds	2017	15 093	19 189	11 062	42 878	0	0	<b>88 222</b>
	2016	10 279	12 376	76 323	56 058	0	0	155 036
Coupon bonds	2017	13 404	37 630	116 458	833 380	410 718	0	<b>1 411 590</b>
	2016	34 843	81 741	147 448	763 162	142 967	0	1 170 161
Shares	2017	0	0	0	0	0	264 297	<b>264 297</b>
	2016	0	0	0	0	0	189 856	189 856
Deposits, loans and other receivables from abroad	2017	1 356 385	0	0	0	0	0	<b>1 356 385</b>
	2016	652 668	0	0	0	0	0	652 668
Receivables from domestic banks	2017	0	0	0	0	0	0	<b>0</b>
	2016	0	0	0	0	0	0	0
Tangible and intangible assets	2017	0	0	0	0	0	3 308	<b>3 308</b>
	2016	0	0	0	0	0	3 449	3 449
Other assets	2017	2 276	0	0	1	150	4 302	<b>6 729</b>
	2016	2 001	0	0	1	138	4 696	6 836
<b>Total assets</b>	2017	<b>1 387 158</b>	<b>56 819</b>	<b>127 520</b>	<b>876 259</b>	<b>410 868</b>	<b>353 517</b>	<b>3 212 141</b>
	2016	699 791	94 117	223 771	819 221	143 105	288 188	2 268 193
Notes and coins in circulation	2017	0	0	0	0	0	593 854	<b>593 854</b>
	2016	0	0	0	0	0	556 689	556 689
Liabilities to the IMF	2017	0	0	0	0	0	81 282	<b>81 282</b>
	2016	0	0	0	0	0	88 714	88 714
Liabilities abroad	2017	140 992	0	0	0	0	0	<b>140 992</b>
	2016	66 307	0	0	0	0	0	66 307
Liabilities to domestic banks	2017	2 294 920	0	0	0	0	0	<b>2 294 920</b>
	2016	1 291 306	0	0	0	0	0	1 291 306
Liabilities to the state	2017	269 895	0	0	0	0	0	<b>269 895</b>
	2016	182 585	0	0	0	0	0	182 585
Provisions	2017	0	0	0	0	0	245	<b>245</b>
	2016	0	0	0	0	0	294	294
Equity	2017	0	0	0	0	0	-183 806	<b>-183 806</b>
	2016	0	0	0	0	0	65 881	65 881
Other liabilities	2017	14 106	0	471	182	0	0	<b>14 759</b>
	2016	15 792	0	438	187	0	0	16 417
<b>Total liabilities</b>	2017	<b>2 719 913</b>	<b>0</b>	<b>471</b>	<b>182</b>	<b>0</b>	<b>491 575</b>	<b>3 212 141</b>
	2016	1 555 990	0	438	187	0	711 578	2 268 193
<b>Net interest sensitivity gap</b>	2017	<b>-1 332 755</b>	<b>56 819</b>	<b>127 049</b>	<b>876 077</b>	<b>410 868</b>	<b>-138 058</b>	<b>0</b>
	2016	-856 199	94 117	223 333	819 034	143 105	-423 390	0

\* Change in the reporting method taking into account the length of interest rate fixation.

### 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, 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 and subordinate their development to the primary statutory target of monetary stability, the CNB cannot reduce the risk of the strengthening of the Czech currency against major foreign currencies.

CZK million		CZK	EUR	USD	JPY	GBP	CAD	AUD	SEK	Other	Total
Gold	2017	0	0	0	0	0	0	0	0	602	602
	2016	0	0	0	0	0	0	0	0	630	630
Receivables from the IMF	2017	57 654	0	0	0	0	0	0	0	23 354	81 008
	2016	61 897	0	0	0	0	0	0	0	27 660	89 557
Zero-coupon bonds	2017	0	60 857	1 062	5 486	0	0	0	12 184	8 633	88 222
	2016	0	103 986	6 397	0	0	40 864	591	1 924	1 274	155 036
Coupon bonds	2017	0	622 754	488 380	0	0	180 242	99 951	20 263	0	1 411 590
	2016	0	461 086	408 748	0	0	166 841	109 518	23 968	0	1 170 161
Shares	2017	0	178 651	38 611	8 132	5 655	21 261	11 987	0	0	264 297
	2016	0	118 843	33 824	6 387	4 465	17 085	9 252	0	0	189 856
Deposits, loans and other receivables from abroad	2017	0	1 192 288	4 975	56 816	70	259	1 972	1 595	98 410	1 356 385
	2016	0	482 459	20 647	39 513	112	274	1 228	14	108 421	652 668
Receivables from domestic banks	2017	0	0	0	0	0	0	0	0	0	0
	2016	0	0	0	0	0	0	0	0	0	0
Tangible and intangible assets	2017	3 297	0	0	0	0	0	0	0	11	3 308
	2016	3 438	0	0	0	0	0	0	0	11	3 449
Other assets	2017	715	843	812	40	45	80	38	0	4 156	6 729
	2016	287	703	1 132	27	35	76	24	0	4 552	6 836
<b>Total assets</b>	2017	<b>61 666</b>	<b>2 055 393</b>	<b>533 840</b>	<b>70 474</b>	<b>5 770</b>	<b>201 842</b>	<b>113 948</b>	<b>34 042</b>	<b>135 166</b>	<b>3 212 141</b>
	2016	65 622	1 167 077	470 748	45 927	4 612	225 140	120 613	25 906	142 548	2 268 193
Notes and coins in circulation	2017	593 854	0	0	0	0	0	0	0	0	593 854
	2016	556 689	0	0	0	0	0	0	0	0	556 689
Liabilities to the IMF	2017	57 654	0	0	0	0	0	0	0	23 628	81 282
	2016	61 897	0	0	0	0	0	0	0	26 817	88 714
Liabilities abroad	2017	112 651	25 999	815	0	0	0	1 527	0	0	140 992
	2016	48 574	1 828	15 905	0	0	0	0	0	0	66 307
Liabilities to domestic banks	2017	2 294 920	0	0	0	0	0	0	0	0	2 294 920
	2016	1 291 306	0	0	0	0	0	0	0	0	1 291 306
Liabilities to the state	2017	268 349	119	1 427	0	0	0	0	0	0	269 895
	2016	180 903	147	1 535	0	0	0	0	0	0	182 585
Provisions	2017	0	0	245	0	0	0	0	0	0	245
	2016	0	0	294	0	0	0	0	0	0	294
Equity	2017	-181 851	440	-4 940	0	0	-1 617	47	334	3 781	-183 806
	2016	61 450	4 416	-4 201	0	0	-600	250	442	4 124	65 881
Other liabilities	2017	8 074	6 516	168	0	1	0	0	0	0	14 759
	2016	13 569	2 625	223	0	0	0	0	0	0	16 417
<b>Total liabilities</b>	2017	<b>3 153 651</b>	<b>33 074</b>	<b>-2 285</b>	<b>0</b>	<b>1</b>	<b>-1 617</b>	<b>1 574</b>	<b>334</b>	<b>27 409</b>	<b>3 212 141</b>
	2016	2 214 388	9 016	13 756	0	0	-600	250	442	30 941	2 268 193
<b>Net assets/(liabilities)</b>	2017	<b>-3 091 985</b>	<b>2 022 319</b>	<b>536 125</b>	<b>70 474</b>	<b>5 769</b>	<b>203 459</b>	<b>112 374</b>	<b>33 708</b>	<b>107 757</b>	<b>0</b>
	2016	-2 148 766	1 158 061	456 992	45 927	4 612	225 740	120 363	25 464	111 607	0
<b>Net off-balance sheet assets</b>	2017	21	50 265	153 517	60 831	67 192	0	1	15 312	2	347 141
	2016	12	282 008	13 319	27 427	27 922	0	0	16 646	22 649	389 983
<b>Net off-balance sheet liabilities</b>	2017	-21	-38 338	-127 062	-62 230	-3	0	0	-12 174	-106 696	-346 524
	2016	-25 924	-21 482	-171 951	-39 433	0	0	0	-1 924	-132 142	-392 856
<b>Net foreign exchange position</b>	2017	<b>-3 091 985</b>	<b>2 034 246</b>	<b>562 580</b>	<b>69 075</b>	<b>72 958</b>	<b>203 459</b>	<b>112 375</b>	<b>36 846</b>	<b>1 063</b>	<b>617</b>
	2016	-2 174 678	1 418 587	298 360	33 921	32 534	225 740	120 363	40 186	2 114	-2 873

**Credit risk and the concentration of liabilities**

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 an ongoing basis and are subject to review at least once per year.

**ASSETS**

<b>CZK million</b>	<b>2017</b>	<b>2016</b>
Czech Republic	5 690	5 516
Germany	994 895	665 318
France	365 583	267 751
Netherlands	44 244	182 301
Austria	24 807	16 305
Slovakia	546 624	22 224
Luxembourg	43 739	29 568
Spain	19 081	12 527
Other Eurozone countries	43 875	23 212
Switzerland	111 800	116 794
Sweden	35 471	31 436
Denmark	21 657	32 522
United Kingdom	29 648	24 124
Norway	15 135	12 005
Other European countries	20	0
USA	539 359	458 942
Canada	195 452	220 137
Australia	104 302	101 426
Japan	70 359	45 816
Other countries	400	269
<b>Geographical concentration of assets</b>	<b>3 212 141</b>	<b>2 268 193</b>
Of which deposits and bonds:		
Central governments and central banks	2 518 427	1 644 041
Government agencies	279 072	259 450
Commercial banks	5 637	22 192
BIS	23 677	30 982
<b>Total deposits and bonds</b>	<b>2 826 813</b>	<b>1 956 665</b>

**LIABILITIES**

Czech republic	2 983 338	2 192 209
USA	81 443	630
Eurozone countries	97 540	24 392
Other European countries	27 915	25 315
Other countries	21 905	25 647
<b>Geographical concentration of liabilities</b>	<b>3 212 141</b>	<b>2 268 193</b>

### 3.18. Off-Balance Sheet Items

#### Guarantees

CZK million	2017	2016
<b>Total issued guarantees</b>	<b>1 049</b>	<b>157 272</b>
To clients (refer to Note 3.11.)	245	294
In relation to the Indemnity Letter and Agreement (refer to Note 3.20.)	0	156 154
For deposits held by IPB (refer to Note 3.20.)	4	24
Consolidation of the banking sector – sale of part of the business of Agrobanka Praha a. s.	800	800
<b>Total guarantees received</b>	<b>64 616</b>	<b>224 515</b>
From the Ministry of Finance of the CR received in relation to the State Guarantee (refer to Note 3.20.)	0	156 154
State guarantee to secure the loan to the IMF	64 616	68 361

The identified need for provisions for expected losses on the guarantees issued to clients was CZK 245 million as at 31 December 2017 (31 December 2016: CZK 294 million) (refer to Note 3.11.).

The Bank has not recognised a provision for claims for the guarantees provided 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.

Given that on 31 December 2016 the period during which ČSOB could have submitted its claims to the CNB under the Indemnification Contract and Commitment expired (i.e. it has no longer been possible to indemnify ČSOB since 1 January 2017), the information disclosed in respect of the guarantee issued under the Indemnification Contract and Commitment was, along with the information disclosed in respect of the guarantee received from the Ministry of Finance of the Czech Republic in relation to the State Guarantee for 2017, set to zero (refer to Note 3.20.).

For the purposes of providing a state guarantee of the CR to secure the CNB's loan to the IMF, Act No. 216/2013 Coll. was adopted.

#### Collateral received

CZK million	2017	2016
Repo transactions	32 805	37 794
Automated lending scheme (securities lending) (refer to Note 3.3.)	7 573	7 240
Collateral for transactions concluded with the counterparty	224	0
<b>Total collateral received</b>	<b>40 602</b>	<b>45 034</b>

#### Spot transactions and derivative financial instruments

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

CZK million	2017	2016
<b>Off-balance sheet receivables</b>	<b>398 115</b>	<b>468 645</b>
from currency forward transactions	347 046	341 410
from interest rate swap transactions	33 105	57 541
from share futures transactions	1 928	1 475
from unsettled interest rate spot transactions	15 941	19 646
from unsettled currency spot transactions	95	48 573
<b>Off-balance sheet payables</b>	<b>397 498</b>	<b>471 518</b>
from currency forward transactions	346 429	344 281
from interest rate swap transactions	33 105	57 541
from share futures transactions	1 928	1 475
from unsettled interest rate spot transactions	15 941	19 646
from unsettled currency spot transactions	95	48 575

At the balance sheet date, the Company records contracts for the following currency forwards hedging the movement of foreign exchange rates:

CZK million	2017	2016
Off-balance sheet receivables from forward transactions	347 046	341 410
Off-balance sheet payables from forward transactions	346 429	344 281
Positive fair value (refer to Note 3.6.)	407	0
Negative fair value (refer to Note 3.13.)	0	2 712

All currency forwards will mature in 2018.

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 in the fair value of these foreign currency forwards are reported in gains less losses from financial operations (refer to Note 18). Gains and losses from revaluation arising from changes in foreign exchange rates are reported under net foreign exchange gains / (losses) and foreign exchange spread (refer to Note 3.15.).

The Bank records contracts for the following swap transactions at the balance sheet date:

CZK million	2017	2016
Off-balance sheet receivables from interest rate swap transactions	33 105	57 541
Off-balance sheet payables from interest rate swap transactions	33 105	57 541
Positive fair value (refer to Note 3.6.)	710	1 045
Negative fair value (refer to Note 3.13.)	486	1 154

The interest rate swaps also 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 in the fair value are recorded in gains less losses from financial operations (refer to Note 3.15.).

The Bank records contracts for the following futures transactions at the balance sheet date:

CZK million	2017	2016
Net gain/(loss) from change in fair values of interest rate futures transactions for the reporting period (refer to Note 3.15.)	-26	-18
Off-balance sheet receivables from share futures transactions	1 928	1 475
Off-balance sheet payables from share futures transactions	1 928	1 475
Net gain/(loss) from change in fair values of futures transactions for the reporting period (refer to Note 3.15.)	251	144
Net gain/(loss) from change in fair values of futures transactions for the reporting period	225	126
Cash on margin account	218	172
Margin account including settled change in fair value of interest rate futures transactions (refer to Note 3.6.)	443	298

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 also 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 in the fair value are recorded in gains less losses from financial operations (refer to Note 3.15.).

#### Financial assets held in custody

The Bank did not receive any financial assets from third parties to be held in custody in 2017 and 2016.

### 3.19. Contingent Liabilities

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, as amended, the CNB charges against income the amounts it pays for the acknowledged reasonable operating costs of the Ministry of Finance of the Czech Republic (until 31 December 2007 the costs of Česká konsolidační agentura a.s.). In 2017 these costs were CZK 0.1 million (2016: CZK 0.1 million). The Bank does not recognise any provisions for these contingencies as they are immaterial.

#### Ongoing lawsuits

As a result of the transactions the CNB conducted in the past 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 lawyers and internal analyses, the CNB does not consider it probable that the outcome of these legal cases will result in any material outflow of the CNB's resources and, therefore, has not recognised 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., on the Amendment of Acts Connected with the Unification of Financial Market Supervision. According to this Act, any financial liabilities arising from these legal cases would be reimbursed by the state.

### 3.20. Bank Sector Consolidation

#### 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's off-balance sheet based on an assessment of the liabilities covered by the Guarantee for Deposits calculated by Československá obchodní banka a.s. ("CSOB"). The balance of the Guarantee for Deposits in the off-balance sheet of the CNB as at 31 December 2017 was CZK 4 million (31 December 2016: CZK 24 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's indemnification based on the Indemnity Letter ("the State Guarantee"). The State Guarantee covers losses that may be incurred by the CNB as a result of the indemnification of CSOB for losses (damage) arising from IPB's unrecorded liabilities 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 should have been made by CSOB and settled by the CNB by 31 December 2016; the maximum amount of the compensation was CZK 160 billion. Based on this declaration, the CNB expected the maximum compensation from the State Guarantee to be of the same amount. In relation to individual compensation payments made to CSOB, the CNB adjusted the remaining amount of the State Guarantee, for which reason it equalled the unused amount of the possible compensation arising from the Indemnity Letter.

The CNB received a Binding Representation from CSOB on 28 June 2004. A final List of Claims was enclosed to this Binding Representation. The CNB accepted this Binding Representation on 28 June 2004. This did 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 have been brought by CSOB.

The CNB refused to accept the claims brought by CSOB in respect of which it believed that they do not qualify for indemnification in line with the Indemnity Letter.

The table below analyses the amount of total final payments to CSOB covered under the Indemnity Letter as at 31 December 2016.

The information for 2017 is zero as on 31 December 2016 the period during which ČSOB could submit its claims to the CNB under the Indemnification Commitment expired, for which reason it has no longer been possible to indemnify ČSOB since 1 January 2017.

CZK million	2017	2016
Total potential claims under the Indemnity Letter	0	160 000
Foreign exchange differences	0	-17
Settlement to CSOB	0	-3 829
<b>Total potential future claims under the Indemnity Letter</b> (refer to Note 3.18.)	<b>0</b>	<b>156 154</b>

The advances and final payments received by the CNB from the State Guarantee as at 31 December 2016 are disclosed in the table below.

In this regard, it also applies that the information for 2017 is zero as the State Guarantee covers losses that arose for the CNB from the indemnification of ČSOB under the Indemnification Commitment, which, however, has not been possible since 1 January 2017.

CZK million	2017	2016
Total State Guarantee received	0	160 000
Funds from the State Guarantee	0	-3 344

Funds of the CNB not covered by the State Guarantee	0	-502
<b>Unused amount of State Guarantee</b> (refer to Note 3.18.)	<b>0</b>	<b>156 154</b>

### 3.21. Related Party Transactions

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.

In accordance with internal rules the CNB provides the members of the Bank Board and senior management with 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.

### 3.22. Subsequent Events

The CNB's management is not aware of any other subsequent events that would have a material impact on the financial statements for the year ended 31 December 2017.



## **INDEPENDENT AUDITOR'S REPORT**

### **To the Bank Board of the Czech National Bank**

Having its registered office at: Na Příkopě 28, 115 03 Prague 1  
Identification number: 481 36 450

#### Opinion

We have audited the accompanying financial statements of the Czech National Bank prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as at 31 December 2017, and the income statement and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the assets and liabilities of the Czech National Bank as at 31 December 2017, and of its expenses and income and its profit or loss for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

#### Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Czech National Bank in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Bank Board of the Czech National Bank is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Czech National Bank obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

#### Responsibilities of the Bank Board of the Czech National Bank for the Financial Statements

The Bank Board of the Czech National Bank is responsible for the preparation and fair presentation of the financial statements in accordance with accounting regulations applicable in the Czech Republic and for such internal control as the Bank Board of the Czech National Bank determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank Board of the Czech National Bank is responsible for assessing the Czech National Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Bank Board of the Czech National Bank either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Czech National Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank Board of the Czech National Bank.
- Conclude on the appropriateness of the Bank Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Czech National Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Czech National Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Bank Board of the Czech National Bank regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

In Prague on 22 March 2018

Audit firm:

Deloitte Audit s.r.o.  
registration no. 079



Statutory auditor:

Diana Rádľ Rogerová  
registration no. 2045

