2002

BANKING SUPERVISION 2002

CZECH NATIONAL BANK

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METHODOLOGICAL NOTE

All data used in this publication are for banks with a licence as of 31 December 2002, unless stated otherwise in the chapter heading or relevant passage. Data are always taken for the bank as a whole, including its foreign branches, with the exception of the data on the structure of credits and deposits by sector and economic activity, which cover the activities of banks in the Czech Republic only.

The data for 2002 partly reflect the results of external audits, so they may differ from data previously published by the CNB. Some additional changes to the data given in this publication may arise. However, these should not significantly affect the trends described.

Extensive methodological changes to the calculation of particular indicators were introduced in 2002 following amendments to the Act on Banks and the charts of accounts for banks. Wherever possible, previous data have been recalculated using the new methodology in order to ensure maximum comparability over time. Some of the data may therefore differ from those published up to the end of 2001. The main changes are as follows:

- the deduction of securities accepted as collateral in reverse repos from total assets (in past years, the value of trading CNB bills accepted by banks in reverse repos had been deducted from total assets) – this prevents reverse repos from being included twice in total assets;
- the introduction of separate monitoring of government coupon bonds, which allows them to be recorded independently of total coupon bonds and included in government bonds;
- the inclusion of creation and use of provisions and reserves for securities in profit/loss from financial activities (from securities transactions), due to the new structure of the profit and loss account;
- the inclusion of write-offs and expenses from transfer of receivables in net creation of reserves, provisions and write-offs, again due to the new structure of the profit and loss account.

Foreword

Every year since 1996 the Czech National Bank has issued a publication providing key information on the Czech banking sector and its own regulatory and supervisory activities over the past year. This publication is therefore the seventh in the series, and I firmly believe that it will again provide the broad professional public with vital up-to-date information on the Czech banking sector in 2002 from the regulator's perspective.

2002 was a year of stabilisation of the banking sector. Despite having to deal with problems in some of the small banks, the Czech National Bank was able to focus more closely on measures of a systemic nature. The banking sector as a whole continued to consolidate, thanks mainly to the completion of the privatisations of the large banks. Besides capital, the new strong and experienced owners brought with them essential expertise and innovative and effective management methods. The majority of the banks saw significantly improved financial and prudential indicators. This came not only in response to the pre-privatisation clear-out of bad loans from the large banks, but also thanks to improved management, leading in turn to greater efficiency. The Czech banking sector is now stable, profitable and well capitalised.

The completion of the privatisation process and the ensuing stabilisation of ownership relations has fostered unprecedented stability in the banking sector, which is by far the most important segment of the financial market. This is positively contributing to the stability of the entire Czech economy, as sustainable economic growth cannot be achieved without a strong and effective banking sector. In this respect, the situation in 2002 differs considerably from previous years.

The Czech banking sector's high degree of foreign ownership is also placing new demands on the supervisor. In 2002, the Czech National Bank continued to expand its co-operation with foreign regulators – based on bilateral agreements and on formal and informal contacts stemming from its membership of the working groups of various international organisations. Analyses conducted by international institutions confirm that the standard of regulation and supervision in the Czech banking sector is comparable with that in economically more advanced countries. The Czech National Bank is an equal and respected partner in the area of regulation and supervision on the international scene.

A major legislative change in 2002 was the extension of consolidated supervision to include financial and mixed-activity holding companies. This will allow the CNB to acquire essential information on the soundness and stability of banks that form part of such holdings, thus affording greater protection for their depositors. However, consolidated supervision requires greater co-operation among the regulators of the various parts of the financial sector, namely the Czech National Bank, the Czech Ministry of Finance and the Czech Securities Commission. These institutions are working together increasingly closely and signed a new Memorandum of Understanding at the start of the year. This Memorandum, replacing a previous one dating from 1998, provides among other things for the establishment of a Committee on the Co-ordination of Supervision of the Financial Market in order to improve the co-ordination of the individual regulators' activities, thereby preventing deficient regulation of any of the financial market segments and, on the other hand, eliminating any needless duplication of effort in regulation and supervision.

One of the preconditions for an effective banking sector is the availability of reliable information on banks' customers. Last year the CNB – in collaboration with the Czech Banking Association – made an important contribution to enhancing transparency in the banking sector and reducing the credit-risk-related problem of asymmetric information by establishing and running a business credit registry (the "Central Register of Credits").

One of the most important tasks for the period ahead is to implement the New Basel Capital Accord (NBCA) in the Czech Republic. The NBCA contains a new approach to credit risk, which remains the most significant risk in the Czech banking sector. The new approach to setting capital requirements consists among other things in allowing each bank to determine its capital requirement in a way that better reflects its risks and its ability to manage them. There will also be stricter transparency requirements with regard to the information each bank discloses about itself. Being aware of the importance of the NBCA, the Czech National Bank has launched a joint project with the Czech Banking Association and the Czech Chamber of Auditors to implement these requirements in a timely and co-operative fashion. The exact minimum requirements will be set in a European directive that is currently in the pipeline, but for Czech banks timely preparation is essential if their international competitiveness is to be maintained. The NBCA will also impinge on the way banking supervision is performed, not least because of the close ownership links between Czech and foreign banks.

The Czech National Bank will continue to inform the public about its specific regulatory and supervisory activities both in its regular publications and by means of reports published on its website.

For the Czech banking sector, 2002 was a year of hard work, work that fostered greater stability, profitability and efficiency and generated a wider range of services for banks' customers. We expect these positive trends to continue in 2003. The Czech National Bank will spare no effort to foster a stable and effective banking market in the Czech Republic.

Pavel Racocha
Bank Board Member
Czech National Bank

A. BANKING SUPERVISION IN 2002

The Czech National Bank's banking supervisory activities during 2002 were based on the medium-term plan approved for 2002–2004. Just as previously, the focal point of the work lay in off-site surveillance and on-site inspections. In the regulatory area, the basic conceptual aim is to create a regulatory framework for banks and consolidated groups which will steer them towards prudent business without stifling healthy competition. This framework must be harmonised with European law and compatible with other internationally recognised standards.

MAIN SUPERVISORY TASKS IN 2002

Based on the recommendations of the Financial Sector Assessment Program ("FSAP") and subsequent missions of the European Commission, as well as the CNB's own experience in past years, the following vital areas for improving the conduct of banking supervision were identified:

- a changeover to risk-based supervision,
- expansion of consolidated supervision,
- an emphasis on the importance of on-site inspections targeted at key risks and processes in banks,
- upgrading of the skills of supervisory staff to enable them to perform supervision based on risk profile assessments of banks and regulated consolidated groups,
- enhanced transparency of supervision as a precondition for correct understanding of its function by banks and the public,
- a faster and more effective supervisory response to problems detected,
- closer co-operation with domestic regulators and elimination of duplication of effort in the supervision of banks and branches of foreign banks,
- extending of the regulatory framework to include a set of requirements for banking risk management and internal control systems,
- closer ties with regulators in other countries,
- setting of regulatory requirements for banks' procedures for combating money laundering and the financing of terrorism.

Most of these objectives are long-term in nature. However, work on most of them started in 2002 and is expected to be completed in 2004 (or in some cases 2006). The ultimate goal is to achieve full compatibility with practices in the member states of the EU, which the Czech Republic is set to join in 2004.

1. CHANGES TO THE ACT ON BANKS AND THE BANKING REGULATIONS

One of the Czech Republic's main tasks in preparing to join the EU has been to harmonise its legislation with European law. The banking legislation has been no exception. An amendment to Act No. 21/1992 Coll., on Banks, as amended (the "Act on Banks") – a special law regulating fundamental aspects of banking business – took effect on 1 May 2002. The aim of this amendment was to achieve full compatibility with European Community law and with other international banking regulation standards.

MAIN CHANGES TO THE ACT ON BANKS

The amendment introduced the following main changes:

- licensing proceedings and proceedings to grant prior consent to the acquisition or increasing of qualifying holdings in banks. The term "authorisation to operate as a bank" was replaced by the term "banking licence". The activities that a bank may have listed in its licence were revised, mainly to reflect changes made to other laws. For other entities a bank may carry on business activities other than those listed in its licence, provided that they are associated with safeguarding its operation and the operation of other banks, financial institutions and ancillary banking services undertakings over which the bank exercises control. As a result of these changes all banks will undergo re-licensing. Some modifications were also made to the conditions for issuing licences and the operation of branches of foreign banks and to the rules governing the CNB's procedure for approving the acquisition or increasing of a qualifying holding in a bank;

- the extension of consolidated supervision (which had previously been applied only to financial groups headed by a bank) to groups controlled by a financial holding company or a mixed-activity holding company. The Act on Banks contains basic definitions and rules for performing supervision on a consolidated basis. These are further elaborated in detail in a CNB decree. The Act also requires banks to publish quarterly information on consolidated groups and their constituent parts;
- the extension of the range of information that a bank must have audited to include its internal management and control system;
- the introduction of the principle of the single banking licence, enabling banks from EU member states to establish branches in the Czech Republic without having to go through the licensing process. This will take effect on the date the Treaty of Accession of the Czech Republic to the European Union enters into force;
- the operation of the Central Register of Credits by the Czech National Bank;
- a requirement for each bank to establish by 1 May 2003 an internal audit department to evaluate in particular the functionality and effectiveness of its internal management and control system;
- a requirement for banks to notify their clients of the relationship of the services they provide to the deposit insurance scheme;
- authorisation for home supervisors to conduct on-site inspections in foreign banks' branches and subsidiaries on a reciprocal basis.

Following the amendment of the Act on Banks, the CNB drew up several new regulations (known as "provisions") and decrees and revised a number of its existing ones, thereby completing the process of harmonisation with EC directives and setting minimum standards for banks' risk management systems and internal control systems.

CHANGES IN LICENSING

The changes to the licensing requirements and the requirements governing new investors in banks were reflected in a new regulation: CNB Decree No. 166/2002 Coll., of 8 April 2002, stipulating the Essential Elements of a Banking Licence Application; the Essential Elements of an Application for the Consent of the Czech National Bank to Acquire or Increase a Qualifying Holding in a Bank, to a Person Concluding a Control Agreement with a Bank or to a Person Executing a Legal Act Aimed at Taking Control of a Bank; and the Essential Elements of a Notification of a Reduction of a Qualifying Holding in a Bank or of Forfeiture of the Position of Parent Undertaking in Respect of a Bank.

The Decree, which took effect on 1 May 2003, replaced a previous CNB provision and has essentially the same content. It contains a set of requirements regarding the information needed to assess an application for a banking licence for a bank or branch of a foreign bank. These requirements also apply *mutatis mutandis* to applications to acquire larger stakes in existing banks (known as "qualifying holdings"). Compared to the previous regulation, the new Decree does not significantly widen the set of requirements, so it does not represent any great turning point in current regulation and practice. It is important for the following reasons:

- it applies the provisions and wording of the aforementioned harmonisation amendment to the Act on Banks, thus ensuring full conformity with the content and wording of the Act and also with the content of the relevant EC directives.
- it legislates for certain experiences from licensing and authorisation practice. At first glance these may appear to be just minor details, but they are of importance both for applicants (for instance, a simpler procedure for repeat applications, such as the situation

where an applicant has previously been authorised to acquire a 20% holding in the bank and is now applying for permission to increase that holding) and for streamlining administrative proceedings (for instance, a modified procedure for applications submitted by persons acting in concert).

CONSOLIDATED SUPERVISION

A fundamental change arising from the amendment to the Act on Banks is the widening of the concept of consolidated supervision from bank groups to groups headed by financial or mixed-activity holding companies. CNB Decree No. 333/2002 Coll. of 3 July 2002, stipulating the Prudential Rules of Parent Undertakings on a Consolidated Basis, is based on the new wording of the Act on Banks. Effective from 1 January 2003, the Decree:

- lays down detailed requirements for information on each member of a consolidated group,
- defines the term "regulated consolidated group" and sets forth prudential rules for such groups,
- lays down rules for calculating capital adequacy incorporating credit and market risks and gross exposure for regulated consolidated groups,
- lays down the conditions under which a bank may use its own internal models for setting capital requirements for market risks.

CAPITAL ADEQUACY ON A SOLO BASIS

The main area of banking supervision, however, remains the supervision of individual banks, i.e. supervision on a solo basis. To ensure that the methods used to calculate capital adequacy, credit exposure and other prudential indicators on a consolidated basis are consistent with those on a solo basis, the CNB issued Provision No. 2, of 3 July 2002, on Capital Adequacy of Banks and Other Prudential Rules on a Solo Basis. This Provision is economical in content and merely specifies the differences between the aforementioned calculation methods. The fundamental calculation rules and methods are given in the decree stipulating the consolidated prudential rules.

ASSESSMENT OF RECEIVABLE QUALITY AND RESTRICTIONS ON THE ACQUISITION OF CERTAIN TYPES OF ASSETS

The new CNB Provision No. 9, of 6 November 2002, stipulating Rules for the Assessment of Financial Receivables and the Creation of Provisions and Reserves, and Rules for the Acquisition of Certain Types of Assets, draws on the CNB's experience with regulating this key area of bank business. It is also based on progress made with the accounting standards that banks are required to use under special legal rules. The new Provision introduced the following main changes:

- it extended the group of financial receivables subject to the classification rules (to include – in addition to credits – guarantee receivables, financial leasing receivables, factoring receivables, etc.);
- it defined a category called "non-performing receivables", comprising substandard, doubtful and loss receivables (the basic criteria for classifying financial receivables is the likelihood of their being repaid);
- it allowed receivables supported by high-quality security (in particular state guarantees and securities issued by entities with a zero risk weight according to the capital adequacy calculation method) not to be classed as classified/non-performing receivables;
- it permitted the use of the portfolio approach to assessing financial receivables;
- it set forth the principle that when a provision is created for a financial receivable, the security against it can be taken into consideration only if the receivable in question is not more than 540 days past due;
- it permitted banks to use a higher coefficient for the creation of provisions than provided for in the Provision;
- it lifted some obsolete restrictions on the acquisition of certain types of assets, e.g. the purchasing of securities for a client and the acquisition of participating securities in legal

entities controlled by a shareholder that exercises control over the bank. The acquisition restriction was also lifted in cases where the bank acts as "market maker" for a parent or affiliated company.

Banking business is inextricably linked with risk-taking, and the ability to manage risk is a key factor in every bank's profitability and its ability to succeed in a competitive environment. And because the stability and soundness of the banking sector stems from the financial stability and soundness of each individual bank, risk management is also subject to banking regulation and supervision. In 2002 the CNB issued a set of regulations stipulating minimum requirements for risk management, as well as a regulation stipulating minimum requirements for internal control systems. It is clear that these systems and activities are closely interrelated and in many respects overlap.

MANAGEMENT OF CREDIT AND MARKET RISKS

CNB Provision No. 3, of 30 July, on Credit Risk Management in Banks, is based on the international recommendations of the Basel Committee on Banking Supervision. It defines credit risk and imposes the following duties on banks:

- to have a credit risk management strategy which has been approved by the board of directors and with which all employees significantly involved in credit risk management have been acquainted;
- to reflect this strategy in its internal regulations, to establish an appropriate organisational structure with clearly defined powers and responsibilities, and to set procedures and rules for transactions in financial instruments that bear credit risk, including quantitative limits for each portfolio of such instruments;
- to carry out regular analyses of the value of, and rate of return on, such portfolios;
- to comply with the minimum requirements for information systems and internal management and control systems set forth in the Provision.

CNB Provision No. 4, of 30 July 2002, on Market Risk Management in Banks, is similar in nature. It too requires banks to have a defined strategy in place for managing such risks, approved by the Board of Directors. It also sets forth requirements concerning a bank's organisational structure, its internal regulations, its models for measuring and managing such risks (and stress testing thereof), and for its internal control system.

REGULATION FOR THE MANAGEMENT AND CONTROL SYSTEMS OF BANKS

The CNB also issued a new regulation governing banks' internal management and control systems: CNB Provision No. 12, of 11 December 2002, on the Internal Management and Control System of a Bank (effective from 1 July 2003). This defines the basic components, relations and processes of the internal management and control system, and in this context stipulates:

- the powers and duties of the board of directors, supervisory board and senior managers of the bank,
- minimum standards that the risk management system must meet,
- the substance of the control activities,
- the principle of separation of incompatible functions,
- requirements for information systems and communications within the bank,
- the duty of the bank to monitor and assess the effectiveness of its internal management and control system.

REGULATION FOR THE ASSESSMENT OF MANAGEMENT AND CONTROL SYSTEMS OF BANKS, INCLUDING RISK MANAGEMENT SYSTEMS

Following the amendment of the Act on Banks, which widened the options for using auditing companies for the purposes of banking supervision, the CNB issued Provision No. 11, of 10 December 2002, stipulating Requirements for the Testing of a Bank's Management and Control System. This regulates in particular:

- the assignment of requests for the scope of system tests performed by auditing companies,
- the requirements regarding the scope of such system tests,
- the essential elements, structure and submission of system test reports to the Czech National Bank.

This issue is also dealt with in CNB Official Information of 16 December 2002, which also:

- elaborates the procedure for assigning the scope of such tests,
- provides a classification for the seriousness of shortcomings,
- defines principles and procedures for discussing reports with the CNB,
- contains a reference to acknowledged principles and procedures given in a document guide made available on the CNB website.

DISCLOSURE OF INFORMATION BY BANKS

Changes introduced in the accounting area on 1 January 2002 – coupled with new requirements for the disclosure of information on risk management systems (connected with the mandatory publishing of such information in annual accounts) – generated the need for a change to the CNB's disclosure regulations. The new CNB Provision No. 1, of 10 July 2002, stipulating the Minimum Requirements for Disclosure of Information by Banks and Foreign Bank Branches, frames banks' duties in such a way that they can make use of the mandatory information structure set forth in Ministry of Finance Decree No. 501/2002 Coll., implementing Certain Provisions of Act No. 563/1991 Coll., on Accounting, as Amended, for Accounting Units that are Banks and Other Financial Institutions. Such information is disclosed quarterly.

CENTRAL REGISTER OF CREDITS

The amendment to the Act on Banks allows the CNB to operate an automated credit register to help banks exchange information on the reliability and credibility of corporate clients. CNB Decree No. 164/2002 Coll., of 10 April 2002, on the Conditions of Access to Information Contained in the Information Database of the Czech National Bank – the Central Register of Credits – specifies the conditions under which banks may access the Central Register of Credits and request the necessary information. It contains certain restrictions to prevent the register being used for marketing purposes and to ensure that it serves its intended purpose. The CNB started preparatory work on the register in May 2000, and the system went live on 1 November 2002, when each bank started supplying a complete set of information in accordance with the amended CNB Provision No. 5, of 1 August 2002, stipulating the Methodology for Submission of Selected Data for the Central Register of Credits by Banks and Branches of Foreign Banks to the Czech National Bank.

OFFICIAL INFORMATION

To complement its decrees and provisions, the CNB issues official information aimed at providing detailed explanations and interpretations of particular provisions of its regulations, recommendations for applying those regulations and so on. In all, seven such documents relating to the banking supervision area were issued in 2002. These dealt with matters such as:

- the conclusion of control agreements by banks;
- the procedure applicable if a branch of a foreign bank operating in the Czech Republic wants to opt out of the Czech deposit insurance scheme;
- the information disclosure procedure for banks and foreign bank branches;
- certain requirements for the testing of internal management and control systems;
- the assessment of the competence, trustworthiness and experience of persons nominated for executive managerial positions in banks and foreign bank branches.

Other official information documents were issued to cancel obsolete ones issued in the past.

An up-to-date list of CNB decrees, provisions and official information currently in force can be found on the CNB website (http://www.cnb.cz/en/leg_bd.php).

2. CHANGES TO THE GENERAL REGULATIONS AFFECTING BANKS

Besides the extensive amendment to the Act on Banks, other laws were passed in 2002 which will have a major effect on banking.

PAYMENT SYSTEM ACT

Chief among these was Act No. 124/2002 Coll., on Payment Systems, which regulates transfers of funds in the Czech currency within the Czech Republic, cross-border transfers, the issuing and use of electronic payment instruments, and the establishment and operation of payment systems. As transfer institutions, banks must provide the public in advance with clear information in writing and in a readily comprehensible form on their premises regarding their general terms and conditions for transfers. They also have to provide their customers with information on transfers executed. Binding time limits for executing such transfers have also been stipulated. Where such time limits are exceeded, customers are entitled to interest on late payment. For transfers in the Czech currency executed between banks within the Czech Republic, the time limit is one banking business day. For transfers within the same transfer institution, the amount of the transfer must be credited to the beneficiary either on the same banking business day or on the following banking business day (if the date of effectiveness of the transfer order is not a banking business day). However, this duty does not take effect until 1 January 2004. Cross-border transfers must be executed within five banking business days; this provision does not take effect until the Czech Republic's Treaty of Accession to the European Union enters into force.

The Act also sets forth conditions for the issuing and use of electronic payment instruments. The mutual rights and obligations of issuers and holders of electronic payment instruments are set forth in model general terms and conditions issued by the Czech National Bank. In addition to conditions for the establishment and operation of payment systems, the law provides for the principle of irrevocability of an order, even in the event of bankruptcy. System operators must be licensed by the CNB.

The Act also presumes the existence of a special body authorised to settle disputes arising during the execution of transfers of funds or during the issuing and use of electronic payment instruments. This special body is provided for in Act No. 229/2002 Coll., on the Financial Arbiter, which sets forth the requirements placed on the Arbiter, the manner in which he is appointed and dismissed by the Czech Parliament, the financial and administrative support for his activities provided by the CNB, and the proceedings brought before the Arbiter, as well as the information duty of institutions and international co-operation. The Financial Arbiter started work on 1 January 2003.

The passage of the Payment System Act also required partial revisions to other laws. These are contained in Act No. 125/2002 Coll., Amending Certain Laws Following the Adoption of the Payment System Act. This has provisions regulating current account agreements and deposit account agreements in Act No. 513/1991 Coll., the Commercial Code, as Amended. The account holder must be clearly identified in current account agreements. The facultative content of such agreements is stipulated, and the time limits for executing a transfer provided for in the Payment System Act are incorporated into current account agreements (except where the bank and the customer have agreed a different time limit). The discharge of current account agreements is also elaborated in more detail, especially in the part relating to the mutual settlement of receivables. The new treatment of deposit account agreements primarily concerns the handling of funds on an account and the interest rate applicable where no rate is stated in the agreement.

SECURITIES COMMISSION ACT

As most banks are simultaneously securities dealers, they have also been affected by Act No. 308/2002 Coll., amending Act No. 15/1998 Coll., on the Securities Commission and on the Amendment of Other Laws, as Amended. In particular, this clarifies some ambiguities with regard to interpretation of the legislation (branches of foreign banks, for example, are subject to state oversight by the Czech Securities Commission to the same extent as banks). Act No. 591/1992 Coll., on Securities, was also revised. The definition of client property and the number of contributions to the securities-dealer guarantee fund were changed. The Securities Act deals entirely anew with issue of conservatorship of securities dealers. However, the Czech Securities Commission is not empowered to impose conservatorship on securities dealers that are banks or branches of foreign banks. Also closely bound up with this issue is the release of customer property after a securities dealer has been adjudicated bankrupt. This provision now applies fully to banks and branches of foreign banks.

There were no major changes in 2002 to the broader legislation relevant to banking business. Act No. 563/1991 Coll., on Accounting, as Amended, was fundamentally revised in 2001 with effect from 1 January 2002. Among the main changes introduced by the amendment were an extension of the applicable valuation methods to include fair value and the option of preparing consolidated financial statements in accordance with international accounting standards. A minor amendment adopted in 2002 (No. 575/2002 Coll.) did not affect banks' accounting. However, the Ministry of Finance issued Decree No. 501/2002 Coll., implementing Certain Provisions of Act No. 563/1991 Coll., on Accounting, as Amended, for Accounting Units that are Banks and Other Financial Institutions. The Decree stipulates the structure and names of the items of solo and consolidated financial statements, the content of such items, the chart of accounts, accounting methods and the application thereof, consolidation methods, and the procedure for incorporating accounting units into a consolidated group.

3. PERFORMANCE OF BANKING SUPERVISION

Banking supervision in the Czech Republic takes the form of off-site supervision and on-site supervision. Off-site supervision is based on continuous monitoring of banks' activities and regular financial analyses of banks using financial statements and prudential reports submitted to the supervisor. This area also includes licensing and authorisation activities under the Act on Banks. On-site supervision, consisting of examinations of banks' activities directly in the institutions themselves, is the basic tool for assessing qualitative aspects of a bank's activities, in particular its management and control mechanisms.

In addition to an adequate set of regulations, unified and effective banking supervision requires a high-quality and regularly updated methodology.

ORGANISATIONAL CHANGES IN CNB BANKING SUPERVISION

CNB Banking Supervision underwent organisational changes in 2002 aimed at tailoring its structure to the primary supervisory objectives contained in its medium-term plan.

At the start of 2002, off-site supervision (monitoring, analyses and relations with banks) was grouped into two divisions, each covering a set of banks classed according to size/orientation (large banks, building societies and specialised institutions in one division, and medium-sized banks, small banks and branches of foreign banks in the other). This breakdown allows the CNB to make better provision for the specific characteristics of each bank group when performing its supervision. The issue of licensing and penalties was concentrated into a Licensing and Enforcement Division, which is also responsible for activities relating to banks whose licences have been revoked.

On-site supervision is performed by two on-site supervision divisions subdivided into four sections specialising in particular risk areas. Division 1 covers credit risk and internal management and control systems, while Division 2 is responsible for market risks and bank information systems. This arrangement has created improved conditions for the further specialisation of banking supervisors and the launch of supervision in the area of banks' information systems.

3.1 OFF-SITE SURVEILLANCE

PRINCIPAL OFF-SITE SUPERVISORY ACTIVITIES

The regular monitoring of banks' activities is based primarily upon quarterly analyses of their financial situation, reviews of compliance with the prudential rules and limits, and on the monitoring of changes in each bank within a standardised structure. The results of on-site inspections and short information-gathering visits are also used in the analyses. To detect any negative tendencies, monthly signal information on each bank is regularly appraised for the management of CNB Banking Supervision, with proposals being made as regards further supervisory action in banks showing negative trends.

Off-site surveillance centres on an automated Banking Supervision Information Centre, which collects the data from all the supervisory reports and statements and generates standard outputs. This informational support provides a quick overview of the basic indicators of each bank's financial situation and its compliance with the prudential rules.

In order to acquire additional information on banks' activities, 56 information-gathering visits were made in 2002 to 25 medium-sized banks, small banks and foreign bank branches, 53 of which were comprehensive and the remaining 3 directed at specific areas. Some of the visits formed part of a supervisory review of risk management in branches of foreign banks. The information obtained from this review was used in the preparation of a supervisory methodology for branches of foreign banks.

REMEDIAL MEASURES

On the strength of the findings from off-site supervision and on-site inspections, remedial measures were imposed on a total of 13 banks, building societies and branches of foreign banks. Most of these measures required the institutions concerned to eliminate shortcomings in their activities within a set timeframe.

SUPERVISORY DECISIONS

In all, 126 decisions were issued outside the framework of administrative proceedings, including approvals of external bank auditors and specifications of the scope of requests for testing management and control systems; approvals of shareholder structure prior to general meetings; consent to the inclusion of subordinated debt in capital; approvals of consolidated bank groups; and, in the case of building societies, opinions on proposed changes to general business conditions. CNB Banking Supervision issued 35 opinions on persons nominated for managerial positions within banks based on assessments of relevant documents and, in most cases, on interviews conducted with the candidates.

In conformity with its legal powers, CNB Banking Supervision issued 17 administrative decisions in the area of licences and permits in 2002. As well as new banking licences, these covered the acquisition of holdings in banks. A further five administrative proceedings were opened in 2002.

CO-OPERATION WITH REGULATORS IN OTHER COUNTRIES

The year 2002 saw the launch of closer co-operation with foreign regulators responsible for supervising parent banks that have subsidiaries in the Czech Republic or for supervising the headquarters of foreign bank branches operating in the Czech Republic. Ties were established/developed with regulators from Slovakia, France, Germany, the Netherlands, Belgium and the USA. This allows the CNB to acquire information on methods for supervising the banks – and consolidated groups containing banks – operating on the Czech market.

The amended Act on Banks that took effect on 1 May 2002 extended the scope of supervision to include supervision on a consolidated basis. This chiefly affected supervisory activities in banks belonging to consolidated groups that carry on business in more than one country and are supervised by CNB Banking Supervision only.

3.2 ON-SITE EXAMINATIONS

BANKING TRENDS AND THEIR IMPACT ON INSPECTION WORK

In the area of on-site examinations, CNB Banking Supervision responded in 2002 to current trends in the banking sector, in particular the continuing concentration and stabilisation of banks, the increasingly complex banking transactions and sophisticated banking products, the expanding range of electronic distribution channels, and the use of internal and scoring models to manage banking risks and portfolios. These developments are in line with international trends and are due to the dynamic development of information technology and its application in banks. The changes are placing greater demands on the capabilities and specialisations of banking supervisors who assess banks' management and control systems and the standard to which each bank manages its key risks.

The pace of these changes in the banking sector prompted changes in the way the examinations were organised and oriented. The original three inspection teams had been set up primarily to carry out comprehensive inspections and, in addition to assessing qualitative aspects, had concentrated on evaluating credit portfolios and on quantifying credit risk. This orientation had been associated with the downturn in the quality of banks' credit portfolios in the late 1990s. However, the inspection teams had lacked specialists able to assess risks relating to banks' information systems and did not have sufficient capacity to check anti-money laundering systems.

During 2002, inspections were carried out in ten banks; one of these was comprehensive (inspection of all areas of the bank's business) and the remaining nine directed specifically at between one and three areas of activity. Four sections – specialising in credit risk, market risk, internal management and control systems (including anti-money laundering) and information systems and technology – were involved in these inspections.

ACTIVITIES OF THE CREDIT RISK SECTION

The main task of the Credit Risk Section is to conduct on-site examinations of a bank's system for managing the credit risk associated with its transactions with non-banking clients. These examinations involve checks of whether the bank has in place the basic organisational prerequisites for efficient and effective management of the risks it undertakes (e.g. whether its organisational structure meets the requirements for separation of incompatible functions and whether it has a comprehensive, integrated and up-to-date set of regulations). Also assessed are its systems for evaluating the creditworthiness of non-banking clients, for identifying and monitoring groups of connected entities, for managing and assessing credit transaction quality, for creating provisions, and for assessing and valuing collateral.

The inspections also include assessments of the methods used to measure and monitor risks (including checks of whether the related data in the bank's information system are correct, reliable and up-to-date) and of the efficiency and effectiveness of its internal control function in the credit area. Also examined are the measures taken to eliminate or mitigate the impact of any adverse external economic conditions on the bank.

Another important area of activity of the Credit Risk Section is the inspection of the system the bank uses to draw up its credit risk reports for CNB Banking Supervision. The credit portfolio reports drawn up by the banks and submitted regularly (monthly and quarterly) to the supervisor are an important ongoing identifier of the condition (soundness) of the bank. Consequently, it is vital that the system for compiling such reports in banks provides accurate information.

Credit risk inspections were conducted in five banks in 2002.

ACTIVITIES OF THE MARKET RISK SECTION

The Market Risk Section's chief responsibility is to conduct on-site examinations of banks' systems for managing market risk (i.e. interest rate risk, equity risk, foreign exchange risk and commodity risk) and liquidity risk. It is also responsible for checking systems for managing credit risk associated with trading on financial markets (counterparty risk, issuer risk and country risk) and for examining risks connected with striking, processing and settling deals on the money, capital and forex markets.

In this connection, the inspections assess in particular whether the bank has in place the basic organisational prerequisites for efficient and effective management of the risks it undertakes (e.g. whether its organisational structure meets the requirements for separation of incompatible functions and whether it has a comprehensive, integrated and up-to-date set of regulations). The examinations in the area of market risk and liquidity risk management focus on assessing the methods used to measure and monitor risks (including checks of whether the related data in the bank's information system are correct, reliable and up-to-date). Close attention is paid to the system of limits used to mitigate market risks undertaken. Also examined are the measures taken to eliminate the impact of potential adverse market conditions on the bank (regular updating of stress scenarios, alternative liquidity scenarios, contingency plans and so on).

Since 2002 the Market Risk Section's inspections have also been directed at assessing the risks arising from banks' acting as a depositary, providing custody services and managing clients' assets. These inspections are primarily intended to evaluate whether the bank is acting in compliance with the legislation and generally recommended procedures.

An important part of the inspections is the checking of the system the bank uses for its regular reporting to the CNB, in particular its capital adequacy reports and its reports on the actual and estimated maturities of assets and liabilities.

Market risk inspections were conducted in four banks in 2002. The Market Risk Section works in co-operation with other regulators (the Czech Securities Commission, the Ministry of Finance and foreign regulators).

The new activities of the Market Risk Section include verifying banks' internal models in relation to their ability to use such models to determine capital requirements for market risks and options (where they have the supervisor's approval to do so). The CNB received its first request to assess such a model in December 2002.

ACTIVITIES OF THE INTERNAL MANAGEMENT AND CONTROL SYSTEMS SECTION

The Internal Management and Control Systems Section conducts inspections in this area chiefly as part of the examinations of specific areas of a banks' activities or as part of the comprehensive or partial examinations. Such inspections were conducted in seven banks in 2002. In particular, the inspections involve assessing the operation and effectiveness of the internal management and control system for the relevant business area of the bank (i.e. for managing the relevant risks), including the overall control environment for that area. The basic areas subject to checking are corporate governance, the compliance function and the internal audit function.

In the area of corporate governance, the inspections focus on evaluating the organisational structure of the bank as a whole, the functioning of the supervisory board and its advisory bodies, the board of directors and other management and advisory bodies, and the links between those bodies. The inspections also involve checks of the efficiency and effectiveness of the control environment, including the individual control mechanisms built into the bank's routine activities.

In the area of compliance, the inspections focus on the bank's system for monitoring legislative developments and for incorporating legislative changes into its internal regulations. Also verified is whether the bank's external conduct complies with the legislation, whether its regulations and procedures are complete, intelligible and consistent, and whether its staff abide by those regulations and procedures. In this connection, an assessment is made of whether the bank applies "soft standards", in particular the principles of the general code of ethics.

In the area of internal auditing, the inspections focus on the organisation, methodology and staffing of the internal audit department. The independence of the internal audit department and its links to each of the company's bodies is evaluated. Also examined is the method whereby the bank's risks are assessed by the internal audit department, the internal audit planning process, the actual orientation of the internal audit department's work, and the quality of the outputs generated by each audit. An assessment is also made of whether the bank has a functional and effective system for eliminating problems identified by the internal audit department and whether the managers of the bank pay sufficient heed to corrective measures.

Another separate area in which the Internal Management and Control Systems Section has been actively and systematically involved since early 2002 is the anti-money laundering area. The operation and effectiveness of the system the bank uses is examined. Supervisors concentrate on the following areas: the bank's strategy and internal management and control system in this area; the compliance of its system with the legislative requirements; its observance of the relevant provisions of the legislation; its practical application of an appropriate "know-your-customer" policy; and its ability to detect and evaluate suspicious transactions and to notify the Ministry of Finance's Financial Analytical Unit within the statutory time limits. Following the preparation of appropriate methodological inspection procedures, inspections were conducted in two banks in 2002.

ACTIVITIES OF THE BANK INFORMATION SYSTEMS SECTION

The Bank Information Systems Section concentrates on information systems and information technology ("IS/IT") risks. This is a new area for CNB Banking Supervision and is linked with the growing use of IT in banking business and the significant effect of IT on banks' overall risk profiles.

After the supervisory objectives in this area had been determined, an inspection methodology was created based on the experience of foreign regulators and on international standards. Specialists with the requisite qualifications were also recruited. Before launching its inspection activities, CNB Banking Supervision conducted an extensive survey of bank's IS/IT management methods and the nature of their information systems. This yielded information used to chart the standard of information systems in the banking sector and to draw up a schedule of inspections for the period ahead.

In the latter half of 2002 the inspections themselves were commenced. By the end of the year, two IS/IT inspections had been conducted.

When assessing banks' IS/IT risks, supervisors focus on the following areas: strategy and management, auditing and control, development and operational policy and security policy. Close attention is paid to the way in which the bank identifies, evaluates and controls its IS/IT risks. Besides assessing management and control procedures, supervisors are interested in the appropriateness of the organisational and technical measures the bank uses to mitigate the risks, including those associated with IS/IT outsourcing.

4. NEW BASEL CAPITAL ACCORD

In response to the rapid development of the financial markets, and in order to promote safety and soundness in financial systems, to enhance competitive equality among banks, and to allow banks to use more comprehensive approaches to risk management, the Basel Committee on Banking Supervision (BCBS) in 1999 drafted new rules for setting minimum capital requirements – the New Basel Capital Accord (NBCA), sometimes also referred to as Basel II or CP 2 (Consultative Package 2). The NBCA is intended to replace the present Basel Capital Accord, which in the area of capital requirements for credit risk is based on a simple methodology of risk weights and also includes capital requirements for market risk. The NBCA focuses on providing incentives for banks to enhance their risk measurement and management capabilities. By applying more risk-sensitive approaches, banks can make better and more efficient use of capital to cover their risks.

CONTENT OF THE NBCA

Compared to the original Accord, the new framework proposed in 1999 is more comprehensive and is based on three pillars. Pillar 1 focuses on new methods of risk management and on the setting of capital requirements for credit and operational risk. The methods for market risk measurement remain unchanged (except for interest rate risk in the banking book). Pillar 2 focuses on the assessment of each bank's capital adequacy by the regulator. Under the proposal, the bank should have sound internal processes in place to assess the adequacy of its capital in relation to its risk profile. Regulators will be entitled to insist on a higher capital requirement than that calculated by the bank. Pillar 3 deals primarily with the issues of transparency and information disclosure by banks. The aim is to bolster market discipline through enhanced disclosure by banks of information about themselves. Full changeover to the new rules is planned for 2006.

OBJECTIVES OF THE NBCA

The NBCA should bring the following benefits in particular:

- enhanced risk management processes and greater management responsibility,
- capital regulation of operational risk,
- more accurate reflection of credit risk in capital requirements,
- convergence between the banks' internal risk management and measurement systems and the regulatory rules,
- greater market discipline and transparency, thanks to tighter reporting and disclosure requirements,
- disclosure of more information to clients, analysts and rating agencies.

CO-OPERATION IN DRAFTING THE NBCA

These objectives can only be achieved by means of active co-operation at national and international level in both the preparatory phase and the implementation phase. Besides Russia, the Czech Republic is the only Eastern European country to have had the opportunity to get involved in drawing up the NBCA – via its membership in the *Core Principles Liaison Group* (CPLG) and in the CPLG's *Working Group on Capital*. This guarantees access to information and enables the CNB to voice its opinions on certain issues and contribute to the drafting of the new rules. To foster closer international co-operation, the BCBS has established an *Accord Implementation Group* (AIG), which deals with issues relating to the implementation of the second pillar. The *Banking Advisory Committee's Groupe de Contact* (EU), a forum for banking supervisors from the European Economic Area, has a similar purview. Closer co-operation with EU committees and working groups will commence in 2003 under the Czech Republic's "observer" status.

CNB Banking Supervision needs to prepare for a fundamental change in banking sector regulation in connection with the introduction of the New Basel Capital Accord (NBCA). This will involve elaborating relevant approaches, incorporating them into Czech laws and bylaws, and subsequently applying them in practice. The New Accord is based on an individual approach to each bank, which means that supervisors will have to acquire new skills. It will also be necessary to establish a uniform interpretation of the NBCA rules and requirements and to ensure that the CNB's supervisory procedures are sufficiently transparent.

JOINT PROJECT

At the same time, banks must have the opportunity to adapt to the regulator's methods sufficiently in advance. It is therefore vital that the CNB co-operate with the Czech Banking Association, with individual banks and with the Czech Chamber of Auditors in both the preparatory phase and the implementation phase. Accordingly, one of the CNB's most important tasks is to collaborate in a joint Czech financial sector project aimed at establishing an effective communication platform and at involving the interested parties in addressing the tasks related to the NBCA implementation.

The project is conceived as a joint project for all parties who have a direct interest in its implementation, namely the CNB, the Czech Banking Association and the Czech Chamber of Auditors. Consideration is also being given to involving the Czech Securities Commission at some point. The aims of the project also include defining and gradually implementing all the basic measures needed for effective implementation of the NBCA in the Czech Republic, establishing a uniform interpretation of the NBCA rules and requirements, and informing all interesting parties of the implementation measures. The success of the project hangs on ensuring that all those involved understand and embrace the NBCA. This is no easy task and will require a major effort on the part of the CNB and the other project participants. For this reason the participants have decided to entrust the management of the project to a professional manager.

Work on implementing the joint project began in September 2002. Each of the participating institutions will be represented in working groups which will be assigned tasks and told the exact form and content of the co-operation on each task. A more detailed breakdown of the activities needed to implement the NBCA, including a timetable, will be drawn up in the form of annual work plans.

The CNB's progress with, and approach to, implementing the NBCA is regularly updated on the CNB website http://www.cnb.cz/en/bd_bdindex.php).

5. INTERNATIONAL CO-OPERATION

CNB Banking Supervision has been involved in international co-operation on several levels. Mostly it has taken the form of active co-operation with supervisors in countries whose banks operate in the Czech Republic; co-operation with partner supervisory authorities on regulatory issues; involvement in the preparation of new regulatory measures within the Basel Committee's working groups; the beginnings of involvement in European structures, now that Czech entry into the EU is imminent; and co-operation as part of the group of banking supervisors from Central and Eastern European countries.

The completion of the privatisation of the large Czech banks has fundamentally altered the ownership structure of the Czech banking sector. Around 93% of the sector's total assets are now administered by banks controlled by foreign owners. The new focus on consolidated supervision requires closer co-operation among all regulators at national and international level (depending on the structure of the particular consolidated group).

MEMORANDA OF UNDERSTANDING

In recent years, therefore, the Czech National Bank has been endeavouring to put its co-operation with foreign supervisors on a contractual footing. Of considerable significance for this was the aforementioned amendment to the Act on Banks, which lifted certain restrictions preventing foreign supervisory authorities from conducting inspections in subsidiaries and branches of foreign banks operating in the Czech Republic.

Co-operation with foreign regulators is based on bilateral "memoranda of understanding". The first of these was signed with the Slovak Republic in 1999. This was renegotiated in 2002, primarily to take account of the demands of consolidated supervision. Since 2001 further memoranda of understanding have been signed with the regulators in Austria (Bundesministerium für Finanzen), Germany (Bundesanstalt für Finanzdienstleistungsaufsicht), France (Commission Bancaire) and the USA (State of New York Banking Department). A memorandum with the Belgian regulator is ready for signing. Draft memoranda are also under negotiation with regulators in the Netherlands and Italy.

The aim of these memoranda is to foster co-operation in the field of banking supervision, to promote mutual understanding in matters relating to banking regulation and supervisory procedures, and to facilitate exchange of information on supervisory matters such as licensing, mergers and acquisitions, new shareholders, consolidated supervision, and supervision of branches in the other country (including co-operation in on-site examinations).

CO-OPERATION IN THE METHODOLOGICAL AREA

The rapidly evolving complexity and diversity of banking business is generating increasingly heavy demands for tighter regulatory rules in other areas too. CNB Banking Supervision frequently makes use of its formal and informal contacts with regulators from other countries to obtain opinions on particular supervisory matters and on the way they are addressed in other countries, in order to find optimum solutions for the Czech Republic. In addition, it is involved in several working groups preparing new regulations, including the aforementioned NBCA working groups.

Contact with EU bodies has recently concentrated mainly on harmonising regulatory rules and banking supervision practice with EU standards and directives. This year, co-operation on a much greater scale can be expected. Upon the signing of the accession documents, the CNB will become an observer on a number of European committees, sub-committees and working groups, and will gradually be able to take part in their work.

CO-OPERATION WITH BANKING SUPERVISORS FROM CENTRAL AND EASTERN EUROPE

CNB Banking Supervision was one of the founder members of the Group of Banking Supervisors from Central and Eastern Europe, which was formed at the Basel Committee on Banking Supervision in 1990. This Group, which currently has 18 members, convenes once a year to discuss topical issues of banking regulation and supervision. The Group's 2002 conference took place on 7–9 October in Bratislava, Slovakia, and dealt with internal assessments of banks for the needs of banking supervision and the involvement of supervisors in combating money laundering and terrorist financing. Another focus of attention is the regular workshops held to provide further training for supervisors from Central and Eastern Europe and to facilitate exchange of information. Two special seminars were held in 2002, the first focusing on corporate governance, e-banking and money laundering, and the second on the NBCA and credit risk.

6. CO-OPERATION WITH DOMESTIC REGULATORS AND PROFESSIONAL ORGANISATIONS

The growing interconnectedness of financial institutions within financial groups is increasing the need for co-operation among regulators. In the Czech Republic, the Czech National Bank is responsible for supervising banks. Insurance companies and pension funds, however, are overseen by the Ministry of Finance, and capital market participants by the Securities Commission. In 1998, these three critical institutions signed a tripartite Memorandum of Understanding. This was revised in 2002 and newly signed in early 2003.

MEMORANDUM OF UNDERSTANDING WITH THE MINISTRY OF FINANCE AND SECURITIES COMMISSION

The revision to the Memorandum necessitates a more consistent approach to supervision on a consolidated basis. Its main principles include:

- co-operation between the parties to the Memorandum – without needless formalities – as the basis for mutual relations;
- the obligation to inform other parties to the Memorandum of any matter that may be of importance to them, where they are not already familiar with such matters;
- co-ordination of the activities of the parties to the Memorandum when performing supervision of the financial market as a whole;
- rules for determining the responsible body of supervision on a consolidated basis;
- the obligations of other parties to the Memorandum to the responsible body of supervision on a consolidated basis when performing consolidated supervision;
- co-operation in licensing and granting approvals;
- co-ordination in the drawing up of inspection plans and co-ordination of on-site inspections, including the option of requesting another party to the Memorandum to conduct an on-site inspection;
- exchange of information on remedial measures and penalties imposed and on shortcomings that justify the imposition of remedial measures;
- the provision of documents necessary for the proper conduct of administrative proceedings;
- regular exchange of analytical information on sectors of the financial market subject to supervision;
- closer co-operation when creating legislation and regulations;
- an effort to eliminate excessive or repeated regulation of analogous relations and events;
- co-ordination of co-operation with foreign regulators, EU bodies and international institutions;
- authorisation to set up working groups to carry out long-term and single tasks and to fulfil the obligations arising under the Memorandum;
- the establishment of working groups for each consolidated group, made up of representatives of those parties to the Memorandum which perform supervision of at least one member of the consolidated group;
- the obligation to respect statutory confidentiality duties when exchanging information;
- the issuing by each party to the Memorandum of an annual report on the situation in the sector of the financial market subject to its supervision; the parties to the Memorandum may also issue joint reports on the situation in the financial sector.

The Memorandum is publicly available on the websites of each of the parties to the Memorandum.

Deserving of special mention is Article XII of the Memorandum, which provides for the establishment of a Committee on the Co-ordination of Supervision of the Financial Market, consisting of two managerial employees from each party to the Memorandum. These members will meet according to requirements, although at least once a year. The subject of the meetings of the Committee should be chiefly the formation of general policies, concepts and strategies for further supervision of the Czech financial market, the resolution of serious system problems on the financial market and in its supervision, the assessment of fulfilment of the obligations arising under the Memorandum, and the resolution of serious problems arising between the parties to the Memorandum under the Memorandum.

CO-OPERATION WITH THE CZECH BANKING ASSOCIATION

Co-operation with professional organisations in the banking area (in particular the Czech Banking Association and the Czech Chamber of Auditors) also continues to evolve. Recently, co-operation in preparing for and implementing the NBCA (see Section 4) has been of particular importance. In addition, the Czech Banking Association is increasingly becoming the mediator between the banking community and CNB Banking Supervision in the preparation of banking regulations. Through the CBA, banks have an opportunity to influence to some extent the new regulations as they are being formed and to draw attention to potential problems linked with their introduction. This is also useful for the supervisory authority, in whose interest it is that the new regulations are adopted and understood without any problems.

CO-OPERATION WITH AUDITORS

Discussions with auditing companies are also continuing, as such companies play a very important role in the general framework of banking regulation. Every year they audit the accounts and prudential reports of each bank and send those audits to CNB Banking Supervision. Under CNB Provision No. 11/2002 (see Section 1) they also verify the efficiency and effectiveness of particular components of the management and control system of the bank according to the specific orders of the CNB.

CNB Banking Supervision holds discussions with auditors on any differences that arise between their assessments of the banks they audit and the CNB's own findings. On request they present their auditing methods and approaches to the CNB. Moreover, all draft new rules relating to banking regulation and supervision are discussed with these companies. It is clear that this exchange of expert opinions is beneficial to both sides and has a positive bearing on the work of auditors and the supervisor alike.

CO-OPERATION WITH THE CZECH INSTITUTE OF INTERNAL AUDITORS

CNB Banking Supervision also works in co-operation with the Czech Institute of Internal Auditors (CIIA). Supervisors attend the CIIA's Council and Round Table as well as discussion forums for internal auditors and club evenings for internal audit managers, where topical problems and open issues relating to internal management and control systems (including internal auditing) and corporate governance are discussed. This form of co-operation is again beneficial to both sides, thanks mainly to the platform it provides for sharing information and views.

7. MAIN TASKS FOR THE PERIOD AHEAD

MAIN SUPERVISORY TASKS FOR 2003

The main supervisory tasks for 2003 are specified in the *Medium-term Banking Supervision Plan for 2002–2004*. For the most part these are extensive and long-term tasks. Work on them started last year and in many cases will continue into future years. The main objectives of this Plan are as follows:

- to collect and appraise suggestions for the drafting of a Statement of Intent for a new Act on Banks to enter into effect after the Czech Republic joins the EU;

- to draw up a supervisory methodology based on the risk profiles of banks and consolidated groups, including supervisory methods and co-operation with other domestic and foreign regulators;
- to perform regular inspections of individual banks in relation to the overall level of risk and importance of the banks in the sector;
- to gradually re-licence all banks and branches of foreign banks;
- to introduce standard procedures for assessing new shareholders and managers in banks, for imposing penalties, and for dealing with licence applications;
- to undertake supervisory activities associated with entry into the single financial services market;
- to implement the joint project of the CNB, the Czech Banking Association and the Czech Chamber of Auditors: "Development and Implementation of the New Basel Capital Accord in the Czech Republic".

B. MAIN TRENDS IN THE BANKING SECTOR

1. THE ECONOMIC ENVIRONMENT IN 2002

The Czech economy continued to grow in 2002, albeit at a slower rate than in the previous two years. In addition to external factors reflecting the subdued economic growth of the Czech Republic's major trading partners, the growth in the Czech Republic was weakened by a continuing strong appreciation of the koruna and a related marked slackening of investment growth. GDP in 2002 totalled CZK 1,542.2 billion at constant 1995 prices. The growth rate was 2.0%, a decrease of 1.1 points from a year earlier. As in the previous year so in 2002 the economy was characterised by low inflation.

The GDP growth in 2002 was due mainly to increasing domestic demand, and in particular to rising household consumption, supported primarily by growing disposable incomes of households. Households' consumption was funded in part from consumer credit, but it was also stimulated by spending on repairs and reconstruction following the calamitous flooding in the Czech Republic. A fall in lending to businesses was offset by increased household demand for loans. Lending was up by 4.3% year-on-year in nominal terms at the end of 2002.

The ratio of the current account deficit to GDP decreased thanks mainly to a favourable trade balance trend. The trade deficit was CZK 74.5 billion at the end of 2002, compared to CZK 116.7 billion a year earlier. This improvement was chiefly due to economic restructuring and greater competitiveness, especially of engineering firms, fostered by the appreciation of the domestic currency, and to the fall in prices of oil and natural gas. Businesses coped with the sharp appreciation of the koruna and generated stable growth in industrial output (of 4.8% in annual comparison). The current account deficit of CZK 121.4 billion was fully offset by a surplus of CZK 340.3 billion on the financial account thanks to a strong inflow of foreign direct investment.

Neither inflation abroad nor the growth in domestic demand exerted any upward pressure on consumer prices in 2002. Although the growth rate of domestic demand stayed above 4%, its potential inflationary effects were attenuated by the strongly competitive environment in the retail market and the mostly falling prices of imports of final products for the consumer market. Consumer price inflation in 2002 fell to its lowest level since the beginning of the transformation period. From being over 4% at the beginning of the year, inflation fell steadily to a level below 1% at the year-end. The fall in prices of most imported inputs provided room for slower growth, or even reductions, in producer prices. Although the growth in world prices of imported industrial raw materials and food picked up a little in the second half of 2002, it was not enough to exert any greater upward pressures on producer and consumer prices. Net inflation was -0.2% in December 2002. The total inflation rate as measured by growth in the average annual consumer price index fell from 4.7% in 2001 to 1.8% in 2002.

One of the anti-inflationary factors in 2002 was the koruna's appreciation against both the euro and the dollar. This appreciation, coupled with falling prices of food, generated a slowdown in inflation. From an annual average of CZK 34.08 to the euro in 2001, the koruna firmed to 30.81 to the euro in 2002. Its average rate against the dollar recorded a year-on-year appreciation from CZK 38.04 to CZK 32.74.

On the labour market the gap between supply and demand widened. The unemployment rate rose steadily throughout 2002. It reached 9.8% in December, a rise of 0.9 percentage points on a year earlier and the highest level witnessed in the entire transformation period. The slowing economic growth led to rising unemployment, and the plentiful supply of labour in turn counteracted any excessive growth in unit wage costs. The average nominal wage increased by 7.3% and the average real wage by 5.4%. The growth in real wages reflected the low inflation rate.

Recent years have seen a widening of the Czech Republic's budget deficits. The main cause of the rising expenditure has been the impacts of the transformation costs linked with the cleaning-up of banking portfolios and spending associated with the restructuring and modernisation of the economy. Another major factor has been the rising proportion of mandatory social expenditure. The public budgets bear the costs associated with bringing infrastructure and environmental standards into line with those in EU countries, as well as the costs linked with modifying the legal and institutional system in the Czech Republic. Current fiscal policy is not fulfilling its expected function as an instrument of macroeconomic stabilisation. At the end of 2002, the state debt stood at 17.4% of GDP and the total consolidated debt of the government sector at 24.7% of GDP.

The central bank lowered its key monetary policy instruments during the course of 2002 as a result of the appreciation of the koruna's exchange rate. Signals of a delayed recovery of the Czech Republic's major trading partner economies in the EU, as well as the interest rate reductions in the euro area and in the USA, also impinged on domestic interest rates. The fall in key domestic interest rates was more intensive in the first half of the year and continued in November, when the discount rate reached 1.75% (from an initial level of 3.75%). The Lombard rate fell from 5.75% to 3.75% and the two-week repo rate from 4.75% to 2.75% during 2002.

2. THE STRUCTURE OF THE BANKING SECTOR IN THE CZECH REPUBLIC

2.1 NUMBER OF BANKS

(for banks with licences as of the given date)

The Czech banking sector consisted of 37 banks and branches of foreign banks at the end of 2002, a decrease of one bank by comparison with the end of 2001. On 16 June 2002, conservatorship was terminated in IP banka after two years' duration. At the decision of its annual general meeting, the bank surrendered its banking licence and closed down on 7 August 2002. The licence of the Prague branch of French bank Société Générale expired on 31 March 2002. The branch's activities were gradually subsumed within Komerční banka following the parent Société Générale's purchase of a controlling stake in the latter. On the other hand, one new banking licence was issued – to Wüstenrot hypoteční banka on 31 October 2002.

The most significant group of banks in the domestic banking sector in terms of total assets remains the large banks, i.e. those with total assets of more than CZK 100 billion. Four institutions fulfilled this condition, all of them being universal banks providing banking services to corporate clients and, increasingly, to retail customers. Three of the large banks underwent processes of integration after forming alliances with strategic partners following sales of state-owned stakes or mergers. Foreign owners are dominant in all the large banks.

The largest groups in terms of the number of banks they contain are the medium-sized banks and foreign bank branches. Both groups consisted of nine banks at the year-end. More than two thirds of the medium-sized banks are controlled by foreign owners. Two out of the three medium-sized banks in Czech ownership were established by the state and specialise in providing support for exports and for small and medium-sized enterprises. The foreign-owned medium-sized banks are starting to focus increasingly on retail customers and are expanding their branch networks. They are heavily involved in transactions on the interbank market and in derivatives transactions.

The six building societies in the Czech banking sector are of growing importance. Unlike other banks they are subject to an additional law (besides the Act on Banks) regulating building savings schemes in the Czech Republic.

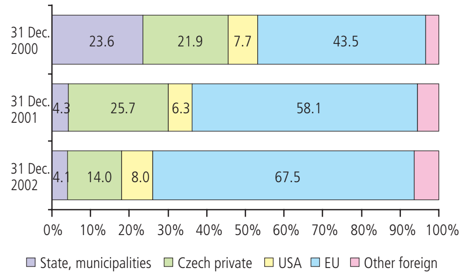
The group of small banks consisted of nine banks as of 31 December 2002, an increase of one on the previous year due to the issuing of a licence to Wüstenrot hypoteční banka. This group is diverse with respect to both activities and ownership. Five of these banks are majority owned by foreign entities. With regard to banking activities, this group is gaining in strength and is starting to take more advantage of gaps in the market.

In keeping with worldwide trends the Czech banking sector is seeing the emergence of banking financial groups. Banks are endeavouring above all else to provide a comprehensive range of banking products and services to their clients by drawing on the resources of their financial groups. These financial groups also contain ancillary banking services institutions providing services to banks. Banking financial groups are formed predominantly by the large and medium-sized domestic banks. The most important are those of Československá obchodní banka, Česká spořitelna and Komerční banka, which at the same time are members of their foreign parent banks' financial groups. Such groups typically comprise investment companies and funds, insurance companies, pension funds, factoring companies, building societies, leasing companies, advisory firms and, in some cases, other banks. Some of the domestic banks are also members of financial groups headed by non-banking financial corporations.

Given the need to monitor and regulate the risks to which banks are exposed on account of their membership of financial groups, supervision on a consolidated basis is beginning to be applied. Supervision has also been extended to groups headed by non-banking institutions (be they financial or non-financial). From the supervisory perspective, banking financial groups form what are known as regulated consolidated groups. Each regulated group is headed by a parent bank and has subsidiaries and affiliates as members. As of the end of 2002 there were eight regulated consolidated groups controlled by banks in the domestic banking sector.

Quality consolidated supervision requires complete information – gathered with adequate frequency – and close co-operation with other financial market regulators. The CNB, the Czech Ministry of Finance and the Czech Securities Commission on 28 February 2003 signed a Memorandum of Understanding on banking supervision and state oversight of the financial market. The Memorandum provides for co-operative supervision on a consolidated basis. The information duty arising from consolidated supervision has been strengthened to include a requirement for the quarterly submission of accounting statements for consolidated groups (balance sheets, profit and loss accounts and reports on capital adequacy and credit exposure) and a quarterly statement on ownership interests.

CHART 1
BANK OWNERSHIP STRUCTURE
for banks with licences as of the given date



Note: Percentage share in equity capital

2.2 OWNERSHIP STRUCTURE

(for banks with licences as of the given date, excluding foreign bank branches)

The year 2002 saw a continuing rise in the share of foreign owners in the equity capital of domestic banks. The key change affecting capital origin in 2001 had been the completion of the privatisation of state-owned stakes in the large banks and the arrival of strategic owners. Conversely, 2002 saw a strengthening of foreign owners' influence as a result of a fundamental change in the internal structure of the total capital of the banking sector due to the return of IP banka's licence and its subsequent closure. IP banka's capital – totalling CZK 12.7 billion, predominantly of domestic origin and representing 16.3% of the total capital of the banking sector at the end of 2001 – was taken out of the sector. The total capital base of the banking sector was thus down to CZK 70.5 billion at the end of 2002.

Foreign entities held 81.9% of the total equity capital of the Czech banking sector as at the end of 2002, an increase of 12 points on a year earlier. In terms of capital, the Czech banking sector is becoming increasingly interlinked with EU member states. Their share in total equity capital increased by 9.4 points in 2002 compared to the previous year, to 67.5%. The exit of IP banka from the sector reduced the proportion of domestic capital by 11.7 points to 14%.

Foreign capital dominates in the group of large banks, its share being 95.5% at the end of 2002. But even in the other groups – medium-sized banks, small banks and building societies – the proportion of foreign capital exceeds the 50% level.

Nine banks are wholly owned by foreign investors, while only five are exclusively Czech owned. Out of the total of 28 banks and building societies (excluding branches of foreign banks), 17 are majority foreign owned and 10 are majority Czech owned, while one building society has equal Czech and foreign ownership. The newly licensed Wüstenrot hypoteční banka is also wholly foreign owned.

Along with the falling share of domestic investors, the shares of the state and municipalities are also shrinking. The state has significant stakes in only two banks, which specialise in delivering state programmes of support to exporters and small businesses.

The predominance of foreign capital is even greater when direct and indirect control of total assets is taken into consideration. As of 31 December 2002, foreign shareholders (i.e. those owning more than 50% of the equity capital, including all foreign bank branches operating in the Czech Republic) controlled 87.3% of the total assets of the sector. This is 2.8 points less than at the end of 2001. Including banks whose assets are controlled indirectly by foreign entities through subsidiary banks operating in the Czech Republic, the figure increases to 93.3%, which is 0.9 points less than at the end of 2001. Conversely, the proportion of total assets controlled by the state rose to 4.6% in 2002 owing to a sizeable increase in the total assets of the Czech Export Bank (Česká exportní banka) and the Czech and Moravian Guarantee and Development Bank (Českomoravská záruční a rozvojová banka).

CHART 2
CAPITAL ORIGIN AS OF 31 DECEMBER 2002
for banks with licences as of 31 December 2002

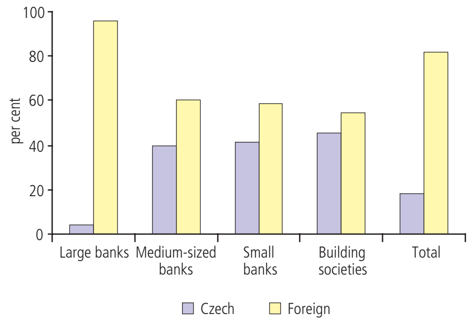
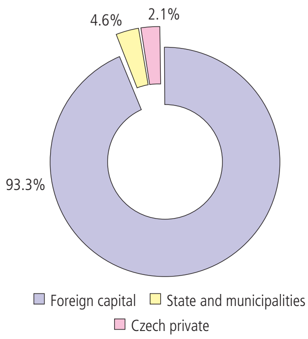


CHART 3
STRUCTURE OF TOTAL ASSETS BY OWNER AS OF 31 DECEMBER 2002
for banks with licences as of 31 December 2002



2.3 EMPLOYEES AND BANKING UNITS
(for banks with licences as of the given date)

At the end of 2002, there were 40,625 people working in the Czech banking sector, 0.6% less than a year earlier. The year 2002 thus saw a continuing downward trend in the number of banking employees, although the pace of that decrease was slower than in previous years. The workforce reductions occurred chiefly in the large banks group. The number of employees in the medium-sized banks, small banks and building societies on the contrary increased somewhat in absolute terms.

The rationalisation of job numbers is closely linked to the trend in the number of banking units (i.e. banking outlets). In 2002 banks focused on expanding the range of banking products and services on offer. The number of banking outlets fell by 29 in absolute terms, or 1.7%, to stand at 1,722 as of 31 December 2002. The level of service in the Czech Republic was thus enhanced primarily by the development of alternative distribution channels and direct banking. This is affecting both the quality and

CHART 4
STRUCTURE OF BANKING OUTLETS AND EMPLOYEES BY BANK GROUP
for banks with licences as of the given date

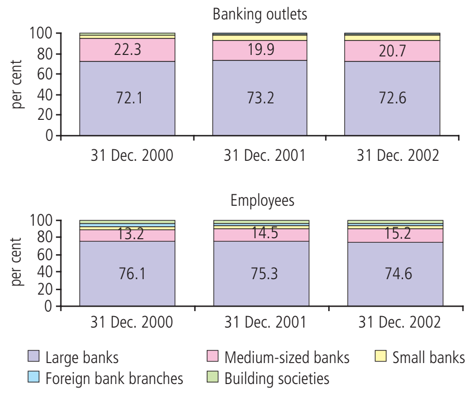
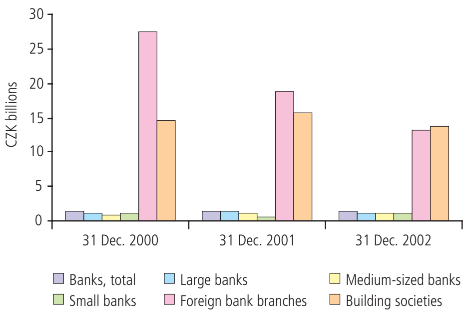


TABLE 1
NUMBER OF EMPLOYEES AND BANKING OUTLETS IN THE BANKING SECTOR
for banks with licences as of the given date

	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000	31 Dec. 2001	31 Dec. 2002
Number of employees (thous.)	54.0	53.1	49.4	45.5	40.9	40.6
Number of banking outlets (thous.)	2.5	2.2	2.0	1.8	1.8	1.7
Number of employees						
per bank (thous.)	1.1	1.2	1.2	1.1	1.1	1.1
per banking outlet	21.9	23.7	24.6	25.2	23.3	23.6
Number of citizens						
per bank (thous.)	206.0	228.7	244.7	256.7	270.3	275.0
per banking outlet (thous.)	4.2	4.6	5.1	5.7	5.9	5.9
per employee	190.8	193.8	208.2	225.6	251.3	250.5

CHART 5
TOTAL ASSETS MANAGED PER BANKING OUTLET
for banks with licences as of the given date



accessibility (with regard to both place and time) of banking services. The large banks recorded a 2.5% fall in branch numbers in 2002, whereas the medium-sized banks and foreign bank branches, which are starting to focus more on retail banking, saw a modest rise in banking outlets. The growing number of building society branches still serve merely to complement the basic distribution networks that building societies share with other members of the same financial groups.

The determining factors of the size of a bank's workforce and distribution network are the nature of its core activities and its core client segment. Banks are currently focusing increasingly on retail banking, which requires accessibility with regard to both place and time, a personal approach to clients, and very often the assistance of personal bankers. This type of banking activity goes hand in hand with a requirement to process a large number of banking transactions: retail banking is a time-consuming business. In order to improve efficiency, banks are encouraging their clients to use alternative distribution channels, in particular electronic banking, via which clients have 24-hour access to the bank via telephone, the Internet and latterly also mobile phone.

The productivity of the banking sector is measured in terms of the number of citizens per bank, per banking outlet and per banking employee. The population of the Czech Republic has been stable for some time and actually recorded a year-on-year fall of just under 1% to 10,174,600 as of 31 December 2002. Productivity is therefore solely dependent on the actions of the banking sector. There were no major changes in comparison with 2001. The trend of gradual rationalisation of service provision continued with a modest increase in the number of citizens per bank to 275,000 as of 31 December 2002 (a rise of 1.8%), bolstered by a growing number of clients who are non-residents or visitors to the Czech Republic. The quality and accessibility of services increased slightly, as there was a decrease of 2.5% in the number of citizens per banking outlet (to 5,900 at the end of 2002). At the same time there were 250.5 citizens per banking employee. Despite the continuing decline in the banking workforce, there was a slight increase in the average number of employees per bank, to 1,098 as of the end of 2002. The number of employees per banking outlet was more or less flat in the period under review.

At the end of 2002, assets of CZK 1.4 billion were being managed per banking outlet, which constitutes a slight year-on-year decline. This figure was most affected by the large banks, which administer just CZK 1.2 billion per outlet. Foreign bank branches and building societies were managing almost ten times the average figure, this being due to the specific nature of their banking transactions. Retail customers are not a target client segment for branches of foreign banks. Building societies are establishing very modest retail networks and are taking advantage of their parent banks' service networks. Medium-sized and small banks strengthened their position and made more rational use of their outlets last year.

Total assets administered per employee stood at CZK 62 million at the end of 2002. However, as in the case of average total assets managed per outlet, the situation varied considerably across the bank groups. The large banks had CZK 51.4 million in assets per employee at the end of 2002. The figure for foreign bank branches was down by 17.9% from a year earlier, but remained at almost five times the sector average at the end of 2002. On the other hand, total assets in building societies are rising faster than the number of employees. Measured in this way, this group's productivity is around double that of the overall banking sector.

2.4 NEW TECHNOLOGY

New technology is becoming an increasingly important part of the banking industry, allowing banks to offer a wider range of sophisticated banking products and enabling clients to access banks via new distribution channels. Banks are using new technology as a means of cutting costs, as it allows them to reduce their workforces and optimise their retail networks. New technology forms the basis for a new type of electronic banking facilitating improved service quality, a wider range of services and greater accessibility. The direct 24-hour link between bank and client constitutes a major competitive advantage.

Direct banking continued to develop in 2002. The pace of growth is dependent on level of development, market segment and changes in client behaviour. It is a product of the gradual change in banks' orientation towards retail clients. Payment cards are becoming a standard feature of product ranges. Such cards are still used mainly for withdrawing cash from ATMs, the volume of which is around 5.5 times larger than the annual volume of card payments for goods and services. This is in keeping with the optimising of ATM networks and the rise in the number of ATMs over the past two years. The number of ATM networks run by the various operators remained at four.

The changing lifestyle and behaviour of clients, coupled with a reduction in cash transactions, forms the basis for regular growth in the number of transactions and volumes of cash withdrawn from ATMs. The number of transactions is increasing at a slower pace in 2002 (by 6%) than in 2001 whereas the volume of such transactions is rising faster (23% faster). The average amount per ATM withdrawal rose again in 2002, this time to CZK 2,672, i.e. 16% higher than in 2001. The main reasons for the contrary trends lie in the banks' fee policies, which encourage clients to make fewer withdrawals. Direct, non-cash payment for goods and services is becoming increasingly prevalent. With growth in the number of payments (54%) exceeding growth in annual transaction turnover (17%), the average amount of each card payment (CZK 1,280 in 2002) is falling constantly. This confirms that direct payment is being used with increasing frequency to pay for the necessities of life. Banks are stimulating the use of direct transactions by choosing suitable fee policies.

The most commonly issued and used payment cards, both in the Czech Republic and in other countries, are debit cards. Their number increased by 25% in 2002, to 5,658,300. Despite a year-on-year rise in number of 112%, to 113,200, credit cards have only a minority share of the total. The acceptance of payment cards as a payment instrument by clients, coupled with the wide range of such cards offered by banks, is generating a broader spectrum of possibilities for making card payments. Since 1999, the annual growth in the number of terminals has been fluctuating around 40%. In 2002 the figure was 41%.

TABLE 2
SELECTED TYPES OF PAYMENT CARDS,
ATMs AND ATM NETWORKS
for banks with licences as of the given date

	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000	31 Dec. 2001	31 Dec. 2002
Cash withdrawal cards (thous.)	408.9	1 590.2	2 784.5	3 976.6	4 556.3	5 768.9
Number of ATM networks	4	5	4	4	4	4
Number of ATMs	1 322	1 463	1 499	1 602	1 923	2 254
Annual number of transactions (millions)	49.4	59.1	70.0	85.8	100.7	106.8
Annual transaction turnover (CZK billions)	67.3	91.3	128.0	175.5	232.7	285.4
Debit cards (thous.)	1 478.7	1 881.8	2 790.0	3 960.4	4 516.3	5 658.3
Number of terminals	2 985	6 628	8 962	13 187	17 931	25 358
Annual number of transactions (millions)	1.4	2.8	6.0	14.5	26.6	41.0
Annual transaction turnover (CZK billions)	3.9	8.4	14.0	27.0	44.7	52.5
Credit cards (thous.)	1.7	3.6	5.6	38.7	53.2	113.2

Note: Cards issued by banks only

2.5 CONCENTRATION
(for banks with licences as of the given date)

The process of concentration and consolidation of the banking sector continued in 2002, taking the form of a merger of two banking institutions and the withdrawal of the licence of a bank that had been under conservatorship. The decline in the number of banks can be expected to continue in the period ahead. In addition to strategic decisions by parent banks or foreign head offices, the chief reasons may include cases where a bank is unable to meet the prudential requirements set by CNB Banking Supervision.

TABLE 3
BREAKDOWN OF BANKS
BY SIZE OF EQUITY CAPITAL
for banks with licences as of the given date

CZK billions	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000	31 Dec. 2001	31 Dec. 2002
over 5	5	6	6	6	5	4
2.5 to 4.9	4	1	0	0	0	1
1 to 2.4	13	13	13	12	12	10
0.5 to 0.9	9	7	6	6	6	9
0.5	8	8	7	6	5	4
under 0.5	2	0	0	0	0	0

CHART 6
EQUITY CAPITAL DISTRIBUTION OF BANKS
AS OF 31 DECEMBER 2002
for banks with licences as of 31 December 2002

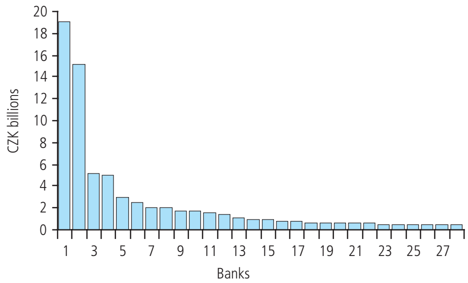


TABLE 4
BREAKDOWN OF BANKS BY SIZE OF TOTAL ASSETS
for banks with licences as of the given date

CZK billions	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000	31 Dec. 2001	31Dec. 2002
over 100	5	5	5	5	5	4
50 to 99	1	2	3	5	6	7
25 to 49	10	13	12	8	7	6
10 to 24	14	9	9	11	8	11
under 10	20	16	13	11	12	9

CHART 7
TOTAL ASSET DISTRIBUTION OF BANKS
AS OF 31 DECEMBER 2002
for banks with licences as of 31 December 2002

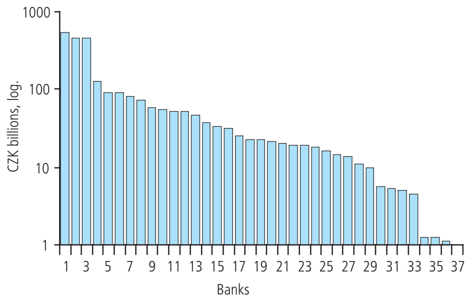


TABLE 5
PERCENTAGE SHARES OF INDIVIDUAL BANK GROUPS
IN TOTAL ASSETS
for banks with licences as of the given date

	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000	31 Dec. 2001	31Dec. 2002
Banks. total	100.0	100.0	100.0	100.0	100.0	100.0
of which:						
large banks	66.6	65.3	65.1	61.5	63.8	62.2
medium-sized banks	13.1	15.2	13.2	15.5	14.8	16.6
small banks	6.4	3.9	3.3	2.6	2.3	3.4
foreign bank branches	9.0	11.1	13.6	14.5	12.8	9.6
building societies	3.1	4.5	4.8	5.2	6.3	8.2
banks under conservatorship	1.8	0.0	0.0	0.7	0.0	0.0

As regards equity capital size, the situation changed significantly by comparison with the end of 2001. The biggest change was recorded in the category of banks having capital of between CZK 0.5 billion and CZK 0.9 billion, where there was a year-on-year increase of three banks. The largest decrease in the number of banks (two banks) was registered in the category of banks with capital of between CZK 1.0 billion and CZK 2.4 billion. The changes were caused by a capital increase in one bank and a capital decrease in another. The fall in the number of banks with capital of over CZK 5 billion is linked with the measures taken to resolve the situation at IP banka. As of 31 December 2002, four banks were at the minimum acceptable threshold of CZK 500 million, one less than a year earlier. Owing to the gradual stabilisation and consolidation of the banking sector, no bank has had equity capital below the mandatory minimum of CZK 500 million since 1998.

From the point of view of their equity capital distribution as of 31 December 2002, the banks carrying on business in the Czech Republic may be assessed as a heterogeneous group made up of a relatively large subgroup of banks with similar equity capital size and a subgroup of banks having far larger equity capital. However, a gradation is clearly visible between the banks with most capital.

At the end of 2002, four banks were managing assets worth more than CZK 100 billion, i.e. one bank less than a year earlier (this fall having been caused by a sizeable year-on-year fall in receivables from banks at one of the foreign bank branches). Most strongly represented is the category of banks with total assets of between CZK 10 billion and CZK 24 billion (eleven banks). The rise in their number in 2002 was attributable in part to building societies, which stepped up their lending activity. The category of banks with total assets of less than CZK 10 billion is also well represented, although the number of banks in this category is now the lowest it has been in six years. This decrease is due on the one hand to banks moving up into higher-asset categories and on the other hand to the closure of IP banka.

The total asset distribution of banks in the Czech banking sector as of 31 December 2002 shows far greater differences between the banks than in the case of their equity capital distribution. Whereas the equity capital of the largest bank at the end of 2002 was around 40 times higher than that of the smallest, the total assets of the largest bank on the same date were some 600 times higher than in the bank with the least assets.

At the end of 2001, the group of large banks had accounted for 63.8% of the banking sector's total assets. A year later the figure was down slightly to 62.2%. This fall was due to a modest reduction in the volume of assets in the large banks. The total assets of the sector meanwhile increased somewhat in 2002. The majority share of the large banks group in the banking sector affects the sector's overall results, as the large banks have the largest weight in the final figures, be they absolute or relative. The building societies and medium-sized banks conversely saw sizeable annual increases in their shares of total assets.

2.6 COMPETITIVENESS

(for banks with licences as of the given date)

The main benefits of the market environment in the banking sector are an expanding range of products and services (and innovations thereof) and new technology offering greater levels of convenience for existing and potential clients. Just as in other areas of the economy, a functioning market environment remains the driving force for further development in the commercial banking market. Another direct consequence of the competitive environment and functioning market is appropriate pricing of banking products and services. The developments in the Czech banking sector in recent times demonstrate that the dominance of the large banks (with respect to attractive products and services and the forms in which they are made available, and with respect to pricing policy) is coming under mounting pressure from the other bank groups.

The large banks group accounted for 61.7% of the overall total assets of the banking sector at the end of 2002. This represents a year-on-year weakening in their position of 6.0 points. The process of restructuring and credit portfolio clean-up – accompanied by the sale of bad loans – is still ongoing in the privatised large banks. A different trend was indicated by the relative and absolute growth in credits in the other groups of banks, which, with the one exception of foreign bank branches, strengthened their shares in total client credits in 2002. This trend confirms the developments recorded in 2001. The largest rises in credits were seen in the medium-sized banks, whose market share grew by 3 percentage points, and in the building societies, which saw an annual increase in share of 1.5 points.

The trend is similar as regards the distribution of the client-deposit market among the individual bank groups. Here, too, the weight of the large banks is gradually falling. Nevertheless, their share of the total deposits received by the banking sector remains dominant, amounting to 68.4% as of 31 December 2002. The large banks' share of client deposits was 5.4 points lower than a year earlier, but remained much stronger than in the case of client credits. The medium-sized banks were in second place with regard to client deposits received, as they were with credits. However, comparing the relevant shares it is clear that the medium-sized banks specialise more in credit transactions than in deposit transactions. Besides the large banks, the only other group to record an annual decrease in the client deposit market was foreign bank branches. This decrease was linked with the generally lower level of activity of such branches on the Czech banking market. For branches of foreign banks, client deposits are only a complementary source of funds to funds from other banks. Client deposits in building societies continue to grow and are steadily strengthening their share in total banking sector deposits. By the end of 2001, they had reached almost 11.5% of all deposits received.

The groups of large banks and branches of foreign banks showed the largest deviations of their market shares in client deposits, receivables from banks and derivatives from their market shares in total assets. The figures clearly show the predominant commercial orientation of the banks in these two groups. The large banks are a major recipient of deposits, but are less developed in terms of the interbank market and derivatives transactions than their total assets would suggest. The situation in the foreign bank branches is exactly the opposite. For all three of the aforementioned classes of product, the medium-sized banks mimic the foreign bank branches, although the deviations from their market shares in total assets are considerably smaller. The small banks showed the smallest deviations of market shares in the selected products (except for lending) from market shares in overall total assets as of 31 December 2002. In the case of building societies, their share of lending currently falls short of their share in total assets, whereas their share of client deposits was above average at the end of 2002.

The changes in the structure of the Czech banking sector and the evolution of market shares on the domestic banking market are also reflected in the Herfindahl indices of market competition[1] for the selected classes of banking transactions. In 2002 the Herfindahl index on the lending market decreased, mainly as a result of a decline in

1 The Herfindahl index of market competition can take values in the range of 0 to 1, where 1 represents a totally uncompetitive environment. Competition on the market increases with decreasing Herfindahl index value.

CHART 8
MARKET SHARES OF BANK GROUPS
IN SELECTED PRODUCTS IN PER CENT
for banks with licences as of 31 December 2002

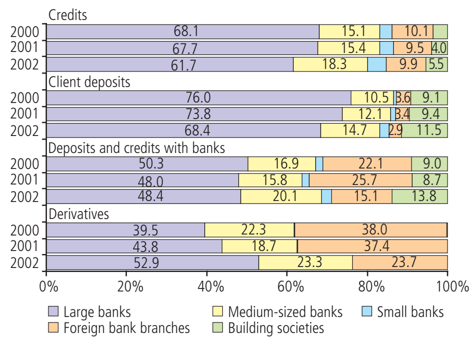


CHART 9
MARKET SHARES OF BANK GROUPS IN SELECTED PRODUCTS IN PERCENTAGE POINT DEVIATIONS FROM MARKET SHARES IN ASSETS AS OF 31 DECEMBER 2002
for banks with licences as of 31 December 2002

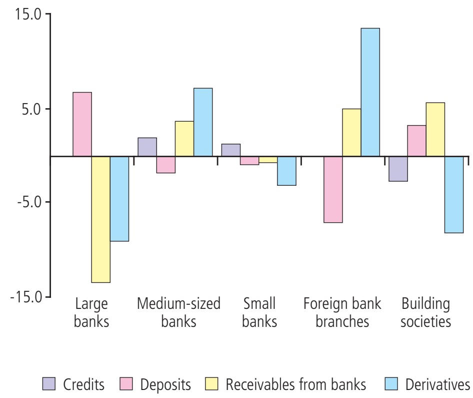
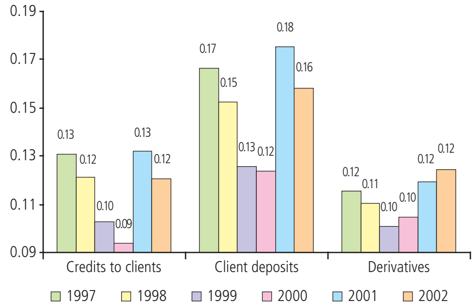
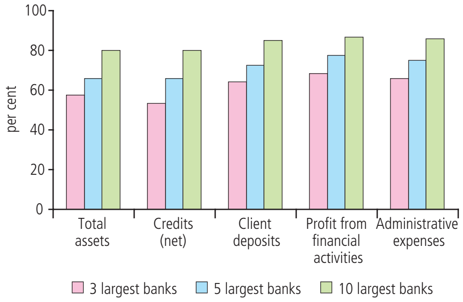


CHART 10
HERFINDAHL INDICES OF MARKET COMPETITION
for banks with licences in the given year



lending by several of the large banks (the index was affected in 2001 and 2002 by extraordinary transactions involving transfers of loans from the large banks to the Czech Consolidation Agency). There was also a decrease in the index, and hence an increase in competition, on the expanding deposit market, where the large banks and, in particular, the foreign bank branches retreated from their previous positions. On the derivatives market, the Herfindahl index rose for the third consecutive year, suggesting a rising concentration of the bulk of such transactions in a smaller number of banks. As of 31 December 2002, the least competitive of the markets under comparison remained that for client deposits, owing to the concentration of such transactions in banks specialising in retail banking.

CHART 11
SHARES OF GROUPS OF LARGEST BANKS
IN BANKING SECTOR AS OF 31 DECEMBER 2002
for banks with licences as of 31 December 2002



The market shares of the largest banks in the banking sector are falling only gradually, despite the changes in competition and in the structure of the Czech banking sector. The activities of the sector are for the most part concentrated in the three largest banks. In the selected items of the balance sheet, profit and loss and capital adequacy, the three largest banks usually account for half the entire market. In some cases the figure is just under this level (although across the individual items the group of three banks often differs). As of 31 December 2002, the three largest banks accounted for 57.2% of the sector's total assets, 53.5% of total client credits and 64.2% of total client deposits.

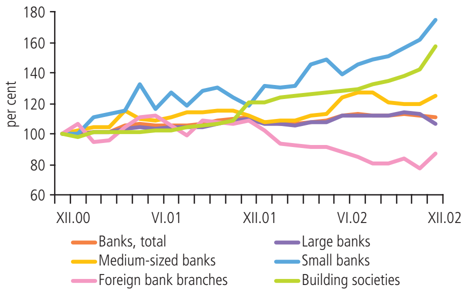
The high concentration of banking activities is also evident in the figures for the three banks with the largest shares in profit from financial activities (68.2%) and administrative expenses (65.8%). The relatively small differences in the aforementioned shares of the three, five and ten largest banks suggest that the three dominant banks are maintaining their lead over the rest of the field.

2.7 ASSETS AND LIABILITIES

(for banks with licences as of 31 December 2002)

As of 31 December 2002, the total assets of the Czech banking sector amounted to CZK 2,503.7 billion, an increase of 0.1% on a year earlier. The total net assets of the banking sector at the end of 2002 were worth 110% of gross domestic product in the same year, a year-on-year decrease of 5 points. The trend in banking transactions expressed both by their rate of growth and in relation to Czech GDP confirms that there is potential for further development.

CHART 12
GROWTH OF TOTAL ASSETS
for banks with licences as of 31 December 2002



The development of total assets was not uniform across all the bank groups. While the large banks recorded a slight decline in total net assets (of 3.6%) and branches of foreign banks a much more sizeable decrease (of 19.8%), all the other groups saw fairly large increases last year. The overall figure was affected above all by the large banks, which accounted for more than 60% of banks' total assets at the year-end. This meant that the exceptionally large increases in assets in the small banks (of 47.4%) and the building societies (of 31.3%) counteracted the decline recorded by the large banks to only a limited extent, as these two fast-growing groups together account for only around 10% of the total assets of the sector as a whole. The medium-sized banks, which are the second-largest group behind the large banks as regards asset size, maintained a growth rate of over 10% annually.

The total assets of the sector as a whole, and of its individual groups, were strongly affected by changes that occurred during 2002 in the area of credits, which constitute the largest component of total assets. The share of credits granted by banks to their clients (including government bodies) recorded a slight fall by comparison with the end of 2001 (of 0.8 points). Unlike total assets, which rose slightly, credits to clients also decreased in absolute terms. (The fall in the absolute value of client credits was largely due to the transfer of selected non-performing loans outside the banking sector. These extraordinary transactions concerned the large banks group and hence chiefly affected credits and total assets in that group and subsequently in the banking sector as a whole.) The average ratio of client credits to total assets as of 31 December 2002 was 36.1%. The small banks remained the group with the highest ratio (over 50%). The group specialising the least in lending – in terms of its ratio of credits to total assets – was the building societies, with a figure of 25%.

The other major components of the banking sector's asset structure are deposits with banks and securities portfolios, which have long occupied a roughly equal position (with shares of around 20% of total assets). In 2002, both these items recorded a fall in volume and consequently a fall in their shares of total assets further below the aforementioned 20% level. While the figures for deposits with banks reflect the real situation in 2002, the figures for securities were also affected quite markedly by accounting changes. These are reflected in the 2002 figures but are not fully reflected in the end-2001 figures, which means that the results for 2001 are somewhat overvalued relative to those for 2002. The shares of deposits with banks and securities decreased in favour of deposits with the central bank, which for banks represent a risk-free alternative for investing their free liquidity, especially in the current environment of low and falling interest rates, upheaval on capital markets and an uncertain economic outlook. Deposits with the CNB rose by around one third compared to the end of the previous accounting period. The share of fixed assets, which consist mainly of tangible assets, represented in turn largely by real estate (branch networks), stayed at the end-2001 level.

A characteristic feature of banking transactions is the fact that external funds strongly outweigh banks' own funds. At the end of 2002 own funds formed just under 8% of total assets on average. The range within which the individual banks fluctuate is, however, so wide that its boundaries indicate that some banks are financed almost exclusively out of their own funds whereas others are financed by external funds.

Equity capital remains the main component of banks' own funds, although its share in own funds fell below the 40% level achieved at the end of 2001. The total aggregate value of the other components of own funds depends mainly on the profits/losses of the banking sector in previous years and the current year. Consequently, very different situations arise when we compare the composition of the individual banks' own funds. In the evaluation of the banking sector as a whole there was a sharper decline in the component made up of reserves and reserve and capital funds, whose share in own funds at the end of 2001 corresponded to equity capital, to a slightly lower share at the end of 2002. Conversely, aggregate profits recorded a very strong annual increase (of more than 75%). Their share in own funds rose from 15% to 24%.

A fairly new funding source over the last few years has been transitory forms of financing based on subordinated financial liabilities, which consist partly of subordinated debt securities and partly of a credit component. Subordinated financial liabilities display the features of both own funds and external funds. However, their share in the balance sheet total is currently insignificant, fluctuating around 1% of total liabilities.

The largest component of external funds for banks in the Czech banking sector is client deposits (including deposits made by government bodies). This is entirely in keeping with the orientation of these banks towards traditional banking, namely the receiving of deposits and the providing of credits. This orientation is mutually conditional on the enterprise sector's approach to financing its production and commercial activities, which occurs

CHART 13
ASSETS STRUCTURE
for banks with licences as of 31 December 2002

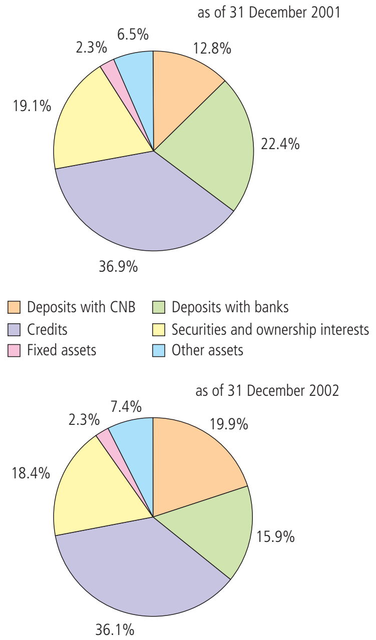


CHART 14
LIABILITIES STRUCTURE
for banks with licences as of 31 December 2002

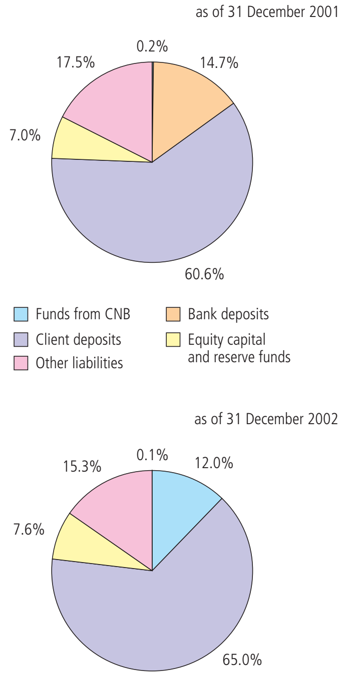
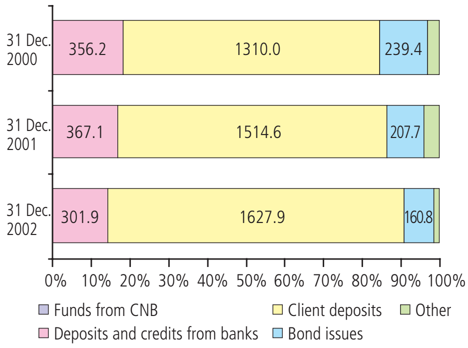


Chart 15
BANKS' EXTERNAL FUNDS
for banks with licences as of 31 December 2002



primarily through bank loans. Households remain the key partner of the banks in the area of client credits and deposits. During the course of 2002 client deposits recorded growth both relative to their volume at the end of 2001 and in terms of their share of total liabilities at the ends of 2001 and 2002. This means that the trend was opposite to that displayed by credits, despite increasing investment by individuals in long-term insurance and pension schemes. The growth in total bank deposits was supported by swings in the performance of the capital markets, as many investors preferred to invest in bank deposits despite constantly falling interest rates and rising fees rather than to invest in mutual funds and investment funds with their highly uncertain yields. At the end of 2002, client deposits amounted to two thirds of total liabilities on average. However, the situation differed widely across the bank groups. In the building societies client deposits constituted around 90% of the liabilities side, whereas in the small banks the proportion was less than 50% and in the foreign bank branches less than 40% of total liabilities.

Deposits received from other banks are the second most important component of external funding sources. Like debt securities (see below), however, they recorded a decline in 2002 in both absolute terms and as a percentage of total external funds. The only group for which funds obtained on the interbank market represent a more-than-50% proportion of external funds in the long term are branches of foreign banks. In both these financing components the developments in 2002 were in line with the 2001 trend, which merely intensified. Deposits received from banks were on average almost double in volume to issues of short-term and long-term securities, although here too there were considerable differences across the bank groups. Debt securities are dominated by bonds with maturities of less than one year (short-term bonds), which at the end of 2002 constituted almost 60% of the total. Most of these are deposit notes. In the case of financing on the interbank market, time deposits and credits hold sway over current accounts and 24-hour deposits.

3. RISKS IN BANKING

Banks are exposed to a whole range of risks relating both to the external environment they operate in and to conditions inside the bank. The most serious consequence of a risk's realisation is insolvency, i.e. where a bank cannot meet its financial obligations towards various categories of creditor. Risk management is thus at the forefront of every bank's concerns. With the development of ever more sophisticated products, services, sales channels and internal banking processes, not only are established forms of risk being modified and made more interconnected, but new forms are appearing. Banks are therefore devoting ever larger teams of specialists to risk management. Risk management is undertaken with the close co-operation of CNB Banking Supervision, which is involved in preparing and revising the legislative framework in which banks operate. The legislation is supplemented by a number of CNB Banking Supervision's own regulations (known as "provisions"), the primary aim of which is to set out the conditions under which potential external and internal risks can be minimised.

External risks result from many factors, among the most important of which are the overall economic and legal environment in which the bank carries on its business. In contrast to the external environment, there are certain things – e.g., choice of business partners and the range of products and services on offer (including appropriate financial instruments) – that can be actively shaped by banks themselves.

One of the newly monitored and managed risks will soon be operational risk. There are several methods for measuring and calculating this, from relatively simple basic and standard procedures to internal models. Operational risk has been reclassified as a credit and market risk, i.e. as one of those risks for which minimum capital requirements need to be established for covering the main risks identified. Other banking risks, such as strategic and reputational risk, have so far been difficult to quantify, even though the losses arising from these risks can be considerable.

3.1 CREDIT RISK

Credit risk is most commonly associated with lending. However, it is also an integral part of other banking activities. It accompanies traditional transactions – such as making payments, trading on one's own or a third party's account and investment activities – and relatively new kinds of transaction, typical of which in this area are credit derivatives.

Credit risk remains one of the key risks to which banks operating on the Czech market are exposed, especially in its basic form, i.e. when associated with lending, in particular to private businesses. The financing of the enterprise sector through bank loans is still a distinguishing feature of the Czech economy, and developments on the capital market have yet to indicate any dramatic change in this state of affairs. By comparison with bank loans, other ways of obtaining funding, such as foreign direct investment, are currently less significant. Credits arising from commercial relations can serve as an alternative to certain kinds of short-term bank loan. By their nature, however, they generate the same type of risk, which is often transferred, through mediators in the trade or manufacturing sphere, back to banks, which can therefore become its ultimate recipient.

Important assistance in the field of credit risk is given to banks operating in the Czech Republic by two separate credit registers (of debtors), which allow participating banks access to relevant information. One of the registers is intended exclusively for legal entities and natural persons engaged in business; the other is for natural persons, also including those engaged in business. The requirements banks must comply with when managing credit risk are set out in CNB Banking Supervision's Provision on Credit Risk Management in Banks.

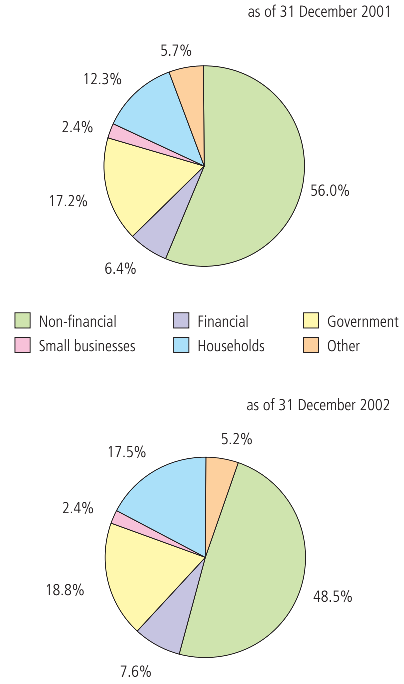
3.1.1 CREDIT STRUCTURE AND CREDIT TRENDS
(for banks with licences as of 31 December 2002)

Total net credits provided by banks with CNB licences to clients (including government bodies) stood at CZK 904.7 billion and total gross credits at CZK 949.8 billion at the end of 2002. By comparison with the end of 2001, there was drop in lending of 1.9% for net credits and 2.6% for gross credits, meaning a year-on-year decline in the pace of growth of 15.9 points and 15.6 points respectively. When comparing the 2001 and 2002 figures and assessing the developments over the past two years, however, it should borne in mind that the 2001 results must be regarded as exceptional and non-recurring. The growth in lending during 2001 was strongly influenced by the conversion of Konsolidační banka into a non-bank agency, which brought with it the one-off conversion of all credits provided to the former bank into client credits provided to the new non-bank agency. Comparing lending in 2002 to that in 2000, which was not affected by any exceptional factors, the growth rate of net credits declined by 2.0 points and the decline in the pace of growth of gross credits eased by 0.4 points. The overall decline in lending in 2002 can, however, be partly attributed to credit transfers from Československá obchodní banka (ČSOB) to the Czech Consolidation Agency, which for the most part concerned credits taken on by ČSOB as part of the former Investiční a Poštovní banka's portfolio.

The trends in lending were not uniform across all the bank groups. The large banks recorded a year-on-year fall of more than 10% (the growth within this group in 2001 had been caused in part by the aforementioned conversion of bank credits provided originally to Konsolidační banka into non-bank credits provided to the Czech Consolidation Agency, whereas the drop in 2002 can be seen in the context of the extraordinary credit transfers from ČSOB). The other groups recorded growth in the volume of credits they provided.

Banks justify their generally rather limited activity in the lending area mainly in terms of a more prudent approach to issuing new credits and stricter assessment of projects submitted. This approach is undoubtedly leading to a reduction in the provision of new credits, especially to businesses, but at the same time led to a substantial improvement in the quality of the credit portfolios of banks operating in the Czech Republic in 2001 and 2002. Another reason for this decline in lending was the aforementioned conversion of low-quality assets from the ČSOB portfolio, which mainly involved credits provided to the non-financial enterprise sector. Such credits amounted to CZK 432.5 billion at the end of 2002, 18.3% less than at the end of the previous year. Despite this appreciable drop, the non-financial institutions sector remains the main recipient of bank loans. Nonetheless, the share of such credits in total credits has repeatedly fallen, and in December 2002 it went below 50% of total client credits for the first time. As in the previous year, the second-largest recipient of credits was the government sector, which at the end of 2002 held CZK 167.7 billion in loans from banks. Loans to the government sector have risen repeatedly, not just in absolute terms, but also relative to the total volume of credits provided. The increase in credits to the government sector is due mainly to the incorporation of the Czech Consolidation Agency into the government sector structure, and in part to a change to the method for reporting these credits (since the beginning of 2002 they have included budget credits, which had previously been recorded separately). Loans taken out by the financial sector (CZK 67.4 billion) have long stood above 5%; like government sector loans, they too showed moderate year-on-year growth. Although many banks claim to take an accommodating approach to financing small businesses, this new and awaited trend has so far failed to have any effect on the volume of credits provided. Loans to small businesses stood at CZK 21.6 billion at the end of 2002 (the sector thus counted as the most poorly financed). Such loans declined in volume from the previous year at the same rate as total client credits; their proportion of the total therefore remained the same.

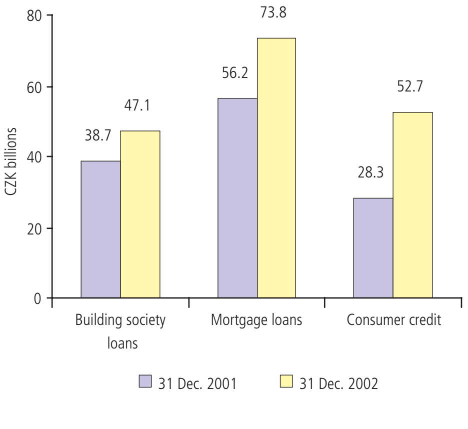
Chart 16
CREDIT STRUCTURE BY SECTOR
for banks with licences as of 31 December 2002



Note: Credits granted in the Czech Republic only

Credits provided to households amounted to CZK 157.1 billion as of 31 December 2002. They increased in volume by more than a third in 2002 and therefore represent the fastest-growing area of lending. Credits to households very often take the form of building society loans or mortgage loans. They are therefore used mainly to purchase and improve residential property. At the end of 2002, there were six building societies operating on the market and nine banks licensed to provide mortgages. Recipients of both forms of credit are benefiting from the competition among banks in this area, from the current low interest rates on loans, and not least from the supportive stance of the state, which provides tax relief on these credits. Banks consider households less likely to default than corporations and small businesses: loans provided to households for investing in property tend to be very well secured, not only in terms of the necessary future cash flow (in this case, household income), but also by the system of guarantors and pledged property. Somewhat less well secured are consumer loans, which are offered by a wider range of banks. This form of credit is currently enjoying dynamic growth in terms of both the increasing amounts that banks are prepared to lend to individuals and the increasing number of people turning away from their conservative approach (which expressed itself in a certain lack of trust in loans as a means of financing their needs).

Chart 17
BUILDING SOCIETY LOANS, MORTGAGE LOANS AND CONSUMER CREDIT
for banks with licences as of 31 December 2002



The largest recipient of bank loans in terms of economic activity was financial intermediation (financial intermediaries and the Czech Consolidation Agency) and insurance, with CZK 160.0 billion in loans from banks at the end of 2002. During 2002, this sector overtook manufacturing, which as of 31 December 2002 held CZK 152.2 billion in bank loans. Credits to manufacturing continued in the downward trend recorded in 2001, falling by a further 17.4% in 2002, whereas credits to the financial intermediation and insurance sector kept growing. Wholesalers and retailers, hotels and restaurants still constitute the third-largest group of recipients of bank loans in terms of economic activity. Their share of total credits, however, fell slightly during the year, indicating an absolute decline in the volume of credits available to this sector in comparison with the previous year. During the same period, credits held by the agriculture and forestry sector rose slightly. Like credits to agriculture and forestry, those to construction and transport are practically negligible; in contrast to those to agriculture and forestry, however, they saw a further drop during 2002.

The comparison of credits in terms of maturity structure between 2002 and preceding years has been affected by a change in methodology. Since January 2002 those credits with a maturity of between one and five years have been classified as medium-term credits. Up till the end of 2001, medium-term credits had been those with a maturity date of between one and four years. This change is probably one of the chief causes of the growth in the absolute volume of medium-term credits and in their ratio to total credits. Medium-term credits had reached CZK 251.4 billion by the end of 2002, up by more than a third on a year earlier. Long-term credits, on the other hand, recorded a fall of more than 10%, amounting to CZK 379.4 billion in December 2002. Despite the drop recorded during 2002, long-term credits remain the most important component of credits as classified by maturity. The proportion of short-term credits, i.e. credits maturing in less than a year, also declined, to the benefit of medium-term credits. In this case, however, there was an actual fall in volume, unaffected by the methodological change, by almost a fifth over the course of the year to CZK 261.5 billion.

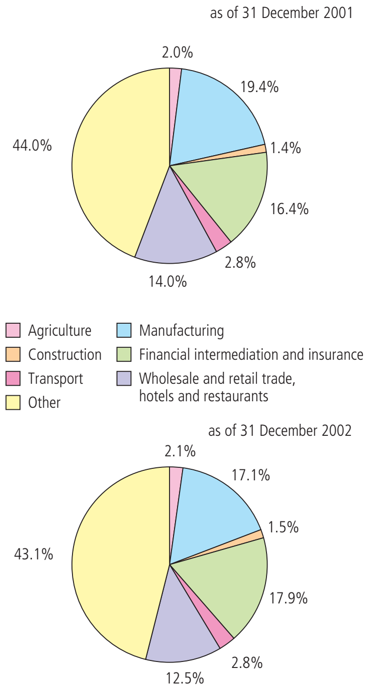
3.1.2 CLASSIFIED CREDITS

(for banks with licences as of 31 December 2002

Banks' increased prudence in assessing loan applications is in evidence both in a declining volume of classified credits and in a positive shift in the structure of low-quality credits, since the largest decreases in the volume of such credits were recorded in the highest-risk categories. As of 31 December 2002, classified credits amounted to CZK 160.4 billion, representing a drop of almost 25% from the end of the preceding year. Transfers of low-quality assets out of the banking sector, in particular from Československá obchodní banka to the Czech Consolidation Agency, also had a positive impact on the overall development of classified credits during 2002. ČSOB's transfers consisted largely of credits from the portfolio of the former Investiční a Poštovní banka. At 16.9%, the ratio of classified credits to total credits last year fell below 20% for the first time. Relative to the end of 2001, this figure represents a drop of 4.6 points. The decline in the volume of classified credits and in the ratio of classified credits to total credits occurred gradually throughout the year.

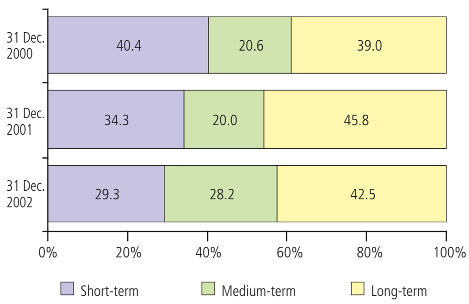
At CZK 76.2 billion, watch credits, i.e. credits with very little risk, formed the most important category of classified credits (almost half of all such credits). While in absolute terms the volume of watch credits remained at its 2001 level, in relative terms (i.e. in relation to total credits) there was a sharp increase during 2002. In some countries, watch credits are not categorised as classified credits at all, due to their low level of risk. Had this approach been taken here, non-performing credits would have amounted to 8.9% of total credits at the end of 2002.

CHART 18
CREDIT STRUCTURE BY ECONOMIC ACTIVITY
for banks with licences as of 31 December 2002



Note: Credits granted in the Czech Republice only

CHART 19
TIME STRUCTURE OF CREDITS
for banks with licences as of 31 December 2002

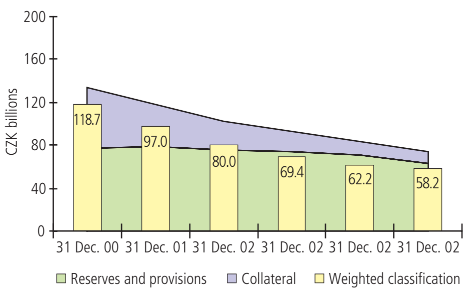


Note: Credits granted in the Czech Republic only

TABLE 6
STRUCTURE OF CLASSIFIED CREDITS
for banks with licences as of 31 December 2002

	31 Dec. 2000	31 Dec. 2001	2002 31 Mar.	2002 30 Jun.	2002 30 Sep.	2002 31 Dec.
Classified credits						
in CZK millions	257 762	209 866	187 048	167 637	160 249	160 378
as percentage of total credits	29.83	21.53	19.57	17.96	17.22	16.89
of which:			in CZK millions			
watch credits	85 814	75 984	74 276	68 847	71 177	76 201
substandard credits	54 910	32 295	29 367	27 759	25 933	29 514
doubtful credits	27 276	29 725	25 895	21 032	19 423	12 361
loss credits	89 762	71 862	57 510	49 999	43 716	42 302
of which:			in per cent			
watch credits	33.3	36.2	39.7	41.1	44.4	47.5
substandard credits	21.3	15.4	15.8	16.6	16.2	18.4
doubtful credits	10.6	14.2	13.8	12.5	12.1	7.7
loss credits	34.8	34.2	30.7	29.8	27.3	26.4

CHART 20
COVERAGE OF POTENTIAL LOSSES FROM CREDIT PORTFOLIO
for banks with licences as of 31 December 2002



Loss credits, which constitute the most risky category of credit, stood at CZK 42.3 billion at the end of 2002, making them the second-largest group of classified credits. Loss credits also occupied this position the previous year. Their volume, however, declined appreciably in the intervening period, as did their share of total classified credits (by almost 8 points to just above 25% of the total). Recent years have seen a similar trend in doubtful credits, another form of high-risk credit. At the end of last year, they amounted to CZK 12.4 billion, having fallen by almost half during the course of the year in absolute terms and as a proportion of total classified credits.

Given that a high proportion of classified credits are watch credits, it is not at all uncommon for classified credits to be paid back in the normal way. Classified credits paid back in the normal way last year recorded a quarterly average of about a third of total classified credits. For the aforementioned reason, the situation quite often arises where, upon fulfilment of the conditions attached, a classified credit can be reclassified as a standard credit. In this way, there are regular quarterly reductions in classified credits of between 6% and 10% of the total. Other ways of reducing the volume of existing classified credits include write-offs against reserves and provisions, enforcement of collateral, and certain other procedures, which, however, are of little consequence at the present time.

Although generally a classified credit will arise out of the non-fulfilment of contractual conditions, leading to reclassification of the credit from the standard type to one of the categories of classified credit (in 2002, between 2% and 4% of standard credits were reclassified each quarter), a significant proportion of credits are rated as classified from the moment they are granted. This practice is related to the very strict assessment of credit quality in the Czech Republic. Newly issued classified credits fluctuated within the range of 16% to 33% of existing classified credits in the individual quarters of 2002. Another method, one not of great significance in terms of volume by comparison with those mentioned above, is the capitalisation of unpaid interest.

Because there are large differences in the likelihood of non-repayment for the different credit classification categories, CNB Banking Supervision monitors the weighted classification indicator closely. Classified credits recalculated using coefficients of the probability of default express the risk of credits actually not performing much more accurately than does the mere sum of the volumes in the individual categories. At the end of 2002, the total provision of low-quality credits expressed by the weighted classification amounted to CZK 58.2 billion, a figure slightly exceeding one third of total classified credits. The weighted classification is declining long term; during 2002 it fell by more than 40%. As with total classified credits, the decline in this indicator in 2002 was related to transfers of credits to the Czech Consolidation Agency.

In recent years (including 2002), the weighted classification indicator has been below the level of total reserves and provisions (including collateral) created to cover losses from classified credits. At the end of 2002, the ratio of the weighted classification to relevant reserves, provisions and collateral was almost 80%, representing a surplus of reserves and provisions of CZK 15.5 billion. Reserves and provisions alone amounted to 107.1% of the weighted classification as of 31 December 2002.

3.2 LIQUIDITY RISK

Liquidity risk may be characterised as the risk that a bank will cease to be able either to meet its financial liabilities on their due date or to finance its assets. This type of risk can be viewed from two different angles. From the perspective of market liquidity, the term "liquidity" means having sufficient liquid funds on the balance sheet. Generally, banks try to keep quick assets, which they can use to cover unforeseen outflows of funds, at as low a level as necessary. Although a positive aspect of such assets is the low level of risk attached to them, another basic – and fully corresponding – feature is their low rate of return. Market liquidity risk, so defined, is also linked to publicly tradable securities, where (especially on secondary capital markets characterised by low trading volumes) uncertainty arises in relation to banks' ability to convert shares and bonds held in their trading portfolios rapidly into cash without incurring large losses.

Liquidity can also be looked at from the angle of a bank's ability furnish itself where necessary with sufficient liquid funds in the form of credit, most commonly by means of repos. Banks normally acquire liquid funds for covering due payment obligations on the interbank market or from the central bank.

The aim of managing liquidity risk is to match the time structure of assets and liabilities. In 2001, CNB Banking Supervision issued a Provision on Standards for Managing Liquidity in Banks. Compliance with these standards will create the conditions in which banks can permanently maintain their solvency both in Czech currency and in foreign currencies. These standards are considered minimum requirements for the prudent management of liquidity, and each bank should therefore make them more stringent in relation to its size and profile. For the purposes of liquidity management, every bank has an information system enabling it to monitor, measure and subsequently report its liquidity to the Czech National Bank in the form of regular statements.

3.2.1 PRIMARY FUNDS

(for banks with licences as of 31 December 2002)

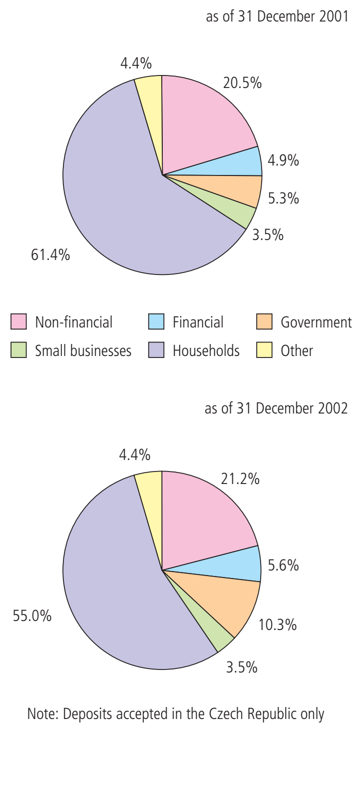
Deposits received from clients, including government institutions, amounted to CZK 1,627.9 billion as of 31 December 2002, representing year-on-year growth of 7.5%. This source of funds constitutes the largest component of a bank's total disposable funds. At the end of 2002, primary funds accounted for more than 75% of total external funds. The volume of primary funds is growing constantly.

The main factor underlying the growth in client deposits is the fact that entities with temporary free liquidity often cannot find suitable alternatives (whether in terms of yields or acceptable risks) to bank deposits. Acting against this trend is the current low level of interest rates, which supports growth in lending and reduces the amount of primary funds held in banks. Other factors working against the growth in deposits include attractive, state-supported life insurance and pension schemes (household sector); unrestricted opportunities for investing abroad; and escalating bank fees.

Deposits from households amounted to CZK 862.3 billion at the end of 2002, thus accounting for over half of all bank deposits. At the same time, this component of primary deposits was the only one to see a slight year-on-year decline. The result of this slight decline, and of the parallel growth in deposits overall, was a drop in the proportion of deposits from households of more than 6 percentage points. The decline in deposits from households came after many years of continual growth. The non-financial sector is another important contributor to banks' funds; its share of total deposits has long been close to 20%. The pace of growth in deposits from this sector outstripped that for total deposits, so its proportion of the total increased slightly.

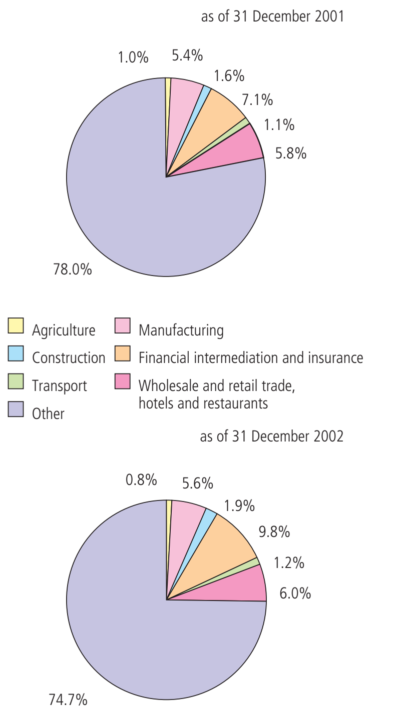
Government sector deposits recorded massive growth in 2002. As of 31 December 2002, they amounted to CZK 160.9 billion, more than double the amount at the end of the

CHART 21
DEPOSIT STRUCTURE BY SECTOR
for banks with licences as of 31 December 2002



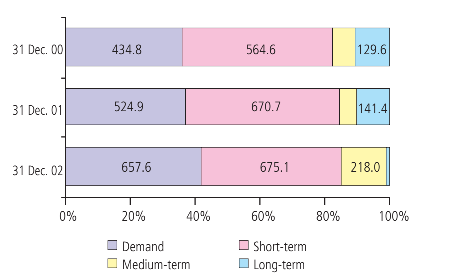
Note: Deposits accepted in the Czech Republic only

Chart 22
DEPOSIT STRUCTURE BY ECONOMIC ACTIVITY
for banks with licences as of 31 December 2002



Note: Deposits accepted in the Czech Republic only

Chart 23
TIME STRUCTURE OF DEPOSITS
for banks with licences as of 31 December 2002



Note: Deposits accepted in the Czech Republic only; the data in the chart are in CZK billions

preceding year. The share of government sector deposits in total deposits also almost doubled. One of the principal causes of this growth lies in transactions made by the Czech Consolidation Agency, which deposits its temporary free liquidity in banks, mainly for repos with the Czech National Bank. The government sector deposited a larger amount of liquid funds in 2002 partly also due to the continuing privatisation of certain companies, which enabled the Czech National Property Fund to deposit the proceeds from these sales in banks. An important reason for the increase in deposits across the sector was the change to the method used for reporting such deposits, under which budget funds have been reclassified as deposits.

Going by economic activity, financial intermediation and insurance remained the largest depositor of funds at the end of 2002, with CZK 154.7 billion and a share of almost 10% in the total. Deposits by insurance companies and other financial institutions increased during 2002 by more than half on the previous year; their share of the total also grew considerably. The growth in deposits from this sector can be explained to a certain extent by a change in households' behaviour. Households' free funds increasingly often come to banks indirectly, through non-banking financial intermediaries offering investors higher returns. This ties in with the year-on-year decline in other sectors, which are to a certain extent represented by households. At the end of 2002 (as in 2001), wholesale and retail trade, hotels and restaurants stood in second place, with an almost unchanged share in the total of 6%. Deposits from manufacturers evolved in a similar way during 2002, following closely behind those from wholesale and retail traders, hotels and restaurants in terms of both absolute volume and percentage share. The other economic activities monitored fluctuated under the 2% mark; their impact on primary deposits was thus negligible.

In terms of maturity breakdown, short-term time deposits (i.e. deposits maturing within one year) are the biggest component of deposits at banks, as they have been throughout recent years. 2002, however, saw a drop in their share of the total by more than 4 points to 43.1%, in spite of an increase in volume in absolute terms. This drop was mostly in favour of deposits payable on demand. By the end of 2002, demand deposits had reached CZK 657.2 billion, representing year-on-year growth of more than 25%. This shift in the time structure of primary deposits – mainly the gradual balancing-out of demand deposits and short-term deposits – is linked to the preferences of banks' clients, for whom the continually falling interest rates on time deposits make keeping money in current accounts ever more attractive.

As with credits, a change in methodology had an impact on the time structure of client deposits. Since 2002, all deposits with maturities of between one and five years have been classified as medium-term deposits (up until the end of 2001, the upper limit had been four years). The almost threefold growth in medium-term deposits during 2002 was largely down to this new reporting methodology. The change affected long-term deposits in the same way: in 2002, these declined to about an eighth of their volume at the end of the previous year, reaching a historical low of CZK 17.3 billion on 31 December 2002. Another reason for the decline in long-term deposits is the none-too-attractive interest yields offered by banks, which are failing to provide sufficient compensation for the limited liquidity of such deposits. Investors normally do not renew these deposits once they have reached maturity. Currently, the mainly private individuals (but also institutions) who are interested in long-term investment have access to numerous other, non-banking financial products that offer higher returns. In terms of liquidity risk at banking institutions, this represents a decline in funds available to banks over the long term and which are unlikely to be withdrawn. The growing proportion of demand deposits is also fostering increased liquidity risk. In view of the banks' currently subdued lending activities, however, this does not present a particularly serious problem.

3.2.2 SECONDARY FUNDS

(for banks with licences as of 31 December 2002)

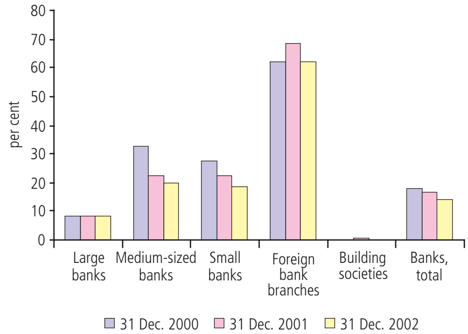
Liabilities to other banks are, after client deposits, the most important component of external funds for banks operating in the Czech Republic. At the end of 2002, they stood at CZK 301.8 billion, admittedly not even a fifth of the value of client deposits, but almost double that of debt securities. The volume of such liabilities fell by about a sixth over the course of 2002. There exist marked differences, however, across the bank groups in the level of funding of banking activities by means of deposits and credits received from other banks.

The degrees to which individual banks are financed by primary deposits or through the interbank market depend on one hand on their opportunities and ability to obtain such funds (and at the lowest possible cost), and on the other on their need to supplement existing resources. Large banks, which in most cases have an extensive branch network at their disposal, receive large volumes of deposits directly from their clients. For this reason, the proportion of secondary deposits in total external funds within this group is at one of the lowest levels, ranging between 8% and 9% over the past three years. Secondary deposits account for an even lower proportion of financing at building societies. This proportion, which falls short of 1%, is directly related to the specific commercial orientation of building societies, whose principal aim is to provide fixed-purpose loans from funds deposited as savings by other clients.

Foreign bank branches represent the opposite extreme. Here the share of liabilities to banks in external funds has long stood at between 60% and 70%. Foreign banks have a limited number of branches in the Czech Republic (often only one), not enough to allow for retail acceptance of deposits. The business policies of these banks are currently directed principally at the interbank market and/or large corporate clients. Because they are often branches of large and prestigious banks operating internationally, they are able to meet their funding requirements on advantageous terms from other banks. A similar level of funding from external sources exists at small and medium-sized banks. Here, too, the figure has declined over the last three years, from nearly 30% at the end of 2000 to a little over 20% at the end of 2002.

As regards the breakdown of external funding into primary and secondary sources, debt securities comprise a kind of transitional level, since the creditor may be either another bank or a non-banking entity (usually an institution). It is also often possible to trade in debt securities, so that the initial buyer is not necessarily the ultimate one. As of 31 December 2002, total bond issues amounted to CZK 160.8 billion. Most debt securities at that time belonged to the short-term category (i.e. had maturities of less than a year). The ratio of short-term to long-term securities was about 3:2. The high proportion of short-term debt securities is due mostly to deposit notes.

CHART 24
SECONDARY FUNDS AS A PERCENTAGE OF EXTERNAL FUNDS
for banks with licences as of 31 December 2002



3.2.3 QUICK ASSETS

(for banks with licences as of 31 December 2002)

Quick assets stood at CZK 815.8 billion at the end of 2002, i.e. not quite a third of total assets in the possession of banks with CNB licences. Over the past three years, the share of quick assets in total assets has increased markedly. This period has also seen a growth in volume in absolute terms (by more than 86% between the end of 2000 and the end of 2002). Besides a surplus of bank funds in real terms, a change to the methodology used (in force since the beginning of 2002) has also played a part in this growth.

CHART 25
QUICK ASSETS
for banks with licences as of 31 December 2002

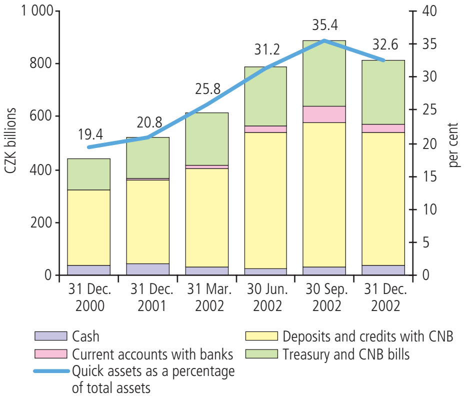
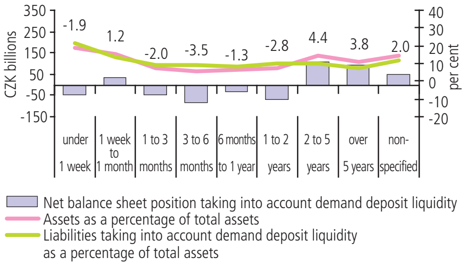
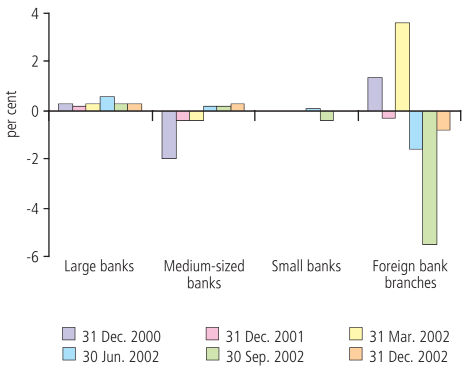


CHART 26
ASSETS AND LIABILITIES BY RESIDUAL MATURITY
AS OF 31 DECEMBER 2002
for banks with licences as of 31 December 2002



Note: The data in the chart represent the difference between the share of assets and liabilities in each time band

CHART 27
POSITION OF FUTURES, FORWARDS
AND SWAPS RELATIVE TO ASSETS
for banks with licences as of 31 December 2002



Deposits and credits with the central bank remained the most important component of total quick assets during 2002, their share amounting to almost two thirds as of 31 December 2002, the same as a year earlier. Deposits and credits with the CNB totalled CZK 500.3 billion at the end of 2002. The second most important component in quick assets consisted of Treasury and CNB bills, which at CZK 241.8 billion amounted to about half of the funds deposited in CNB accounts. The total volume of T-bills and their share in total quick assets have grown steadily over the past three years. Current accounts with banks and cash holdings are not very important in terms of volume: in the last three years they have not exceeded the 13% level.

Trading securities can also be classified as liquid assets. The ability to convert them into cash, however, is substantially smaller than with the individual components of quick assets. At the end of 2002, trading securities totalled CZK 17.2 billion. Taking such securities into account, liquid assets amounted to CZK 833.0 billion at the end of 2002, their proportion of the total assets of the banking sector increasing by less than one percentage point to 33.3%.

3.2.4 MATCHING OF ASSET AND LIABILITY MATURITIES
(for banks with licences as of 31 December 2002)

The main instrument that banks can use to manage their liquidity is the matching of maturities between assets and liabilities over corresponding time bands. The key criterion is to balance the actual residual maturities for asset and liability items within each time band. Both the asset side and the liability side of the balance sheet are to a considerable extent represented by items payable on sight or with very short maturity periods. The growth of this component of assets is evidenced by repeated year-on-year growth in the share of liquid and quick assets in the total balance sheet. Similarly, the growth of demand liabilities is clearly evident from growth in the share of client sight deposits in total liabilities. Asset and liability items with no defined maturity date, however, stay at specific amounts that banks have permanently at their disposal. Banks take these permanently available sums into account when managing liquidity risk.

For time bands covering maturities of up to two years, there is typically a slight excess of liabilities over assets. The single exception is the band for one week to one month, where assets exceed liabilities once demand deposit liquidity has been taken into account. The assets side of the balance sheet exceeded the liabilities side in all residual maturity bands of over two years. The consequent net balance sheet position (whether positive or negative), once demand deposit liquidity has been taken into account, did not exceed 5% of total assets for any of the bands monitored. In none of the bands up to three months – considered of prime importance in terms of liquidity management – did it exceed 2% (in absolute terms). The liquidity position of the banking sector as a whole may therefore be considered balanced as at the end of 2002.

When managing their liquidity, banks are also focusing increasingly on off-balance-sheet transactions, which are constantly increasing both in absolute terms and in relation to total assets. Such transactions vary in importance from bank to bank. Within the framework of derivatives transactions, banks are able to manage their liquidity needs most easily with futures, forwards and swaps, where the maturity date is clearly declared upon the conclusion of each deal. Foreign bank branches and medium-sized banks are among the most active in this field. As of 31 December 2002, the position of futures, forwards and swaps (indicating the surplus/shortfall in mature off-balance-sheet assets versus liabilities) in relation to total assets did not exceed 6% in any bank group.

Liquidity risk in the banking sector as a whole – expressed by the cumulative net position to one month (including the off-balance sheet and net of 80% of demand deposits) in relation to total assets – at -0.89% indicated a very good balance between the most liquid assets and liabilities, with only a slight excess of liabilities. The cumulative net position to three months as a percentage of total assets was about three times higher in absolute terms at the end of 2002. The figures for both indicators are therefore even more favourable than those of a year earlier.

Table 7
MATCHING OF ASSET AND LIABILITY MATURITIES
for banks with licences as of 31 December 2002

	31 Dec. 2001	31 Mar. 2002	30 Jun. 2002	30 Sep. 2002	31 Dec. 2002
Cumulative net position:					
to 3 months as a percentage of assets[1)]	-3.72	-3.34	-0.33	-0.48	-2.69
to 1 month as a percentage of assets[1),2)]	-1.89	-3.15	3.21	4.48	-0.89
Assets/liabilities maturing:					
within 1 month	65.85	58.19	62.51	64.66	57.17
in more than 1 year	196.91	209.91	230.65	223.71	226.11
in more than 5 years	388.18	370.07	336.05	291.63	354.55

1) Minus 80% of demand deposits
2) Including off-balance sheet

With longer time bands, i.e. for residual maturities of at least one year, assets exceed liabilities in the cumulative net position. The situation is similar with assets and liabilities with maturities exceeding five years. In this case, however, the excess on the assets side at the end of 2002 was noticeably diminished from a year earlier.

3.3 MARKET RISK

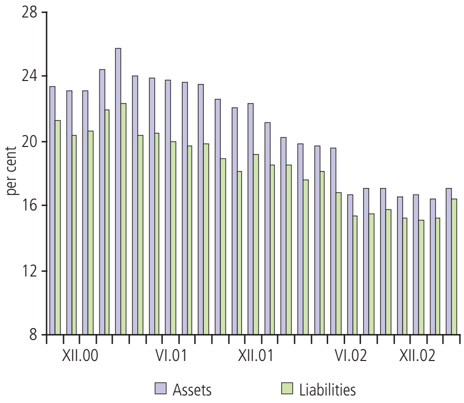
All market risk categories are characterised by dependence on movements in the market prices of the corresponding assets or instruments. Market risk consists in the potential to incur a loss due to a decline in asset prices or a rise in liabilities prices, i.e. an increase in a bank's commitments. One of the basic principles of accounting is that accounts should give a true and fair view of reality. In the light of this, and given the ever growing significance of market risk in banking transactions, a new feature appeared in banks' balance sheets in 2002, namely the valuation of securities at their fair, market price. Market risk is considered so important that the requirements placed on the mandatory formation of banks' capital have since 2000 also taken into account the various forms of this risk.

When managing market risk, banks are obliged to adhere to the requirements set forth in the Czech National Bank's 2002 Provision on Market Risk Management in Banks, the purpose of which is to limit the losses ensuing from this type of risk to the maximum extent. Banks are required to comprehensively identify, measure and mitigate all components of market risk, in particular interest rate risk, foreign exchange risk and equity risk. Given the current dynamic development of the financial markets, special requirements are placed on banks in transactions relating to new products and activities, which may become a source of market risk in one or more of its forms.

3.3.1 EXCHANGE RATE RISK
(for banks with licences as of 31 December 2002)

Foreign exchange risk consists in the potential for negative developments in exchange rates from the bank's perspective. Changes in exchange rates can negatively affect the value of many balance sheet and off-balance-sheet items on both the asset and liability sides. The banks operating in the Czech Republic deal mainly with domestic clients and the bulk of their banking activities are therefore in the domestic currency. Although foreign exchange risk is hence not very significant for Czech banks, it does represent quite an important component of the total potential risks. This is particularly true for banks that are geared more towards foreign trading partners than is the average. Except for some specific items, the share of foreign exchange transactions in total transactions recorded no further growth in the period under review. The euro and the US dollar remain the most important currencies in foreign exchange transactions.

Chart 28
FOREIGN EXCHANGE ASSETS AND LIABILITIES
AS A PERCENTAGE OF TOTAL ASSETS AND LIABILITIES
for banks with licences as of 31 December 2002



Owing to the high volume of foreign exchange transactions between foreign bank branches and their partners in the countries where their head offices are based, foreign bank branches are particularly exposed to foreign exchange risk. Such branches acquire funds through these transactions (especially through credits obtained from head office

CHART 29
FOREIGN EXCHANGE POSITION OF THE BANKING SECTOR
for banks with licences as of 31 December 2002

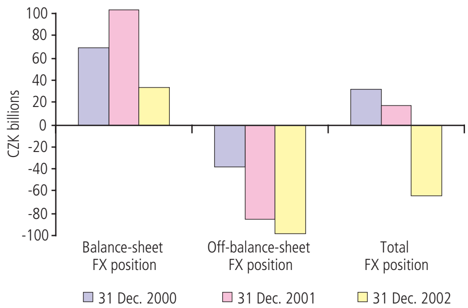
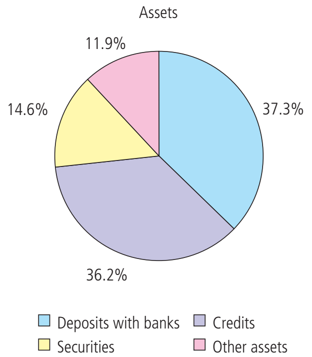
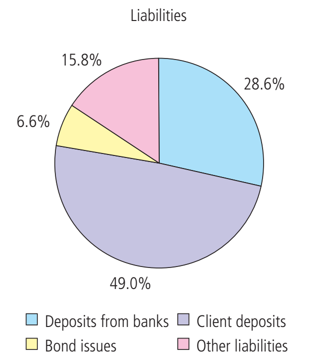


CHART 30
STRUCTURE OF FOREIGN EXCHANGE ASSETS AND LIABILITIES AS OF 31 DECEMBER 2002
for banks with licences as of 31 December 2002





and on the interbank market) and likewise invest their own funds in the home country. Other banks, the large majority of which also have foreign owners, execute similar foreign transactions to a far lesser extent and hence are less exposed to foreign exchange risk.

At the end of 2002, foreign exchange assets amounted to CZK 443.8 billion (17.1% of gross assets), which represents an annual decline of 23.8%. Foreign exchange liabilities fell by 14.5% to CZK 410.0 billion (16.4% of liabilities). By comparison with the end of 2001, the share of foreign exchange assets in total gross assets was down by 5.3 points and the share of foreign exchange liabilities in total liabilities was down by 2.8 points. These declines in the value of foreign exchange items were largely due to the significant appreciation of the koruna's exchange rate against the main foreign currencies during the course of 2002.

The values of off-balance-sheet foreign exchange items also recorded a decline in 2002. Off-balance-sheet foreign exchange assets declined by almost one quarter to just over CZK 900 billion, making up 24.8% of total off-balance-sheet assets at the end of the year. Off-balance-sheet foreign exchange liabilities meanwhile decreased by approximately 20% to CZK 1 trillion, making up 28.3% of total off-balance-sheet liabilities. The most significant item on both the asset and liability sides were derivatives transactions, accounting for 84.4% of off-balance-sheet foreign exchange assets and 78.6% of off-balance-sheet foreign exchange liabilities.

Foreign exchange positions, i.e. the differences between balance-sheet/off-balance-sheet foreign exchange assets and liabilities, changed very markedly in comparison with the end of 2001. The long balance-sheet foreign exchange position of the banking sector was CZK 34 billion as of 31 December 2002, a fall of CZK 69 billion. Conversely, the short off-balance-sheet position continued to strengthen, amounting to almost CZK -100 billion at the end of 2002. The overall foreign exchange position changed last year from a long position of CZK 17.4 billion to a short position of CZK -64.9 billion, which constitutes 2.6% of the balance sheet. The balance-sheet foreign exchange risk thus dropped considerably, whereas the total foreign exchange risk of the banking sector rose last year. These year-on-year changes were due to growth in the volume of guarantees provided by two of the medium-sized banks.

The structure of foreign exchange assets changed more significantly than in the previous year, owing to a marked absolute decline in the value of foreign currency deposits with banks. This item remained the most important, despite falling by CZK 121.0 billion to CZK 165.5 billion. The share of foreign currency receivables from other banks in total foreign exchange assets dropped from 49.2% to 37.3%. Although foreign currency credits provided to clients and government institutions fell by 15.2% year-on-year to CZK 160.6 billion, their share of the total rose by 3.7 percentage points to 36.2%. The shares of securities and other foreign exchange assets also recorded an increase, on the back of growth in their absolute volume.

Although the biggest foreign-exchange-asset item – client deposits – recorded a year-on-year decline of 16.5% to CZK 200.9 billion, its share of total foreign exchange liabilities went down by only 1 percentage point to 49.0%, owing to a larger decline in other foreign exchange liabilities. The second-largest component of foreign exchange liabilities – foreign currency deposits from banks – dropped by 26.4% to CZK 117.3 billion and its share of foreign exchange assets decreased by 4.6 percentage points to 28.6%. The value of foreign currency bonds was down by 20% at the close of the year to account for 6.6% of foreign exchange liabilities.

The share of foreign exchange in overall transactions varies according to the type of banking product and transaction concerned. Interbank transactions traditionally have the largest share. On the assets side, foreign currency deposits and credits with banks accounted for more than 40% of total deposits and credits with banks as of 31 December 2002. On the liabilities side, foreign currency deposits and credits from banks had a share of just under 40%. This represents a moderate annual decline, suggesting a reduced need to supplement foreign exchange funds. The high proportion of foreign currencies in interbank transactions is connected with the banks' foreign exchange management. Since the banks are geared primarily towards domestic clients, the share of foreign exchange in other banking products is considerably lower.

Foreign exchange credits extended to clients made up 16.9% of total client credits at the end of last year, which represents a modest annual decline. A similar moderate decline was recorded by foreign-exchange client deposits, which made up just over 12% of the total volume of client deposits. Conversely, the foreign exchange component of the securities portfolio rose, as did total issuance of bank bonds in foreign currencies, the proportion of which in overall bond issuance increased slightly in 2002 to almost 17% as at 31 December 2002.

The individual banks and bank groups vary considerably in the structure and volume of their foreign exchange transactions. Foreign bank branches are the most active in foreign exchange transactions, whereas the building societies are almost or completely inactive.

At the end of 2002, foreign bank branches had foreign exchange assets amounting to 36.5% of total assets and foreign exchange liabilities totalling 40.3% of total liabilities. Except for foreign currency securities in total securities, where the large banks recorded the highest share (due to Československá obchodní banka's securities portfolio taken over from the former Investiční a Poštovní banka), foreign bank branches also have similarly high values in the case of other banking transactions. The proportion of both asset-side and liability-side interbank foreign exchange transactions in the total volume of the relevant operations exceeds 30% in all bank groups and even exceeds 50% in the case of the medium-sized banks.

The market shares of the bank groups in the individual foreign exchange items of the banking sector's balance sheet differ considerably. These shares also differ from their shares in total balance sheet items. The share of the large banks in foreign exchange assets stood at 58.2% at the close of the year, an increase of 2.2 percentage points on a year earlier. Other significant market shares in foreign exchange assets as at 31 December 2002 were recorded by the foreign bank branches and the medium-sized banks, with 20% and 19% respectively, representing a decline of 4 points and an increase of 1 point respectively relative to the previous year. The market shares of the small banks and the building societies in foreign exchange assets are negligible, and in the case of building societies even recorded a sizeable year-on-year decline.

The large banks are maintaining their dominance of the foreign-exchange client deposit market by means of their extensive branch networks. In 2002, however, they recorded a slight decline in share to below 73%. The medium-sized banks strengthened their position to above 18%, whereas the market share of foreign bank branches dropped below 7%. The large banks also have a dominant position in banks' foreign exchange deposits, where their market share was almost 50% as of 31 December 2002 (an annual rise of 4 points). The medium-sized banks' share also rose, from 20% of the overall market to over 25%, likewise at the expense of foreign bank branches. The

CHART 31
SHARE OF FOREIGN EXCHANGE IN SELECTED PRODUCTS
for banks with licences as of 31 December 2002

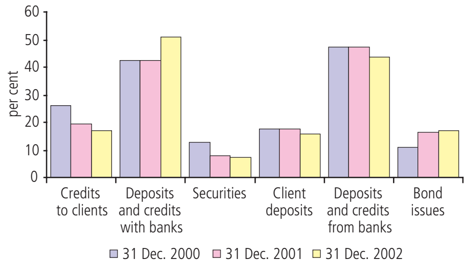
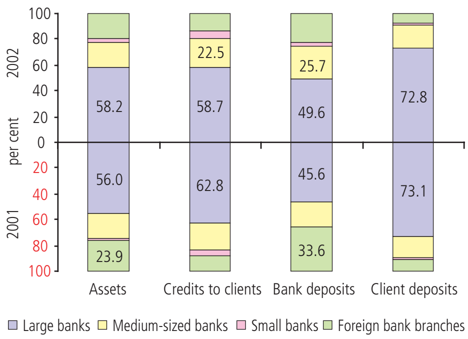


TABLE 8
SHARES OF FOREIGN EXCHANGE IN ASSETS, LIABILITIES AND SELECTED TYPES OF BANKING TRANSACTIONS IN PER CENT
for banks with licences as of 31 December 2002

	Large banks	Medium-sized banks	Small banks	Foreign bank branches
Assets	15.8	19.6	13.6	36.5
Liabilities	13.4	22.4	13.4	40.3
Credits provided	16.1	20.6	18.5	23.7
Deposits and credits with banks	42.5	52.9	33.1	62.5
Securities	18.2	15.8	2.3	3.1
Deposits accepted	13.2	15.2	10.8	29.0
Deposits and credits from banks	32.6	53.2	43.3	35.7
Derivatives	16.7	26.4	9.9	42.2

CHART 32
MARKET SHARES OF BANK GROUPS IN ASSETS AND SELECTED PRODUCTS IN FOREIGN CURRENCIES IN PER CENT
for banks with licences as of 31 December 2002



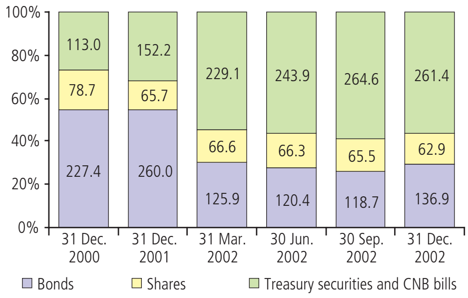
market share of foreign bank branches in banks' foreign exchange deposits decreased by almost 10 points compared to the previous year, to 22.7%. In contrast, the large banks during the course of 2002 saw a weakening of their position on the foreign-exchange client credit market, where their market share fell below 60%. The market shares of the medium-sized banks, foreign bank branches and small banks in foreign exchange credits all increased slightly.

3.3.2 EQUITY RISK

(for banks with licences as of 31 December 2002)

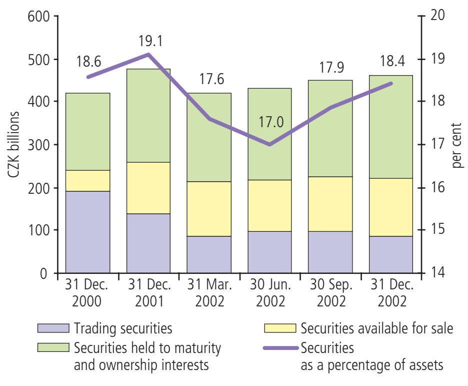
Equity risk consists in uncertainty regarding movements in equity prices on the capital markets. On the bank assets side, equity risk affects the value of both the trading and banking securities portfolios. On the liabilities side, it is becoming one of the significant factors affecting the market valuation of a bank, which usually reflects the quoted price of its ordinary shares, provided that they are tradable (at the end of 2002, the shares of one bank were listed on the Prague Stock Exchange). Since the beginning of 2002, changes in prices of trading shares and shares available for sale recorded on the assets side have been reflected directly in the values at which they are entered into the balance sheet, since such securities are mostly recorded at fair value.

CHART 33
STRUCTURE OF SECURITIES PORTFOLIO BY SECURITIES TYPE
for banks with licences as of 31 December 2002



Note: The data in the chart are in CZK billions. Up until 2001, long-term Treasury securities were classed as bonds

CHART 34
STRUCTURE OF SECURITIES PORTFOLIO BY PORTFOLIO TYPE
for banks with licences as of 31 December 2002



Banks' securities portfolios are dominated by bond-type securities, which carry similar risks as loans provided by the bank. Alongside credit risk, i.e. the danger that an unsound issuer will, like a debtor, fail to meet its obligations, the bank is exposed to interest rate risk. Banks can mitigate interest rate risk by using appropriate derivatives, by choosing a suitable combination of fixed and floating rates, by setting interest rate caps in line with market developments, or by fixing rates for a certain period.

In addition to risks associated with the specific assets invested in (shares, bonds, money market instruments, real estate, etc.), participation certificates held by banks inherently carry a risk associated with the issuer's soundness. At the same time, they constitute one of the most effective methods of diversifying the risks of the individual components of a portfolio.

As of 31 December 2002, securities – including Treasury securities and CNB bills – totalled CZK 461.2 billion and accounted for almost one fifth of total assets. Excluding Treasury securities and CNB bills, which constitute more than half of the total securities portfolio of banks operating in the Czech Republic, the banking sector had securities worth almost CZK 200 billion. With regard to yield type, bonds have long greatly exceeded shares. Bonds amounted to CZK 136.9 billion as of 31 December 2002, more than double the volume of shares.

Securities were one of the balance-sheet items strongly affected by the changes made to the accounting methods in 2002 as part of the process of harmonisation with EU standards. As a result of these fundamental accounting changes, which cannot be applied retroactively, the volume of securities decreased at the start of 2002 in all groups of banks. Since January 2002, trading securities and securities available for sale have been entered at fair value and primary issues of non-trading debt securities have been completely excluded from securities portfolios and re-classed as receivables.

As regards the portfolios dividing the securities held by banks into trading securities, securities available for sale and securities held to maturity and ownership interests, the last-mentioned category is the largest, accounting for almost half of the total portfolio. In second place are securities available for sale. Trading securities are the smallest category, with a share of less than 20% as of 31 December 2002. However, the securities structures differ enormously across the individual bank groups, indicating the groups' different trading and investment strategies. Trading securities, which constitute the smallest item for the banking sector as a whole, form more than half of the portfolios of small banks and foreign bank branches. By contrast, building societies prefer securities held to maturity and ownership interests, which together account for more than 90% of the building societies' total securities portfolio.

The largest proportion of equity securities is registered in the large banks, whereas in all the other groups at the end of 2002 the share of debt securities in the total was higher than the average.

3.3.3 DERIVATIVES RISKS
(for banks with licences as of 31 December 2002)

The risks arising from derivatives transactions are partly market risks and to a lesser extent credit risks. The specific nature of credit derivatives risk is associated with the type of these relatively new financial instruments. The significance of the potential risks attaching to derivatives transactions is currently on the decrease with respect to the falling volumes of such transactions, but remains on the increase from the point of view of their ever widening range. Using derivatives transactions it is possible to transform other risks attaching to the corresponding underlying assets and also to pass on these risks to other market participants.

One of the dangers of derivatives is that they are easily available to market participants, thanks to the low initial investment needed. However, the risk of loss is many times higher than this investment. The zero, or very low, initial net investment is less than that required for other instruments that react similarly to changes in credit and market factors. The real value of a derivative changes in response to the change in a variable such as an interest rate, an exchange rate, a price index, a security price or a commodity price. A characteristic feature of all derivatives contracts is the settlement of the relevant transaction on some future date. The time period between agreeing upon the derivative and settling it is longer than for spot transactions. Derivatives can be settled in one of two ways. The usual way is known as net settlement, which involves the setting-off of payables and receivables. However, delivery of the underlying asset is also an option. Almost all derivatives in the Czech banking sector are OTC derivatives. The volume of stock-exchange derivatives is negligible.

Receivables from derivatives transactions were registered on the accounts of 22 of the 37 banks as of 31 December 2002. The ratio of derivatives receivables to total assets was more than 120% for the average bank, down by almost 20 points from a year earlier. The volume of derivatives at the end of 2002 was less than 90% of the volumes recorded as of 31 December 2001. The most active institutions in this respect are foreign bank branches, whose total derivatives receivables were almost three times their total assets. However, the ratio of derivatives receivables to assets in this group of banks was around 130 points lower than at the end of 2001. In second place are the medium-sized banks. At just over 170%, the ratio of their derivatives receivables to total assets remained approximately at the end-2001 level. The large banks recorded modest growth in derivatives transactions during the year. Their volume was slightly higher than total assets at the year-end. A year earlier the derivatives-to-assets ratio had been just below 100% in this group. Small banks are not very active in derivatives transactions, and building societies do not execute them at all. In the individual banks the ratios ranged between 0% and 653% at the end of 2002, and exceeded 100% in 8 of the 37 banks.

TABLE 9
STRUCTURE OF SECURITIES AS OF 31 DECEMBER 2002
for banks with licences as of 31 December 2002; excluding Treasury securities and CNB bills

	Large banks	Medium-sized banks	Small banks	Foreign bank branches	Building societies
Securities, total, in CZK billions	173.3	13.7	2.3	2.4	8.0
of which:			in CZK billions		
trading securities	9.4	4.4	1.7	1.5	0.2
securities available for sale	89.1	7.6	0.4	0.2	0.0
securities held to maturity and ownership interests	74.8	1.7	0.2	0.7	7.8
of which:					
bonds	111.4	13.1	1.9	2.4	8.0
shares	61.9	0.6	0.5	0.0	0.0
of which:			in per cent		
trading securities	5.4	32.0	72.2	63.9	3.0
securities available for sale	51.4	55.9	16.6	8.7	0.0
securities held to maturity and ownership interests	43.2	12.1	11.2	27.4	97.0
of which:					
bonds	64.3	95.8	82.8	99.9	100.0
shares	35.7	4.2	17.2	0.1	0.0

CHART 35
RECEIVABLES FROM DERIVATIVES TRANSACTIONS AS A PERCENTAGE OF TOTAL ASSETS
for banks with licences as of 31 December 2002

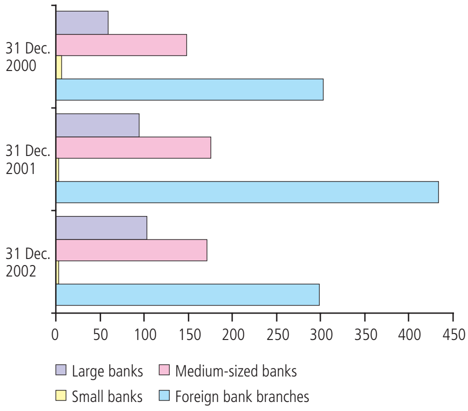


CHART 36
DERIVATIVES STRUCTURE BY UNDERLYING ASSET
for banks with licences as of 31 December 2002

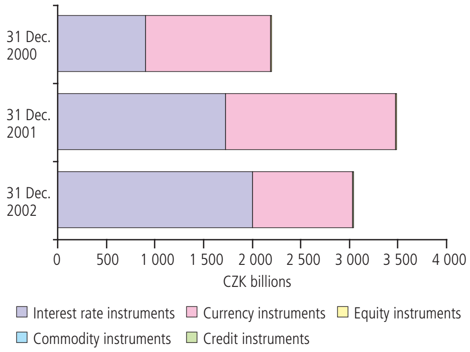
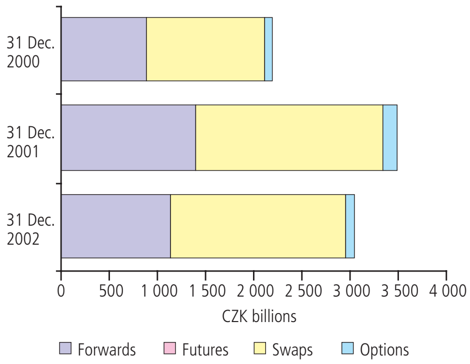


CHART 37
DERIVATIVES STRUCTURE BY CONTRACT TYPE
for banks with licences as of 31 December 2002



Derivatives can be broken down in several ways. With respect to liquidity and underlying asset, the most liquid derivatives are interest rate derivatives, followed by currency derivatives and commodity derivatives. The least liquid are credit derivatives. Interest rate derivatives are the most significant in terms of volume, accounting for 66% of total derivatives receivables at the end of 2002. This constitutes an increase of 16 points on the previous year. Currency instruments, which had been just ahead in first position as of 31 December 2001 (with a share of more than 50%), were pushed into second spot with a share of just under one third. Separate monitoring of credit derivatives began in 2002. At the end of 2002, banks recorded CZK 15 billion in credit derivative receivables. Equity instruments and commodity instruments are the exception rather than the rule on the Czech market, together making up less than 1% of total derivatives receivables.

By transaction type, swaps have long held first position in terms of receivables volume, recording more than CZK 1.8 trillion at the end of 2002, a modest decline from a year earlier. The second most significant item is forward transactions, with more than CZK 1.1 trillion as of 31 December 2002, again slightly less than a year earlier. Options volumes are small compared to fixed derivatives, accounting for only 3% of total derivatives receivables at the end of 2002.

Derivatives are broken down by purpose into hedging derivatives and speculative derivatives. Hedging instruments can take the form of, for instance, a liability, a legally enforceable contract or an expected future transaction. Hedging derivatives are used primarily to protect the real value of an asset or liability resulting from a specific risk and affecting the potential profit or loss of the bank.

In 2002, all groups of banks recorded a profit from trading derivatives transactions. As banks use currency derivatives to hedge against foreign exchange risk, the profit or loss from this type of derivative is offset by a loss or profit from valuation changes in the instruments hedged. Therefore, this aspect must not be ignored when interpreting the derivatives profits and losses achieved. The effects of derivatives on total profit from financial activities are minimal in all groups of banks.

To control the risks involved in derivatives transactions, CNB Banking Supervision mostly makes use of information contained in the banks' regular monthly statements. Other instruments are also used, e.g. auditors' reports and on-site examination reports. Closer attention is being paid to credit derivatives. These are less commonly used in the Czech Republic than market derivatives, since they appeared only in the late 1990s. The legislation governing this type of derivative is still limited.

3.4 COUNTRY RISK

Country risk is a special case of credit risk in which the uncertainty regarding whether a trading partner will meet a financial commitment – i.e. repay a debt (or other financial commitment) in time and in full – applies in equal measure to all entities from the country in question, including the country itself, or applies in similar measure to all trading partners from a particular region. This possible "mass" default may be brought about by any common cause affecting the area as a whole, most commonly by unforeseen political changes, natural disasters or economic crises. It may be that the counterparty is unable to meet its obligations in full or in part because it truly lacks the resources to settle them. Or it may be that the counterparty has the resources at its disposal but for some reason does not feel obliged – or is not even allowed – to meet its commitments.

CNB Banking Supervision can assess the territorial risk of the individual banks and bank groups and the banking sector as a whole using the data provided by banks in their regular reports. It can take into account aspects of the breakdown into resident and non-resident assets, as well as assets relating to individual countries and regions or to zones created by countries on the basis of some other-than-strictly-territorial principle.

3.4.1 ACTIVITIES VIS-À-VIS NON-RESIDENTS
(for banks with licences as of 31 December 2002)

Country risk is very difficult to quantify, as it changes over time and with the amount and structure of the investments in each particular region (both in absolute terms and relative to the total values of the relevant asset items). Banks manage this risk by limiting their exposures to some regions and by differentiating the conditions under which commercial contracts are concluded. In slightly simplified form, these risks can be estimated from the share of non-residents in the relevant asset type.

The share of asset-side non-resident transactions in total banking activities decreased in 2002. A downward trend in the absolute values was also registered last year. The annual growth in total assets, coupled with an annual decline in the total volume of non-resident assets (to just above 80% of the end-2001 level), generated a drop of almost 4 points in the share of these assets in total assets, to 19.6%. The proportion of non-resident liabilities in total liabilities was 12.1% as of 31 December 2002, down by almost one percentage point from the end of 2001. With respect to banking risks, the overall absolute and relative fall in non-resident assets can be considered positive, since it leads to a reduction in the potential losses from country risk. By contrast, the only modest absolute decline in non-resident funds and their relative share of the total ensures a level of bank financing through funds provided by non-residents which is similar to that at the end of 2001. The banks' involvement in non-resident transactions is to a certain extent conditional on changes in the ownership structure of banks operating in the Czech Republic. Given the completed privatisation of the former state-owned stakes and the present dominance of foreign investors in the ownership structure of these banks, the only other factor acting in favour of a rise in banking transactions with non-resident partners is the Czech Republic's expected accession to the European Union.

The fall in non-resident transactions on the assets side was due to interbank market developments (the limited activities of foreign bank branches). Receivables from non-resident banks saw an annual decrease of almost 40%, and their volume of CZK 230.7 billion at the end of 2002 constituted less than half (45%) of total receivables from non-residents. The share of the total thus dropped by about 15 percentage points. All other components of non-resident assets grew in year-on-year terms. However, this growth was not sufficient to offset the fall in interbank assets. The banks' investments in foreign securities amounted to CZK 137.6 billion at the end of 2002, which led to an increase of about 6 points in their share of the total vis-à-vis non-residents (to 27% at the year-end). Credits granted to non-residents are the smallest component, with a share slightly above one tenth of receivables from non-residents, whereas in 2001 the 10% level had not been exceeded.

Interbank transactions are also the largest component on the liabilities side. Liabilities vis-à-vis non-resident banks, just like receivables from banks, decreased in 2002 – by almost 20% to CZK 144.0 billion. The decrease in their absolute amount generated a fall in their share of the total vis-à-vis non-residents to below 50%, whereas at the end of 2001 it had been higher than 50%. A similar trend, i.e. a gradual decline in 2002, including a modest decrease in their share of the total, was also registered by client

CHART 38
NON-RESIDENT ASSETS AND LIABILITIES
AS A PERCENTAGE OF TOTAL ASSETS AND LIABILITIES
for banks with licences as of 31 December 2002

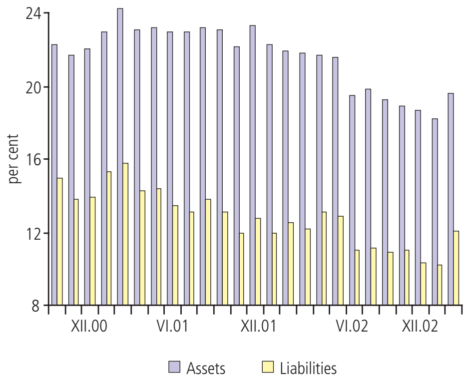
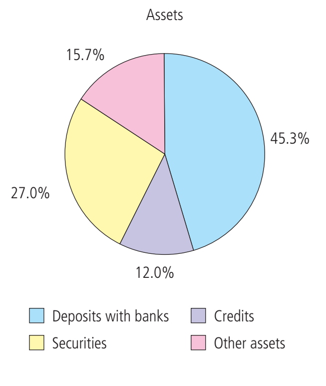
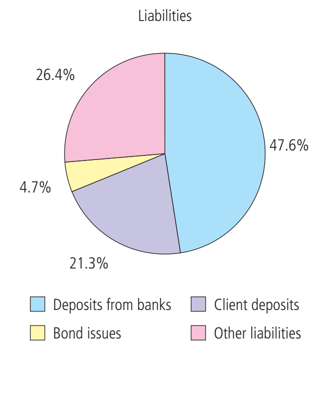


CHART 39
STRUCTURE OF ASSETS AND LIABILITIES
VIS-À-VIS NON-RESIDENTS AS OF 31 DECEMBER 2002
for banks with licences as of 31 December 2002

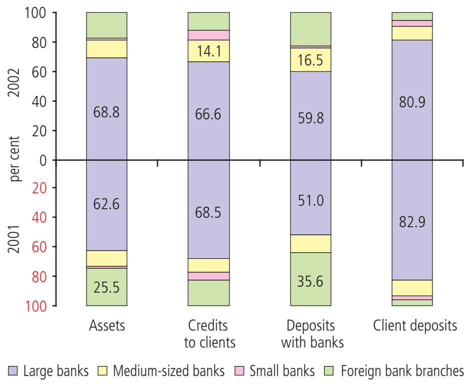




deposits, whose total volume, however, is less than half that of liabilities against banks. The sole slightly expanding area is issuance of debt securities, whose share in total non-resident liabilities is, however, negligible (less than 5%).

At the end of 2002, total off-balance-sheet assets vis-à-vis non-residents (CZK 2.3 trillion) were four times higher than balance-sheet non-resident assets. Non-resident liabilities were slightly higher (at CZK 2.4 trillion). Like the balance-sheet assets and liabilities, off-balance-sheet assets and liabilities vis-à-vis non-residents also showed an annual decline. Non-resident off-balance-sheet items are dominated on both the asset and liability sides by derivatives transactions (more than 90% of the total). And it was the fall in non-resident derivatives transactions in 2002 that brought about the decrease in total non-resident off-balance-sheet receivables and liabilities. Traditional off-balance-sheet banking transactions with non-residents, of both asset and liability type, increased in 2002. Owing to their small volumes, however, they could not affect the overall trend in off-balance-sheet non-resident activities.

Chart 40
MARKET SHARES OF BANK GROUPS IN ASSETS AND SELECTED PRODUCTS VIS-A-VIS NON-RESIDENTS IN PER CENT
for banks with licences as of 31 December 2002



The market shares of the individual groups of banks in total and specific selected non-resident activities recorded a certain shift in 2002. At the end of both 2002 and 2001, large banks had a majority (more-than-50%) share of both non-resident assets and individual products. The large banks' biggest share was recorded for deposits made by clients resident outside the Czech Republic, which accounted for more than 80% of total non-resident client deposits accepted as of 31 December 2002, down slightly from the end of 2001. A very similar situation can be seen for credits granted to non-banking institutions abroad. Here, however, the proportion of the large banks is lower, at just below 70%. The smallest market share of the large banks in trading activities vis-à-vis non-residents is visible on the interbank market. The share of large banks rose by almost 9 points on a year earlier, to just below 60% at the end of 2002. Foreign bank branches have the second-largest market share in most non-resident transactions. Medium-sized banks account for about 10% of total non-resident assets. The share of small banks did not exceed 10% in any of the transactions under review, while the banking transactions of building societies with foreign partners are negligible.

Table 10
SHARES OF NON-RESIDENTS IN TOTAL ASSETS, LIABILITIES AND SELECTED TYPES OF BANKING PRODUCTS AS OF 31 DECEMBER 2002 IN PER CENT
for banks with licences as of 31 December 2002

	Large banks	Medium-sized banks	Small banks	Foreign bank branches
Assets	21.5	14.3	8.1	36.2
Liabilities	8.0	16.9	14.3	39.6
Client credits provided	7.0	5.0	10.0	7.8
Deposits and credits with banks	71.5	47.5	22.2	84.7
Securities	39.9	22.8	3.3	4.8
Client deposits accepted	4.7	2.5	6.6	7.8
Deposits and credits from banks	36.9	61.4	64.7	48.1
Derivatives	70.3	72.9	12.6	69.9

In all groups of banks, the major role with respect to non-residents' shares in the individual products is played by the interbank market: in some cases banks' asset-side deposits and in other cases banks' liability-side deposits, depending on bank group. The share of non-residents in this type of transaction ranged between 22% (small banks' receivables from non-resident banks) and 84% (receivables of foreign bank branches from non-resident banks). Comparable figures are also seen for non-resident shares in derivatives transactions, which mostly lie somewhere around 70% of total derivatives receivables. The only exceptions are small banks and building societies, which are not very active either in derivatives transactions themselves or in non-resident transactions. Non-residents' lowest share is for client deposits, where the share of foreign entities is the lowest among the activities under review in all the bank groups. Only slightly above the deposit level are the shares of credits to non-bank non-residents, with no figure exceeding 10% as of 31 December 2002.

3.4.2 ACTIVITIES VIS-À-VIS INDIVIDUAL REGIONS AND COUNTRIES
(for banks with licences as of 31 December 2002)

Non-residents constitute a very heterogeneous group of trading partners. In terms of soundness some of them rank up there with the best of the banks' resident clients. Others are much more dubious than most clients based in the Czech Republic (foreign entities are classed as residents if the duration of their stay in the Czech Republic exceeds one year). Consequently, to get a clearer picture of the situation, it is better for a bank to differentiate its international exposure in more detail, either in terms of regions with identical features or according to specific countries (where the country concerned has specific features and trends or where the bank's exposure to it is significant in absolute or relative terms).

With regard to its overall activities, the Czech banking sector as a whole is geared primarily towards the 15 EU member states. Total banking assets vis-à-vis EU partners accounted for more than 60% of total foreign asset-side banking exposure (over CZK 300 billion) at the end of 2002. However, by comparison with the end of 2001 both the absolute value of exposure to EU partners and the corresponding share were down by more than 10 points. Czech banks moved their international activities primarily into Central and Eastern Europe. Total receivables from these countries stood at about one third of those from EU partners as of 31 December 2002. The share of Central and Eastern European partners in the total increased to double the 2001 figure, with Hungary, Poland, Slovakia and Slovenia seeing the largest rises. If these (and a further five) countries join the EU as expected in 2004, the Czech Republic's overall exposure to the EU is therefore likely to remain unchanged. The Czech banking sector's exposure to the countries of the former Soviet Union and to the USA remained almost the same as at the end of 2001.

Although the majority of the overall activities of Czech banks are directed towards the EU member states, particular asset items offer a different picture. In the area of client credits, most of the Czech banks' trading partners come from Central and Eastern Europe. At the end of 2001 they had made up more than 50% of all foreign clients, whereas at the end of 2002 the figure was down by approximately 5 points in favour of EU clients, who by contrast recorded a year-on-year increase in share to almost one third. The rise in credits provided to EU clients also came partly at the expense of lending to the countries of the former Soviet Union. As regards individual countries, the largest annual changes in the lending area took place with respect to Slovakia (the decline in lending to Slovak clients was the main factor in the total fall in credit exposure to Central and Eastern European countries), while Denmark and the Netherlands recorded considerable growth. Turning to securities, there was growth in exposure to the EU, especially in the case of debt securities, whereas equities remained approximately at the end-2002 level. EU entities have the strongest position on the interbank market and the derivatives market, where in the past two years they have accounted for almost 90% of all foreign derivatives receivables. The Netherlands, Germany and France are the main partners of Czech banks, together accounting for more than two thirds of foreign derivatives receivables.

Like total assets, non-resident liabilities also arise mostly from relations with partners resident in the current EU member states. Most exposed are the home countries of parent banks and head offices of the bank branches licensed by the CNB. The EU's overall exposure on the liabilities side is still somewhat larger than that on the assets side. At the end of 2002, the EU's share of total non-resident liabilities was almost 80%, an annual rise of around 7 points. This share of the total is about 18 points higher than is the case with assets. In contrast to assets, liabilities linked to the European Union are seeing a continuing rise in share. One of the main reasons for this is a rise in the volume of primary funds accepted from clients from EU member states, which recorded year-on-year increases both in absolute value and as a share of the total. Deposits accepted from investors resident in Germany recorded the biggest growth.

Chart 41
MARKET SHARES IN ASSETS AND SELECTED BALANCE-SHEET AND OFF-BALANCE-SHEET ITEMS INTERNATIONALLY IN PER CENT
for banks with licences as of 31 December 2002

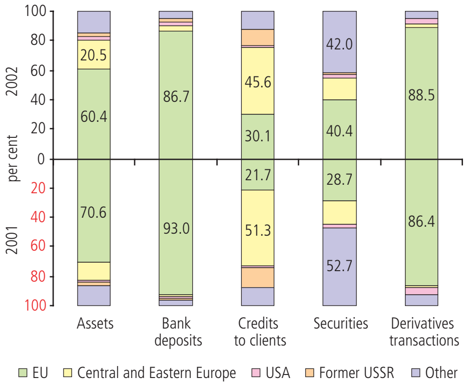


Table 11
MARKET SHARES IN LIABILITIES AND SELECTED LIABILITY-SIDE ITEMS INTERNATIONALLY IN PER CENT
for banks with licences as of 31 December 2002

	Liabilities	Deposits from banks	Clients deposits
		31 Dec. 2002	
European Union	78.7	85.4	24.4
Central and Eastern Europe	14.9	8.7	53.2
USA	2.1	2.0	4.5
Former USSR	2.0	1.7	8.9
Other	2.3	2.2	9.0
		31 Dec. 2001	
European Union	71.4	88.5	19.5
Central and Eastern Europe	19.6	6.4	59.3
USA	4.2	3.8	3.3
Former USSR	2.4	0.5	9.1
Other	2.4	0.8	8.8

Table 12
EXPOSURE ON THE EUROPEAN INTERBANK MARKET AS OF 31 DECEMBER 2002
for banks with licences as of 31 December 2002

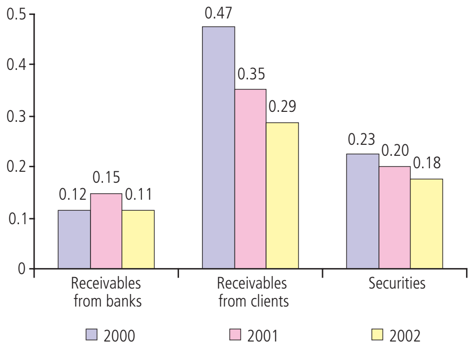
	Receivables from European banks	Liabilities to European banks
	percentage of total exposure to current and future EU member states	
Belgium	9.7	27.6
France	13.9	4.7
Ireland	3.4	0.0
Germany	17.7	15.0
Netherlands	11.5	12.0
Austria	6.4	16.3
Slovakia	3.2	9.0
United Kingdom	15.4	12.2
Others	18.8	3.2

Note: The calculations include all EU member states following its expected enlargement in 2004. All countries with a share of 3% or more have been included in the table.

Transactions on the interbank market form the bulk of the transactions with foreign partners on both the asset and liability sides, in both cases exceeding the 40% level at the end of 2002. From the point of view of country risk this is therefore a significant risk element and one which deserves greater attention. In the majority of cases it concerns commercial activities with banks resident in the current EU member states. This type of transaction is also highly developed with Slovak banking institutions. At the end of 2002, the interbank market with partners resident in the EU accounted for about 87% of total foreign interbank transactions on the assets side and about 85% on the liabilities side. As of 31 December 2002, Belgium (liabilities to foreign banks) and Germany (receivables from foreign banks) had the highest percentage shares of total interbank transactions with institutions resident in the EU member states and candidate countries. This type of transaction also is very prevalent in relation to Austria and the United Kingdom. Eight countries of the total 25 under review had shares exceeding 3%. Of the candidate countries only Slovakia belonged in the group of countries with which Czech domestic banks maintain an above-average level of secondary financing.

As regards country risk, the volume of receivables from banks resident in EU member states and accession countries represents a potential source of risk for banks operating in the Czech Republic. The ownership structure of banks licensed by the CNB – implying very close links to commercial banks in investors' countries of origin – plays a key role in this case. The structure includes owners from various European countries, which affects the concentration of the various types of banking transactions with particular countries.

CHART 42
HERFINDAHL INDEX OF CONCENTRATION OF ASSET-SIDE BANKING EXPOSURE TO CURRENT AND FUTURE EU MEMBER STATES
for banks with licences as of 31 December 2002



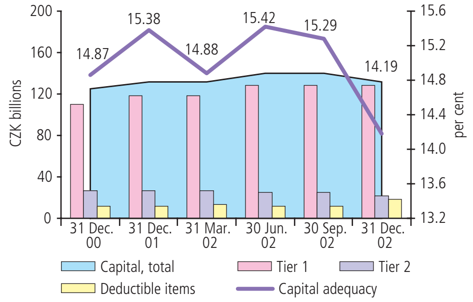
In 2001 the Herfindahl index of the concentration of receivables from banks within the expected future common EU area had increased, whereas in 2002 it fell below the end-2000 level. Of the transactions and products under review, the concentration of non-resident banking transactions as measured by the Herfindahl index is smallest in the case of asset-side interbank foreign deposits (0.11 at the end of 2002). This means that although the exposure of the banks licensed by the CNB on the foreign interbank market is very high, the risks attaching to such transactions are, with regard to the index value, less concentrated in individual countries than is the case with client credits and securities, where the Herfindahl concentration indices were 0.29 and 0.18 respectively at the end of 2002. Despite the higher indices recorded in the client credit and securities areas, a clear positive trend is discernible, as the index values fallen repeatedly.

4. CAPITAL ADEQUACY

(for banks with licences as of 31 December 2002)

As one of the most important prudential instruments of banking business, capital adequacy reflects the ratio of banking capital to the capital required to cover unforeseen losses arising from banking operations. If capital adequacy is sufficiently high, the banking capital will cover the potential risks and protect deposited external funds, most notably client deposits. When capital adequacy is set, various financial risks are measured, which further fosters prudent bank management. The monitoring of capital adequacy is so important it is being introduced in a somewhat different form in other types of financial organisations that administer external funds.

CHART 43
CAPITAL STRUCTURE
for banks with licences as of 31 December 2002



The capital ratio of the sector was 14.19% on average as of 31 December 2002. This represents a decrease of 1.19 percentage points from the previous year (using the same method of calculation). After a pronounced decline in the first quarter of 2002 and a subsequent rise to an annual high of 15.42% at the end of June, the ratio then recorded a moderate decline which accelerated in the fourth quarter to an annual low. The increase registered at the end of H1 was due to a rise in total capital connected with annual general meetings, whose decisions concerning profit distribution affect the portion of profit from the previous accounting period to be incorporated into the bank's capital. The decline in the last quarter was brought about by a fall in total capital.

Total capital amounted to CZK 130.9 billion as of 31 December 2002, about 1% less than a year earlier. The major component of total capital is Tier 1 capital, which includes equity capital, reserve funds and retained earnings. Tier 1 capital grew by more than 8% to CZK 127.8 billion. Tier 2 capital, which includes subordinated debt and general provisions and reserves for covering risks, is less significant with respect to volume. It fell by about one seventh to CZK 21.9 billion. Tier 3 capital, which could also bolster banks' capital adequacy, is not currently used by the banks. Thanks to pronounced growth in Q1 and particularly in Q4, deductible items increased by 67.5% on a year earlier, to CZK 18.8 billion. This increase in deductible items, which was the main reason for the drop in total capital as at the end of 2002, was generated by a change in the reporting of capital investment in banks and financial institutions and investment in software in the large banks group.

Capital requirements reflect the need for capital to cover unforeseen losses arising from banking activities. The structure and amount of capital requirements are derived from the structure and volume of banking activities, which are divided between the banking and trading portfolios. The banking portfolio comprises traditional financial instruments that the bank intends to hold to maturity. The trading portfolio consists of financial instruments held in the short term for trading and making profits from price differences.

The bulk (more than 90%) of the total capital requirement consists of a capital requirement for the credit risk of the banking portfolio. This is due to the fact that this type of transaction carries by far the highest level of risk. Risk-weighted assets in the banking portfolio amounted to CZK 857.0 billion at the end of 2002, representing year-on-year growth of 8.3%. Given the moderately falling level of risk for banking portfolio assets, this rise was somewhat smaller than the increase in their book value. The ratio of risk-weighted assets in the banking portfolio to their overall book value was 42% at the end of 2002, up by more than 1 percentage point on a year earlier.

The total capital requirement increased by 7.2% in year-on-year comparison, to CZK 73.8 billion. The requirement for covering risks in the banking portfolio rose by less than 10% to CZK 68.6 billion, and the requirement for the trading portfolio decreased slightly to CZK 5.2 billion as at the end of 2002.

The Czech banking sector is geared towards traditional banking activities. This is especially true for small banks and building societies. The prevalence of traditional banking activities is manifest not only in the trading-portfolio-to-banking-portfolio ratios, but also in the ratios of balance-sheet assets to off-balance-sheet assets within each portfolio. Since some relatively new banking operations (notably derivatives transactions) are recorded in the off-balance sheet, the banks that are geared more towards these operations have substantially a lower ratio between the balance-sheet and off-balance-sheet components in both portfolios.

The year-on-year 1.19 percentage point fall in the average capital ratio was also reflected in the distribution of the individual capital ratios. At the end of 2001 the

CHART 44
RATIO BETWEEN TRADING PORTFOLIO AND BANKING PORTFOLIO ASSETS
for banks with licences as of 31 December 2002

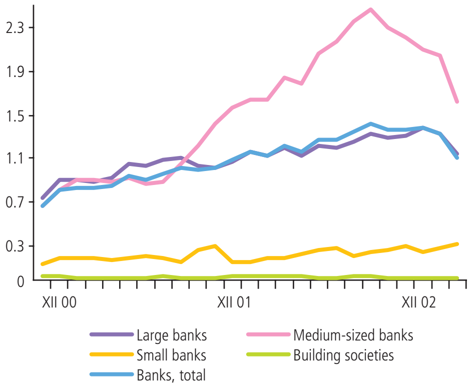


CHART 45
RISK-WEIGHTED ASSETS
for banks with licences as of 31 December 2002

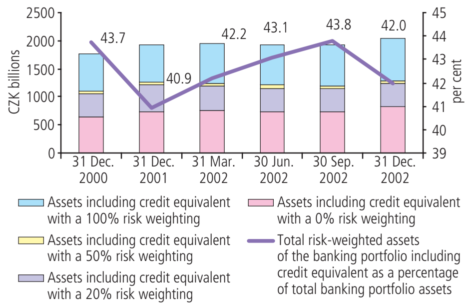


TABLE 13
RATIO OF BALANCE-SHEET TO OFF-BALANCE-SHEET PORTFOLIO COMPONENTS
for banks with licences as of 31 December 2002

	31 Dec. 2000	31 Dec. 2001	31 Mar. 2002	30 Jun. 2002	30 Sep. 2002	31 Dec. 2002
	Banking portfolio					
Large banks	3.1	3.8	2.6	2.5	2.3	2.7
Medium-sized banks	1.3	2.5	2.1	2.4	2.3	2.2
Small banks	4.9	8.7	6.6	8.1	6.3	6.7
Building societies	28.2	37.2	36.0	18.6	23.8	22.6
	Trading portfolio					
Large banks	0.6	0.4	0.2	0.3	0.3	0.2
Medium-sized banks	0.1	0.2	0.1	0.1	0.1	0.1
Small banks	10.6	5.0	9.0	14.0	4.1	8.3
Building societies	0.8	-	0.8	14.7	1.3	-

Note: Building societies recorded no off-balance-sheet assets in the trading portfolio as at the ends of 2001 and 2002.

Table 14
BREAKDOWN OF BANKS BY CAPITAL ADEQUACY
for banks with licences as of 31 December 2002

	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000	31 Dec. 2001	31 Dec. 2002
under 8%	3	1	0	0	0	1
8 to 12%	8	8	5	7	4	7
12 to 15%	0	4	9	5	7	9
15 to 20%	6	4	7	6	8	2
20 to 50%	5	5	1	4	4	6
over 50%	4	5	5	5	4	3

capital adequacy of the individual banks had been concentrated in the 12%–20% range, whereas at the end of 2002 a larger number of banks fell within the range of 8%–15%. One bank was below 8%, while the three largest banks were in the 12%–15% category. The number of banks with ratios of between 20% and 50% increased. The changes in capital adequacy distribution occurred primarily at the expense of the group with capital adequacy between 15% and 20%.

The capital adequacy distribution for all banks (excluding foreign bank branches) clearly demonstrates their similarity. At the end of 2002, four banks exhibited an exceptionally high capital ratio (over 40%). This as a rule indicates that a bank has a particular specialisation or, in certain cases, a low level of activity. Four banks also had a relatively low capital ratio (below 10%) at the year-end.

5. BANKING SECTOR PERFORMANCE
(for banks with licences as of 31 December 2002)

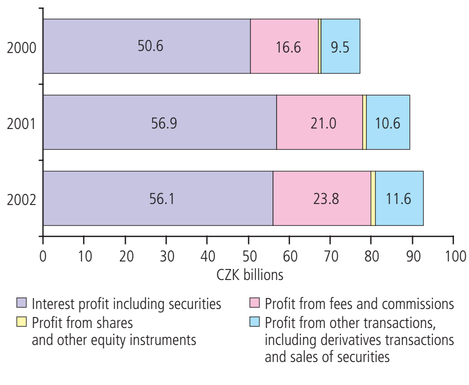
The net profits or losses of banks are a result of numerous factors. Banks themselves can affect two key factors: maximisation of profit from their own business activities, and minimisation of costs expended in making that profit. These administrative expenses at the same time reflect the overall productivity and efficiency of banking activities. Asset quality also plays an important role in overall performance, since the creation of appropriate provisions and reserves affects a bank's capital and reduces its disposable profit.

Good financial results, i.e. sufficient profits, are the main source of coverage of the potential banking risks of various types, risks which cannot be avoided in banking transactions. To cover these potential risks a bank must have sufficient capital. The main source of that capital, besides increases in equity capital, is the bank's own profit.

5.1 PROFIT FROM FINANCIAL ACTIVITIES

Profit from financial activities is the major component of the total pre-tax profit of a bank. Whereas other potential profit items (e.g. sale of assets or release of reserves) are extraordinary and essentially non-recurring incomes to banking institutions, continuity in the creation of profit from financial activities is both a result of, and a prerequisite for, successful overall performance. The final profit from financial activities is affected not only by internal factors that lie fully within the powers of the bank's managers, but also by the external economic environment in which banks operate and to which they have to react.

Chart 46
STRUCTURE OF PROFIT FROM FINANCIAL ACTIVITIES BY PROFIT TYPE
for banks with licences as of 31 December 2002



In 2002, profit from financial activities amounted to CZK 92.6 billion, i.e. 3.6% more than in 2001. The biggest component (accounting for 61% of the total) was interest profit. However, its share of the total was three points lower than a year earlier, owing to an absolute decline. Profit from fees and commissions was up by more than 13%, making up one quarter of the total. By graduating their fees, the individual banks are trying to persuade their clients' to use means of communication that are less expensive to the bank, i.e. to make more use of the various forms of electronic banking and less use of counter services. By using more advanced forms of electronic banking, customers can execute certain transactions themselves and banks can thus reduce the number of contact staff working in branches. Given the considerable investment costs associated with introducing and propagating electronic banking, the banks are striving to achieve rapid returns again through fees, which are currently higher than is usual in other countries. Profit from other financial activities, i.e. foreign exchange transactions, derivatives transactions and securities transactions, accounted for less than 14% of the profit from financial activities in 2002. With respect to profit creation, the most important items in this group are derivatives transactions and foreign exchange transactions executed for trading purposes.

The structure of profit from financial activities by activity type is relatively evenly distributed between profit from fees and commissions, profit from interbank operations (each accounting for more than 20% of the total), profit from client transactions, and profit from securities transactions (which are gradually approaching the 20% level). Foreign-exchange, derivatives and other transactions are much less significant from the point of view of profit creation. In year-on-year comparison, interbank transactions saw particularly sizeable changes, with profits down by almost 17%. Conversely, the most important sources of profit in 2002 compared with 2001 were securities transactions and fees and commissions, which are the major growth items driving the overall rise in profit from financial activities.

In 2002, the growth rate of profit from financial activities was lower than that of total average assets, leading to a very moderate annual decline in profit from financial activities as a percentage of average net total assets (to 3.7% at the end of the year). The slowly changing composition of profit from financial activities is also reflected in the ratios of its individual components to average assets. Interest profit stood at 2.3% of total average assets in 2002, the same as at the end of 2000 but slightly less than in 2001. By contrast, the ratio of profit from fees and commissions to total average assets at the average Czech bank has been growing constantly since the end of 1998.

During 2002 the CNB continued to lower its key interest rates (in each case by two percentage points – the two-week repo rate to 2.75%, the discount rate to 1.75% and the Lombard rate to 3.75% as at the end of the year). The commercial banks responded by repeatedly reducing their interest rates on both loans and deposits. The ratios of total interest income to interest-earning assets and total interest expenses to interest-bearing liabilities both recorded five-year lows. The decrease in commercial interest rates in 2002 was accompanied by a reduction in the interest rate spread (by 0.27 points to 2.10%), which was the main reason for the annual decline in interest profit.

5.2 NET PROFIT

In 2002 the banking sector's net profit amounted to CZK 28.2 billion, up by 66.2% on a year earlier. Four banks out of the total 37 were loss-making. The banking sector thus turned in a profit for the third consecutive year, the overall profit having risen every year.

The final figure for net profit depends above all on profit from financial activities, administrative expenses and net creation of reserves and provisions. However, net profit also includes other operating and extraordinary incomes and expenses and income tax. Other operating and extraordinary incomes amounted to CZK 9.5 billion in 2002. The income tax paid by the banking sector in 2002 was more than double that paid in 2001, amounting to CZK 11.5 billion. Around two thirds of the net profit was generated by the three most profitable banks. The ten most successful banks in terms of net profit were responsible for more than 90% of the total net profit of the Czech banking sector in 2002.

CHART 47
STRUCTURE OF PROFIT FROM FINANCIAL ACTIVITIES BY ACTIVITY TYPE
for banks with licences as of 31 December 2002

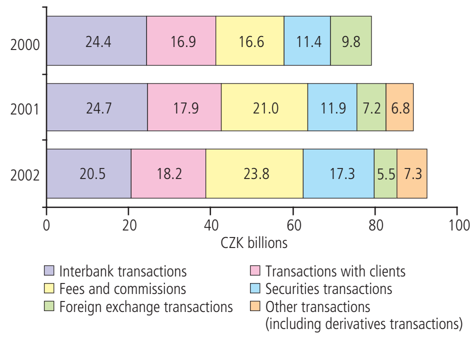


CHART 48
PROFIT FROM FINANCIAL ACTIVITIES AS A PERCENTAGE OF ASSETS
for banks with licences as of 31 December 2002

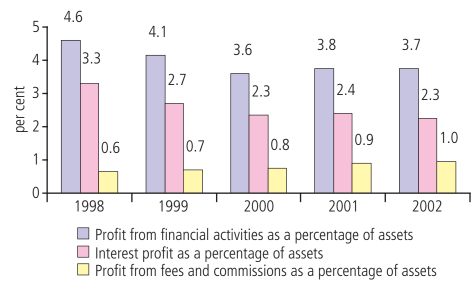


CHART 49
SELECTED PROFITABILITY INDICATORS
for banks with licences as of 31 December 2002

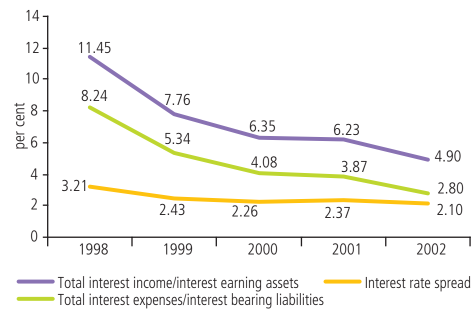


CHART 50
SUFFICIENCY OF PROFIT FROM FINANCIAL ACTIVITIES
for banks with licences as of 31 December 2002

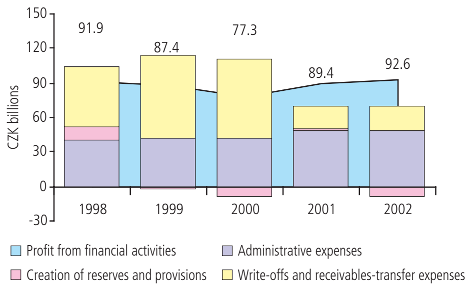


CHART 51
STRUCTURE OF NET PROFIT BY BANK GROUP
for banks with licences as of 31 December 2002

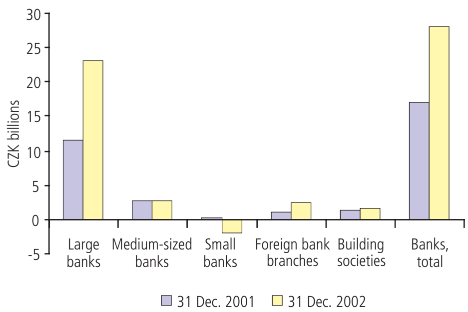
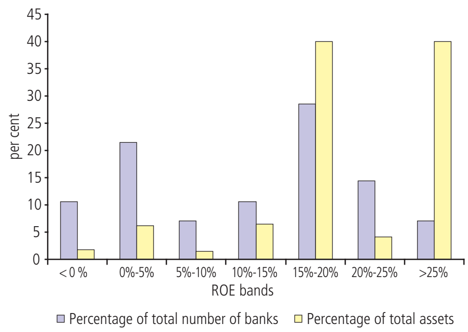


CHART 52
DISTRIBUTION OF RETURN ON TIER 1
IN PER CENT AS OF 31 DECEMBER 2002
for banks with licences as of 31 December 2002



In 2002, just as in 2001, the banks operating in the Czech Republic generated earnings that considerably exceeded their regular cost items. In 2001 the total profit from financial activities had been 22% higher than administrative expenses, reserves and provisions, write-offs and receivable transfer costs, whereas in 2002 the figure was 34% higher. This increase in surplus profit is due on the one hand to the rise in profit and on the other hand to an annual decline in expenses (of more than 13%). The main cause of the year-on-year decline in overall regular expenses associated with a bank's operation, coverage of risks and costs arising from sales of low-quality assets was the releasing of reserves and provisions and a modest decline in administrative expenses, whereas write-offs and receivable transfer costs showed a moderate increase. Thanks to improved loan portfolio quality it was not necessary to create provisions and reserves in such large volumes as in previous years. The releasing of provisions for receivables transferred outside the banking sector had the opposite effect; this phenomenon had also affected overall bank profits in 2001.

The results of the banking sector as a whole – as expressed by annual net profit growth – were most affected by increases in the group of large banks. The net profit of the large banks amounted to CZK 23.2 billion in 2002, i.e. more than double the 2001 figure. A similar net profit growth rate was recorded by foreign bank branches.

All the groups of banks under review (except for the small banks in 2002) were profitable in both 2002 and 2001. In 2002, the large banks accounted for more than 80% of the total net profit of the banking sector. They were followed a long way behind by the medium-sized banks and foreign bank branches. The large banks increased their share of the total net profit at the expense of the medium-sized and small banks. The medium-sized banks saw a modest annual decline in net profit, whereas the building societies again showed a rise.

Relative to the average disposable total assets reported by the individual groups in 2002, the largest net profit was achieved by the large banks (1.4%). Given the sizeable weight that the large banks have in the overall banking sector, the final ROAA of the banking sector as a whole (1.1%) was positively affected by this group. Foreign bank branches were in second place with an ROAA of 1.0%. The figures in the other groups were below 1%.

The return on Tier 1 capital for the whole banking sector was 22.1% in 2002, up by 7.6 points on 2001. Just like the return on assets, this indicator was most affected by the very good results of large banks, which achieved a return on Tier 1 of 27.7% in 2002 (almost double the 2001 figure). The structure of the return on Tier 1 clearly shows that most values are concentrated in the range of 15%–20%. Eight banks, accounting for 40% of all assets of the banking sector, fall into this range. Only three banks recorded negative values. These banks, however, have relatively low total assets and account for only 2% of the total assets of the banking sector. The situation is completely the opposite for banks whose return on Tier 1 is higher than 25%. This group consists of two banks accounting for 40% of the total assets of the banking sector.

5.3 EFFICIENCY AND PRODUCTIVITY

In 2002, administrative expenses amounted to CZK 47.9 billion, which represents a modest annual decline. This was due to decreases in all administrative expense items except other administrative expenses. Given the economic environment in the Czech Republic, which recorded an inflation rate of 1.8% in December 2002, the fall in the total administrative expenses of commercial banks testifies to a true reduction in costs, especially in the area of personnel costs and branch operation expenses. The continuing downward trend in the number of outlets and staff typical of the large banks contrasts sharply with the other groups of banks, which are striving for further expansion on the banking market by opening new outlets or recruiting new employees. In 2002, the large and small banks decreased the number of their banking outlets, whereas the other groups increased it. The number of employees fell in large banks and foreign bank branches and rose in other banks.

The ongoing rationalisation of work at the large banks' head offices and the introduction of new technology into the organisation of internal processes and distribution of banking services looks set to continue. In addition to improving the efficiency of bank management, these changes should continue to increase the range and quality of products and services offered by the banking sector. The significant decline in the administrative expenses of the large banks during 2002 was partly offset by a rise in such costs in the other groups of banks. The largest component of administrative expenses is personnel costs. These amounted to CZK 22.4 billion as of the end of 2002, accounting for 46.8% of administrative expenses. Another major component of administrative expenses is contracted outputs, on which banks spent CZK 19.5 billion in 2002 (CZK 9.5 billion of which on outsourcing, advertising, auditing and consulting). Rents and material consumption expenses have long been around CZK 6 billion.

The share of administrative expenses in total assets was less than 2% at the end of 2002, a modest decline compared to a year earlier. In the individual bank groups, profit from financial activities rose faster than administrative expenses (or, in the case of the large banks, profit from financial activities rose while administrative expenses declined). This meant that the ratio of administrative expenses to profit from financial activities decreased in 2002 – from 53.6% to 51.7% for the banking sector as a whole.

The pronounced differences in the cost-effectiveness of the individual banks – as expressed by the cost-income ratio (administrative expenses to profit from financial activities) – suggest less efficient use of resources by some banks, even when one compares the results achieved by banks within the same groups, i.e. banks which as a rule have comparable conditions for overall operation and business orientation. In 2002, the most balanced cost-income figures were achieved by the building societies and the large banks. In these groups the differences between the lowest value of the aforementioned ratio and the group average were about 7 and 8 points respectively. By contrast, the lowest cost-effectiveness by this criterion was recorded by the medium-sized banks, with a difference of 40 points in 2002. The small banks followed with 38 points. The high figures in the medium-sized and small banks are, however, due in part to the different specialisations of the banks within these groups.

CHART 53
STRUCTURE OF ADMINISTRATIVE EXPENSES
for banks with licences as of 31 December 2002

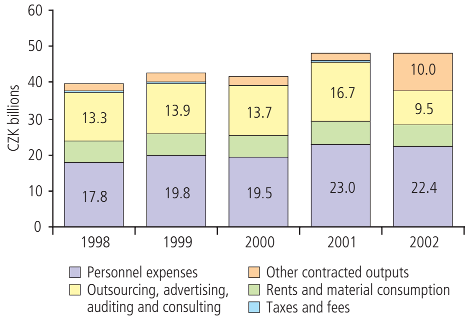


CHART 54
COST-INCOME RATIO
for banks with licences as of 31 December 2002

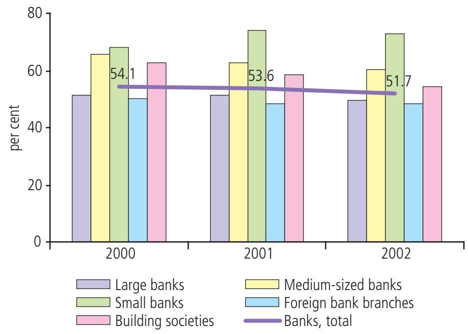
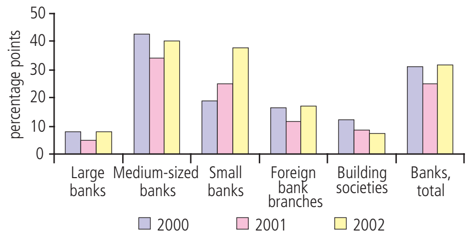


CHART 55
COST-EFFECTIVENESS
for banks with licences as of 31 December 2002



Note: The figures express the difference between the group average and the most cost-effective bank in that group, as measured by the cost-income ratio.

CHART 56
PROFIT AND EXPENSES PER EMPLOYEE
for banks with licences as of 31 December 2002

As a result of virtually flat total administrative expenses and a modest decline in the number of employees, administrative expenses per employee rose slightly to CZK 1.2 million in 2002. Profit from financial activities per employee was up by 4.2% to CZK 2.3 million. Owing to the substantial increase in net profit, net profit per employee showed much more pronounced growth in 2002 (more than 67%). Net profit per employee was consequently CZK 693,000 in 2002. Given the modest fall in the number of employees and the negligible rise in the total assets of the banking sector, the total assets administered per employee increased by about 1% in 2002, to CZK 62 million.

C. APPENDICES

Survey of banks and foreign bank branches as of 31 December 2002

I. Banks

Bank	Start of operation	Equity capital in CZK millions	Number of banking outlets		Number of employees
			in Czech Rep.	abroad	
Citibank a.s.	24 Jun. 1991	2 925	4		648
CREDIT LYONNAIS BANK PRAHA, a.s.	12 Nov. 1992	600	1		88
Česká exportní banka, a.s.	1 Jul. 1995	1 650	0		122
Česká spořitelna, a.s.	1 Jan. 1969	15 200	673		11 518
Českomoravská hypoteční banka, a.s.	10 Jan. 1991	664	36		303
Českomoravská stavební spořitelna, a.s.	8 Sep. 1993	1 500	5		540
Českomoravská záruční a rozvojová banka, a.s.	1 Mar. 1992	1 976	6		258
Československá obchodní banka, a.s	1 Jan. 1965	5 105	214	56	8 813
Dresdner Bank CZ a.s.	12 May 1992	1 000	1		173
eBanka, a.s.	1 Jan. 1991	1 042	27		619
GE Capital Bank, a.s.	22 Jun. 1998	500	186		1 970
HVB Bank Czech Republic a.s.	1 Jul. 1992	5 047	24		1 169
HYPO stavební spořitelna, a.s.	1 Oct. 1994	500	10		76
IC Banka, a.s.	6 Apr. 1994	500	1		38
Interbanka, akciová společnost	1 Feb. 1991	1 709	0		112
J&T BANKA, a.s.	18 Dec. 1992	501	0		70
Komerční banka, a.s.	1 Jan. 1990	19 005	339		8 795
Plzeňská banka a.s.	1 Oct. 1993	1 000	0		35
První městská banka, a.s.	1 Sep. 1993	500	1		75
Raiffeisenbank a.s.	1 Jul. 1993	2 000	41		1038
Raiffeisen stavební spořitelna a.s.	7 Sep. 1993	650	0		195
Stavební spořitelna České spořitelny, a.s.	1 Jul. 1994	750	0		326
Union banka, a.s.	15 Nov. 1991	2 444	91		1 097
Volksbank CZ, a.s.	1 Jan. 1994	750	16	1	363
Všeobecná stavební spořitelna Komerční banky, a.s.	16 Dec. 1993	500	0		398
Wüstenrot hypoteční banka a.s.	23 Dec. 2002	600	0		0
Wüstenrot - stavební spořitelna, a.s.	11 Nov. 1993	550	0		165
Živnostenská banka, a.s.	1868	1 360	27	1	800

II. Foreign bank branches

Bank	Start of operation	Home country	Number of local outlets		Number of employees
			in Czech Rep.	abroad	
ABN AMRO Bank N.V.	6 May 1993	Netherlands	1		128
COMMERZBANK Aktiengesellschaft, pobočka Praha	1 Dec. 1992	Germany	2		161
Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka	1 Dec. 1993	Germany	0		70
HSBC Bank plc - pobočka Praha	1 May 1997	United Kingdom	0		41
ING Bank N.V.	1 Sep. 1993	Netherlands	1		158
Raiffeisenbank im Stiftland eG pobočka Cheb, odštěpný závod	2 Jan. 1995	Germany	1		25
Sparkasse Mühlviertel - West banka a.s. pobočka České Budějovice	20 Mar. 1995	Austria	6		52
Všeobecná úverová banka a.s., pobočka Praha	14 Jan. 1993	Slovakia	1		77
Waldviertler Sparkasse von 1842 pobočka	1 May 1994	Austria	7		109

III. Banks in liquidation or in bankruptcy proceedings

Bank	Start of operation	Imposition of conservatorship
AB Banka, a.s., in liquidation	1 Apr. 1991	15 Dec. 1995
Agrobanka Praha, a.s., in liquidation	1 Jul. 1990	2 Sep. 1998
Banka Bohemia, a.s., in liquidation	1 Feb. 1991	not revoked
Baska a.s., in liquidation	13 Dec. 1990	31 Mar. 1997
COOP BANKA, a.s., in liquidation	24 Feb. 1992	6 May 1998
Česká banka, akciová společnost Praha, in liquidation	28 Feb. 1992	15 Dec. 1995
Ekoagrobanka, a.s., in liquidation	1 Nov. 1990	31 May 1997
Kreditní banka Plzeň, a.s., in liquidation	1 Jan. 1991	8 Aug. 1996
Kreditní a průmyslová banka, a.s.	1 Apr. 1991	31 Aug. 1995
Moravia Banka, a.s. in liquidation	2 Jul. 1992	9 Nov. 1999
Pragobanka, a.s.	1 Oct. 1990	24 Oct. 1998
První slezská banka a.s., in liquidation	12 Jan. 1993	13 May 1996
Realitbanka, a.s.	1 Nov. 1991	17 Apr. 1997
UNIVERSAL BANKA, a.s.	15 Feb. 1993	10 Feb. 1999
Velkomoravská banka, a.s.	3 Nov. 1992	10 Jul. 1998

IV. Banks dissolved without liquidation

Bank	Start of operation	Termination of licence	Reason
Bank Austria a.s.	1 Jan. 1992	30 Jun. 1998	merger
Bank Austria Creditanstalt Czech Republic, a.s.	1 Apr. 1991	1 Oct. 2001	merger
HYPO-BANK CZ a.s.	26 Feb. 1992	31 Dec. 1998	merger
Poštovní banka a.s.	1 Jan. 1991	1 Jan. 1994	merger
Westdeutsche Landesbank (CZ), a.s.	operation not started	20 Jan. 1998	operation not started

V. Banks dissolved with liquidation

Bank	Start of operation	Termination of licence	Completion of liquidation
Evrobanka, a.s.	1 Oct. 1991	30 Jun. 1997	7 Mar. 2001

VI. Former banks now operating only as joint-stock companies without a banking licence

Bank	Start of operation	Termination of licence
BANKA HANÁ, a.s.	11 Jan. 1991	1 Dec. 2000
Erste Bank Sparkassen (CR) a.s.	1 Feb. 1993	30 Sep. 2000
Foresbank, a.s.	7 Sep. 1993	1 Mar. 1999
IP Banka,a.s	1 Jan. 1990	7 Aug. 2002
SOCIETE GENERALE BANKA, a.s.	15 Apr. 1991	18 Nov. 1999

VII. Branches whose licences have terminated

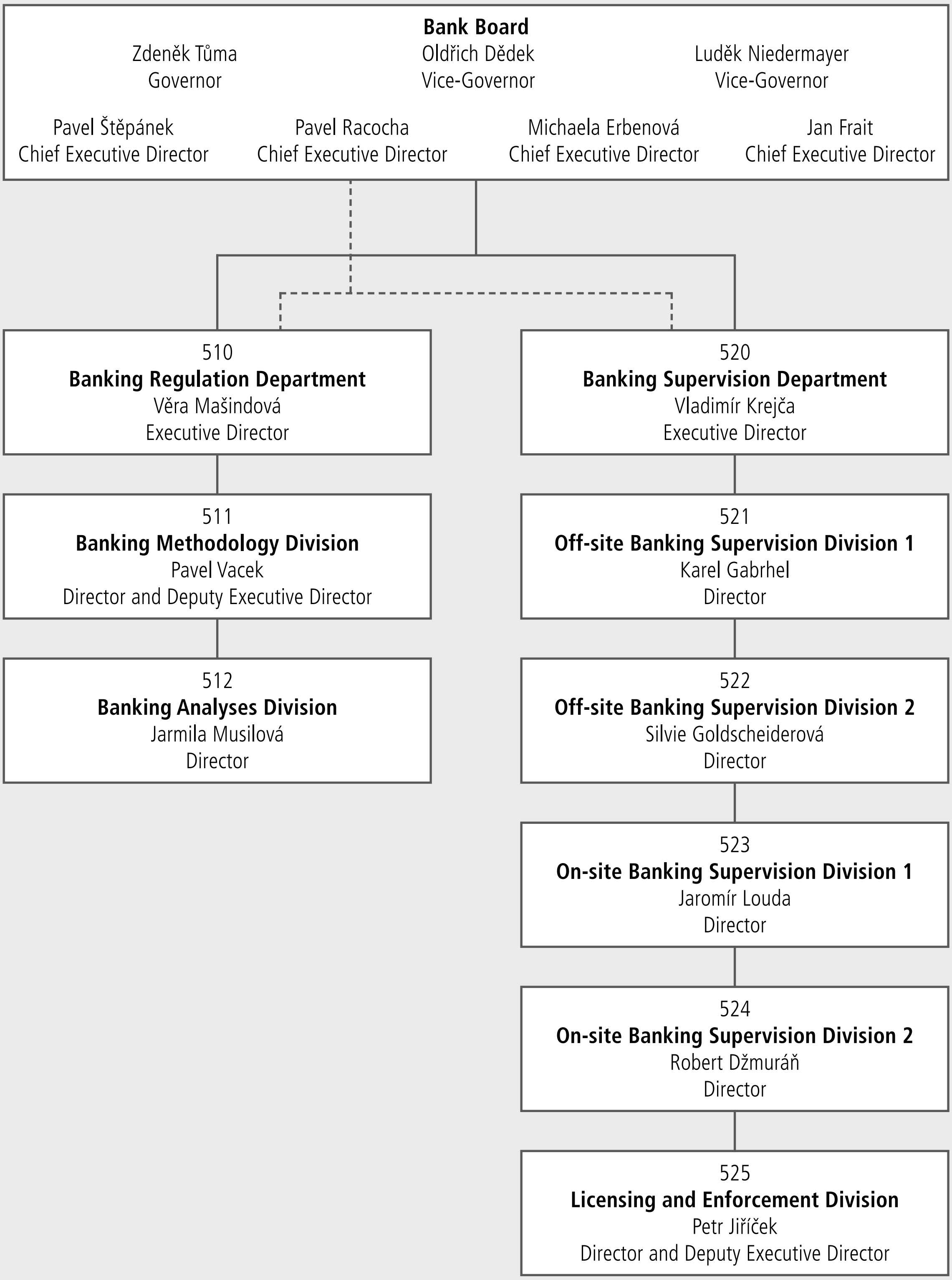
Bank	Start of operation	Termination of licence	Reason
SOCIETE GENERALE, pobočka Praha	1 Jan. 1998	31 Mar. 2002	merger

VIII. Former state financial institution
(transformed into a non-banking institution)

Bank	Start of operation	Termination of licence
Konsolidační banka Praha, s.p.ú.	23 Feb. 1993	1 Sep. 2001

Organisational structure of CNB Banking Supervision

as of 31 December 2002



BREAKDOWN OF BANKS INTO GROUPS

I. LARGE BANKS

1. Česká spořitelna, a.s.
2. Československá obchodní banka, a.s.
3. HVB Bank Czech Republic a.s.
4. Komerční banka, a.s.

II. MEDIUM-SIZED BANKS

1. Citibank a.s.
2. CREDIT LYONNAIS BANK PRAHA, a.s.
3. Česká exportní banka, a.s.
4. Českomoravská záruční a rozvojová banka, a.s.
5. Dresdner Bank CZ a.s.
6. GE Capital Bank, a.s.
7. Raiffeisenbank a.s.
8. Union banka, a.s.
9. Živnostenská banka, a.s.

III. SMALL BANKS

1. Českomoravská hypoteční banka, a.s.
2. eBanka, a.s.
3. IC Banka, a.s.
4. Interbanka, akciová společnost
5. J&T BANKA, a.s.
6. Plzeňská banka a.s.
7. První městská banka, a.s.
8. Volksbank CZ, a.s.
9. Wüstenrot hypoteční banka a.s.

IV. FOREIGN BANK BRANCHES

1. ABN AMRO Bank N.V.
2. COMMERZBANK Aktiegesellschaft, pobočka Praha
3. Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka
4. HSBC Bank plc - pobočka Praha
5. ING Bank N.V.
6. Raiffeisenbank im Stiftland eG pobočka Cheb, odštěpný závod
7. Sparkasse Mühlviertel - West banka a.s. pobočka České Budějovice
8. Všeobecná úverová banka a.s., pobočka Praha
9. Waldviertler Sparkasse von 1842 pobočka

V. BUILDING SOCIETIES

1. Českomoravská stavební spořitelna, a.s.
2. Stavební spořitelna České spořitelny, a.s.
3. HYPO stavební spořitelna, a.s.
4. Raiffeisen stavební spořitelna a.s.
5. Všeobecná stavební spořitelna Komerční banky, a.s.
6. Wüstenrot - stavební spořitelna, a.s.

Main indicators of monetary and economic developments in the Czech Republic

		1998	1999	2000	2001	2002
Gross domestic product 1), 2)	Volume (in CZK billions)	1 414.4	1421.0	1467.3	1512.6	1542.2
	Increase (in per cent)	-1.0	0.5	3.3	3.1	2.0
Output - percentage increase 2)	Industry	1.9	-3.1	5.4	6.5	4.8
	Construction	-7.0	-6.5	5.3	9.6	2.5
Prices 3)	Inflation rate (in per cent)	10.7	2.1	3.9	4.7	1.8
Unemployment 4)	Unemployment rate (in per cent)	7.5	9.4	8.8	8.9	9.8
Foreign trade	Exports (in CZK billions)	834.2	908.8	1121.1	1269.6	1251.9
	Imports (in CZK billions)	914.5	973.2	1241.9	1386.3	1326.3
	Balance (in CZK billions)	-80.3	-64.4	-120.8	-116.7	-74.5
Average wage 2)	Nominal (in per cent)	9.4	8.2	6.6	8.5	7.3
	Real (in per cent)	-1.2	6.0	2.6	3.6	5.4
Balance of payments	Current account (in CZK billions)	-40.5	-50.6	-104.9	-124.5	-121.4
	Financial account (in CZK billions)	94.3	106.6	148.0	172.9	340.3
Exchange rate 5)	CZK/USD	32.27	34.59	38.59	38.04	32.74
	CZK/EUR	35.85	36.88	35.61	34.08	30.81
Average interbank	7-day	14.15	6.85	5.29	5.15	3.61
deposit rate (PRIBOR)	3-month	14.33	6.85	5.36	5.18	3.55
in per cent 5)	6-month	14.23	6.89	5.48	5.21	3.56
Discount rate (in per cent) 4)		7.50	5.00	5.00	3.75	1.75
Lombard rate (in per cent) 4)		12.50	7.50	7.50	5.75	3.75
2W repo rate (in per cent) 4)		9.50	5.25	5.25	4.75	2.75
PX50 capital market index 5)		439.9	455.2	551.9	411.5	437.5

1) At constant 1995 prices
2) Percentage increase on a year earlier
3) Inflation rate in December of the given year
4) End-of-period figures
5) Annual averages

Assets

(for banks with licences as of 31 December 2002)

	31 Dec. 2000	31 Dec. 2001	2002			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
	in CZK millions					
Cash and deposits with central banks	61 271	80 281	63 533	62 635	72 137	70 804
of which: cash	33 168	38 189	26 882	26 541	28 509	35 938
deposits with central banks	28 103	42 092	36 651	36 093	43 628	34 866
Government and central bank bonds accepted for refinancing	110 473	143 801	107 906	117 449	194 776	213 979
Receivables from banks	822 324	838 396	842 877	954 576	927 159	863 751
of which: payable on demand	7 898	18 248	16 674	30 624	70 148	39 132
other receivables from banks	814 427	820 147	826 203	923 953	857 011	824 619
of which: central banks	257 680	277 126	337 593	477 089	502 438	465 457
others	556 746	543 022	488 610	446 864	354 573	359 162
Receivables from clients	808 605	921 786	904 349	883 908	882 950	904 691
of which: payable on demand	38 366	47 232	23 037	18 778	29 353	16 761
other receivables from clients	770 239	874 554	881 312	865 131	853 597	887 930
Debt securities	229 863	268 367	247 036	246 843	188 570	184 357
of which: issued by government institutions	1 145	361	119 267	125 440	69 838	47 490
issued by other entities	228 718	268 006	127 768	121 402	118 732	136 868
Share, units and other interests	67 215	51 369	51 273	51 023	49 760	47 126
Substantial interests	1 310	4 108	4 077	4 377	4 462	4 258
Controlling interests	10 129	10 192	11 245	10 941	11 253	11 470
Intangible assets	5 840	6 340	8 463	8 178	8 460	9 940
Tangible assets	53 923	51 640	48 708	47 033	46 273	46 657
Other assets	61 714	105 223	96 621	136 820	119 339	141 231
Receivables from shareholders	0	364	382	359	359	660
Deferred revenues and accrued expenses	22 589	18 441	9 566	8 374	6 863	4 802
Total assets	2 255 259	2 500 308	2 396 035	2 532 517	2 512 360	2 503 726
	in per cent					
Cash and deposits with central banks	2.72	3.21	2.65	2.47	2.87	2.83
of which: cash	1.47	1.53	1.12	1.05	1.13	1.44
deposits with central banks	1.25	1.68	1.53	1.43	1.74	1.39
Government and central bank bonds accepted for refinancing	4.90	5.75	4.50	4.64	7.75	8.55
Receivables from banks	36.46	33.53	35.18	37.69	36.90	34.50
of which: payable on demand	0.35	0.73	0.70	1.21	2.79	1.56
other receivables from banks	36.11	32.80	34.48	36.48	34.11	32.94
of which: central banks	11.43	11.08	14.09	18.84	20.00	18.59
others	24.69	21.72	20.39	17.65	14.11	14.35
Receivables from clients	35.85	36.87	37.74	34.90	35.14	36.13
of which: payable on demand	1.70	1.89	0.96	0.74	1.17	0.67
other receivables from clients	34.15	34.98	36.78	34.16	33.98	35.46
Debt securities	10.19	10.73	10.31	9.75	7.51	7.36
of which: issued by government institutions	0.05	0.01	4.98	4.95	2.78	1.90
issued by other entities	10.14	10.72	5.33	4.79	4.73	5.47
Share, units and other interests	2.98	2.05	2.14	2.01	1.98	1.88
Substantial interests	0.06	0.16	0.17	0.17	0.18	0.17
Controlling interests	0.45	0.41	0.47	0.43	0.45	0.46
Intangible assets	0.26	0.25	0.35	0.32	0.34	0.40
Tangible assets	2.39	2.07	2.03	1.86	1.84	1.86
Other assets	2.74	4.21	4.03	5.40	4.75	5.64
Receivables from shareholders	0.00	0.01	0.02	0.01	0.01	0.03
Deferred revenues and accrued expenses	1.00	0.74	0.40	0.33	0.27	0.19
Total assets	100.00	100.00	100.00	100.00	100.00	100.00

Liabilities

(for banks with licences as of 31 December 2002)

	31 Dec. 2000	31 Dec. 2001	2002			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
	in CZK millions					
Liabilities to banks	361 697	371 847	352 329	322 310	291 436	304 705
of which: liabilities to banks payable on demand	7 717	18 902	17 443	17 502	49 633	29 560
central banks	-	4 083	2 267	1 799	1 144	2 659
other banks	7 717	14 819	15 177	15 703	48 490	26 902
other liabilities to banks	353 981	352 944	334 886	304 809	241 803	275 145
central banks	5 542	634	121	119	108	114
other banks	348 439	352 311	334 765	304 690	241 695	275 031
Liabilities to clients	1 309 968	1 514 557	1 500 077	1 643 040	1 661 687	1 627 915
of which: payable on demand	457 870	555 829	558 007	615 283	625 619	666 341
other liabilities	852 098	958 728	942 070	1 027 757	1 036 068	961 574
Liabilities from debt securities	271 785	269 590	187 180	168 737	159 741	167 488
of which: issued debt securities	239 361	207 717	181 097	164 307	154 419	160 777
short-term	159 267	127 761	112 239	92 258	91 810	92 150
long-term	80 094	79 956	68 858	72 049	62 608	68 627
other payables	32 424	61 873	6 083	4 430	5 322	6 711
Other liabilities	80 575	122 410	129 707	173 028	162 950	171 657
Deferred revenues and accrued expenses	24 219	13 914	10 114	10 160	9 949	5 632
Reserves	51 798	45 250	45 155	42 759	40 613	39 937
Subordinated liabilities	29 482	26 193	26 697	24 505	25 504	25 334
Equity capital	73 228	72 492	73 065	73 022	73 072	73 466
Own shares	-	722	710	627	585	560
Share premium	6 511	7 554	7 708	7 861	7 880	8 044
Reserve funds and other funds created from profit	27 703	28 803	28 800	29 788	29 688	28 883
Reserve fund for new valuation	-	0	0	0	0	0
Capital funds	309	854	854	854	854	1 044
Valuation differences	159	63	-413	210	1 972	1 636
Retained profits (accumulated losses) from previous periods	3 335	10 590	27 493	20 618	21 069	20 375
Profit (loss) for the accounting period	14 487	16 914	7 979	16 251	26 532	28 170
Total liabilities	2 255 259	2 500 308	2 396 035	2 532 517	2 512 360	2 503 726
	in per cent					
Liabilities to banks	16.04	14.87	14.70	12.73	11.60	12.17
of which: liabilities to banks payable on demand	0.34	0.76	0.73	0.69	1.98	1.18
central banks	-	0.16	0.09	0.07	0.05	0.11
other banks	0.34	0.59	0.63	0.62	1.93	1.07
other liabilities to banks	15.70	14.12	13.98	12.04	9.62	10.99
central banks	0.25	0.03	0.01	0.00	0.00	0.00
other banks	15.45	14.09	13.97	12.03	9.62	10.98
Liabilities to clients	58.09	60.57	62.61	64.88	66.14	65.02
of which: payable on demand	20.30	22.23	23.29	24.30	24.90	26.61
other liabilities	37.78	38.34	39.32	40.58	41.24	38.41
Liabilities from debt securities	12.05	10.78	7.81	6.66	6.36	6.69
of which: issued debt securities	10.61	8.31	7.56	6.49	6.15	6.42
short-term	7.06	5.11	4.68	3.64	3.65	3.68
long-term	3.55	3.20	2.87	2.84	2.49	2.74
other payables	1.44	2.47	0.25	0.17	0.21	0.27
Other liabilities	3.57	4.90	5.41	6.83	6.49	6.86
Deferred revenues and accrued expenses	1.07	0.56	0.42	0.40	0.40	0.22
Reserves	2.30	1.81	1.88	1.69	1.62	1.60
Subordinated liabilities	1.31	1.05	1.11	0.97	1.02	1.01
Equity capital	3.25	2.90	3.05	2.88	2.91	2.93
Own shares	0.00	0.03	0.03	0.02	0.02	0.02
Share premium	0.29	0.30	0.32	0.31	0.31	0.32
Reserve funds and other funds created from profit	1.23	1.15	1.20	1.18	1.18	1.15
Reserve fund for new valuation	0.00	0.00	0.00	0.00	0.00	0.00
Capital funds	0.01	0.03	0.04	0.03	0.03	0.04
Valuation differences	0.01	0.00	-0.02	0.01	0.08	0.07
Retained profits (accumulated losses) from previous periods	0.15	0.42	1.15	0.81	0.84	0.81
Profit (loss) for the accounting period	0.64	0.68	0.33	0.64	1.06	1.13
Total liabilities	100.00	100.00	100.00	100.00	100.00	100.00

Off-balance-sheet assets

(for banks with licences as of 31 December 2002)

	31 Dec. 2000	31 Dec. 2001	2002			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
	in CZK millions					
Credit commitments provided	273 044	213 832	370 623	375 737	377 839	387 028
Receivables from guarantees	94 738	88 532	94 926	86 058	95 151	102 396
Receivables from letters of credit and bills of exchange	13 600	7 762	7 263	5 592	5 254	6 580
Receivables from spot transactions	109 358	73 346	95 776	156 540	126 263	92 087
Receivables from derivatives transactions, total	2 198 714	3 489 272	3 518 645	3 569 160	3 560 018	3 047 001
of which: forwards	886 790	1 395 874	1 418 399	1 488 421	1 499 139	1 141 168
futures	4 394	229	676	384	206	0
swaps	1 227 050	1 946 372	1 966 812	1 959 156	1 938 067	1 813 796
options	80 479	146 796	132 756	121 199	122 607	92 037
of which: interest rate and credit instruments	905 944	1 723 200	1 912 566	2 195 917	2 349 079	2 023 780
currency instruments	1 287 976	1 756 702	1 598 751	1 368 490	1 207 330	1 021 009
equity instruments	4 518	3 528	2 523	1 616	2 207	1 126
commodity instruments	276	5 842	4 805	3 137	1 402	1 086
Total off-balance-sheet assets	2 689 453	3 872 744	4 087 233	4 193 086	4 164 526	3 635 091
	in per cent					
Credit commitments provided	10.15	5.52	9.07	8.96	9.07	10.65
Receivables from guarantees	3.52	2.29	2.32	2.05	2.28	2.82
Receivables from letters of credit and notes	0.51	0.20	0.18	0.14	0.13	0.18
Receivables from spot transactions	4.07	1.89	2.34	3.73	3.03	2.53
Receivables from derivatives transactions, total	81.75	90.10	86.09	85.12	85.49	83.82
of which: forwards	32.98	36.04	34.70	35.50	36.00	31.39
futures	0.16	0.01	0.02	0.01	0.00	0.00
swaps	45.62	50.26	48.12	46.72	46.54	49.90
options	2.99	3.79	3.25	2.89	2.95	2.53
of which: interest rate and credit instruments	33.68	44.50	46.79	52.37	56.41	55.67
currency instruments	47.89	45.36	39.12	32.64	28.99	28.09
equity instruments	0.17	0.09	0.06	0.04	0.05	0.03
commodity instruments	0.01	0.15	0.12	0.07	0.04	0.03
Total off-balance-sheet assets	100.00	100.00	100.00	100.00	100.00	100.00

Off-balance-sheet liabilities

(for banks with licences as of 31 December 2002)

	31 Dec. 2000	31 Dec. 2001	2002			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
	in CZK millions					
Credit commitments accepted	38 936	24 681	28 937	26 229	31 372	27 333
Payables from guarantees	313 920	306 953	316 394	345 810	341 838	362 046
Receivables from letters of credit and bills of exchange	19 317	11 588	12 304	12 019	11 199	8 547
Payables from spot transactions	109 746	73 571	93 256	153 364	124 545	91 191
Payables from derivatives transactions, total	2 196 476	3 485 574	3 504 384	3 561 053	3 565 266	3 043 236
of which: forwards	887 059	1 397 740	1 407 364	1 485 337	1 503 786	1 145 909
futures	4 139	206	300	366	324	0
swaps	1 225 345	1 943 555	1 966 442	1 956 497	1 939 786	1 805 601
options	79 933	144 073	130 278	118 852	121 370	91 726
of which: interest rate and credit instruments	904 552	1 726 259	1 905 064	2 198 209	2 359 116	2 025 620
currency instruments	1 287 127	1 749 909	1 591 992	1 358 091	1 202 540	1 015 404
equity instruments	4 520	3 563	2 523	1 616	2 207	1 126
commodity instruments	276	5 842	4 805	3 137	1 403	1 086
Total off-balance-sheet liabilities	2 678 396	3 902 367	3 955 275	4 098 474	4 074 220	3 532 353
	in per cent					
Credit commitments accepted	1.45	0.63	0.73	0.64	0.77	0.78
Payables from guarantees	11.72	7.86	8.00	8.44	8.39	10.25
Payables from letters of credit and notes	0.72	0.30	0.31	0.29	0.27	0.24
Payables from spot transactions	4.10	1.89	2.36	3.74	3.06	2.58
Payables from derivatives transactions, total	82.01	89.32	88.60	86.89	87.51	86.15
of which: forwards	33.12	35.82	35.58	36.24	36.91	32.44
futures	0.15	0.01	0.01	0.01	0.01	0.00
swaps	45.75	49.80	49.72	47.74	47.61	51.12
options	2.99	3.69	3.29	2.90	2.98	2.60
of which: interest rate and credit instruments	33.77	44.24	48.17	53.63	57.90	57.34
currency instruments	48.06	44.84	40.25	33.14	29.52	28.75
equity instruments	0.17	0.09	0.06	0.04	0.06	0.03
commodity instruments	0.01	0.15	0.12	0.08	0.03	0.03
Total off-balance-sheet liabilities	100.00	100.00	100.00	100.00	100.00	100.00

Income and expenses

(for banks with licences as of 31 December 2002; in CZK millions)

	31 Dec. 2000	31 Dec. 2001	2002			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Interest income	135 090	143 129	33 266	64 419	95 043	122 604
Interest expenses	84 476	86 204	19 494	35 326	52 073	66 522
Interest profit (including securities)	50 614	56 925	13 772	29 093	42 970	56 082
Income from fees and commissions	21 351	25 767	7 042	13 952	21 437	29 962
Expenses from fees and commissions	4 797	4 797	1 253	2 340	4 165	6 174
Profit from fees and commissions	16 554	20 970	5 789	11 611	17 271	23 788
Interest profit (including fees and commissions)	67 168	77 895	19 561	40 705	60 242	79 870
Profit from shares and other equity instruments	654	942	11	1 027	1 075	1 134
Profit from foreign exchange transactions	9 831	7 154	1 538	214	4 194	5 536
Profit from other transactions	-380	3 456	1 362	5 800	4 914	6 085
(including derivatives transactions and sales of securities)						
Profit from financial activities	77 272	89 447	22 472	47 746	70 425	92 625
Administrative expenses	41 840	47 939	10 843	23 426	34 765	47 916
Creation of reserves and provisions (net)	59 549	22 228	3 002	6 860	7 299	12 853
Other operating income (+) / expenses (-)	36 401	2 717	3 011	3 505	5 676	7 791
Gross operating profit	10 881	20 270	10 870	19 704	33 176	37 959
Extraordinary income (+) / expenses (-)	1 403	1 726	768	1 261	861	1 687
Pre-tax gross profit	12 284	21 996	11 637	20 965	34 037	39 646
Taxes	-2 100	5 046	2 768	4 714	7 505	11 476
Net profit	14 385	16 951	8 870	16 251	26 532	28 170

Profitability and efficiency

(for banks with licences as of 31 December 2002)

	31 Dec. 2000	31 Dec. 2001	2002			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Profit from financial activities/assets in per cent	3.59	3.77	3.70	3.90	3.80	3.73
Gross profit/assets in per cent	0.57	0.93	1.92	1.71	1.84	1.59
Net profit/assets in per cent	0.67	0.72	1.46	1.33	1.43	1.13
Net profit/Tier 1 in per cent	13.08	14.41	29.84	25.42	27.62	22.05
Total interest income/interest earning credits in per cent	6.35	6.23	5.57	5.29	5.07	4.90
Total interest expenses/interest bearing deposits in per cent	4.08	3.87	3.36	3.02	2.91	2.80
Interest rate spread in per cent	2.26	2.37	2.21	2.28	2.17	2.10
Net interest margin in per cent	2.53	2.47	2.36	2.48	2.40	2.35
Number of employees in banking sector	44 932	40 871	40 720	40 157	40 299	40 625
Per employee in CZK thousands:						
total assets	50 193	61 176	58 842	63 065	62 343	61 630
profit from financial activities	1 720	2 189	2 207	2 378	2 330	2 280
net profit	320	415	871	809	878	693
administrative expenses	931	1 173	1 065	1 167	1 150	1 179
personnel expenses	434	563	538	546	546	552
General operating expenses/assets in per cent	1.94	2.02	1.78	1.91	1.87	1.93

Credits

(for banks with licences as of 31 December 2002; gross credits granted in the Czech Republic; in CZK millions; since March 2002 change in methodology from time perspective)

	31 Dec. 2000	31 Dec. 2001	2002			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Total credits	863 121	944 112	908 178	886 499	880 051	892 293
of which: short-term	349 028	323 504	289 773	257 928	258 211	261 504
medium-term	177 629	188 590	256 157	254 180	247 105	251 391
long-term	336 464	432 018	362 248	374 391	374 735	379 398
Total credits	863 121	944 112	908 178	886 499	880 051	892 293
of which: non-financial sector	572 239	529 103	499 714	461 899	444 320	432 462
financial sector	58 336	60 441	67 436	56 198	59 802	67 429
government sector	36 818	162 592	148 482	172 523	169 907	167 734
small businesses	24 021	22 919	21 584	20 370	20 776	21 552
households	95 818	116 324	120 047	133 835	143 481	157 065
other	75 889	52 733	50 915	41 674	41 765	46 051
Total credits	863 121	944 112	908 178	886 499	880 051	892 293
of which: agriculture and forestry	17 852	18 516	17 381	18 122	19 103	19 126
manufacturing	194 865	184 196	178 485	160 811	157 941	152 212
construction	18 026	13 601	14 084	15 291	14 526	12 984
financial intermediation and insurance	87 014	154 481	149 578	167 833	159 100	159 995
transport	24 056	26 011	24 538	22 415	23 294	25 205
wholesale and retail trade; hotels and restaurants	148 343	131 920	123 707	119 541	118 068	111 736
other	372 965	415 387	400 405	382 486	388 019	411 035

Deposits

(for banks with licences as of 31 December 2002; deposits accepted in the Czech Republic; in CZK millions; since September 2002 change in methodology from time perspective)

	31 Dec. 2000	31 Dec. 2001	2002			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Total deposits	1 211 924	1 412 189	1 451 735	1 598 644	1 616 916	1 567 972
of which: demand	434 781	524 891	527 888	583 644	617 791	657 563
time	777 143	887 298	923 847	1 015 000	999 125	910 409
of which: short-term	564 605	670 687	697 121	776 564	767 831	675 098
medium-term	82 978	75 206	69 417	67 892	176 929	217 992
long-term	129 560	141 405	157 309	170 544	54 365	17 319
Total deposits	1 211 924	1 412 189	1 451 735	1 598 644	1 616 916	1 567 972
of which: non-financial sector	262 350	289 140	256 538	268 085	276 371	332 214
financial sector	32 944	68 532	84 095	72 732	87 966	88 147
government sector	48 569	75 355	111 578	248 726	244 671	160 932
small businesses	40 453	49 112	53 799	60 175	63 328	54 905
households	807 920	868 200	874 791	878 194	874 412	862 253
other	19 688	61 850	70 934	70 732	70 168	69 521
Total deposits	1 211 924	1 412 189	1 451 735	1 598 644	1 616 916	1 567 972
of which: agriculture and forestry	10 995	13 596	13 162	12 436	11 311	11 764
manufacturing	61 678	75 967	69 153	73 295	76 933	87 476
construction	20 297	21 957	18 371	19 513	21 150	29 314
financial intermediation and insurance	49 500	100 809	112 156	170 167	153 565	154 740
transport	11 340	15 716	13 916	20 556	20 241	18 034
wholesale and retail trade; hotels and restaurants	71 904	83 649	73 409	75 546	65 983	94 568
other	986 209	1 100 495	1 151 568	1 227 131	1 267 733	1 172 076

Capital, capital requirements and capital adequacy

(for banks with licences as of 31 December 2002; in CZK millions)

	31 Dec. 2000	31 Dec. 2001	2002			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Tier 1	109 962	117 661	118 897	127 849	128 097	127 784
Tier 2	26 551	25 874	26 130	24 502	24 466	21 899
Deductible items	12 285	11 222	12 772	12 458	12 056	18 794
Total capital	124 228	132 312	132 255	139 894	140 508	130 889
Total capital requirement	66 847	68 812	71 087	72 557	73 520	73 787
Capital requirement A - banking portfolio	61 950	63 323	65 709	66 318	67 737	68 559
Capital requirement B - trading portfolio	4 898	5 488	5 379	6 239	5 783	5 228
Capital adequacy in per cent	14.87	15.38	14.88	15.42	15.29	14.19

Quick assets

(for banks with licences as of 31 December 2002; in CZK millions)

	31 Dec. 2000	31 Dec. 2001	2002			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Cash	34 777	41 163	28 062	27 931	29 751	37 821
Deposits and credits with CNB	285 784	319 218	374 244	513 182	546 066	500 323
of which: required reserves	28 103	30 272	31 229	30 749	38 423	28 359
Current accounts with banks and 24-hour time deposits	5 030	6 528	12 281	22 071	64 894	35 857
Treasury bills	109 126	144 162	200 921	226 147	248 788	238 570
CNB bills	3 850	7 999	1 603	994	720	3 213
Total quick assets	438 567	519 069	617 110	790 326	890 220	815 784
Trading securities	92 492	51 649	16 071	18 969	16 569	17 204
of which: bonds	38 223	49 157	15 152	17 910	15 495	16 211
equity securities	54 270	975	386	563	428	414
bills of exchange	0	1 517	533	496	646	580
Total liquid assets	531 059	570 719	633 181	809 295	906 789	832 988
Percentage share in total assets:						
quick assets	19.45	20.76	25.76	31.21	35.43	32.58
liquid assets	23.55	22.83	26.43	31.96	36.09	33.27

Classified credits

(for banks with licences as of 31 December 2002)

	31 Dec. 2000	31 Dec. 2001	2002			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Classified credits in CZK millions	257 762	209 866	187 048	167 637	160 249	160 378
as a percentage of total credit volume	29.83	21.53	19.57	17.96	17.22	16.89
of which: watch credits	85 814	75 984	74 276	68 847	71 177	76 201
substandard credits	54 910	32 295	29 367	27 759	25 933	29 514
doubtful credits	27 276	29 725	25 895	21 032	19 423	12 361
loss credits	89 762	71 862	57 510	49 999	43 716	42 302
Non-performing loans, in CZK millions	171 948	133 882	112 773	98 789	89 072	84 177
as a percentage of total credit volume	19.90	13.73	11.80	10.59	9.57	8.86
Classified credits taking into account collateral, in CZK millions	119 895	120 240	114 370	104 451	105 474	105 494
as a percentage of total credit volume	13.88	12.33	11.96	11.19	11.33	11.11
Weighted classification in CZK millions	118 672	96 982	79 952	69 396	62 173	58 196
as a percentage of total credit volume	13.73	9.95	8.36	7.44	6.68	6.13
Weighted classification taking into account collateral, in CZK millions	61 852	57 446	54 504	50 093	49 144	46 851
as a percentage of total credit volume	7.16	5.89	5.70	5.37	5.28	4.93
Reserves and provisions in CZK millions	77 141	79 193	76 377	73 823	70 247	62 305
Surplus(+)/shortfall(-) of reserves, provisions and collateral, in CZK millions	15 289	21 747	21 873	23 730	21 102	15 454
as a percentage of total credit volume	1.77	2.23	2.29	2.54	2.27	1.63

Assets and liabilities by residual maturity as of 31 December 2001

(for banks with licences as of 31 December 2002; in CZK millions)

	Total	of which								
		under 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 5 years	over 5 years	non-specified
Total assets	2 500 308	584 322	487 026	215 531	175 962	176 570	111 070	308 690	222 072	219 065
Total liabilities	2 500 308	1 256 214	370 840	222 436	113 531	124 194	112 118	156 630	57 209	87 136
Net balance sheet position	x	(671 892)	116 186	-6 905	62 430	52 376	(1 048)	152 060	164 863	131 929
Cumulative net balance sheet position	x	(671 892)	(555 706)	(562 611)	(500 180)	(447 804)	(448 852)	(296 792)	(131 929)	(0)
as a percentage of total assets	x	(26.87)	(22.23)	(22.50)	(20.00)	(17.91)	(17.95)	(11.87)	(5.28)	(0.00)
Liabilities taking into account demand deposit liquidity	2 500 308	681 592	428 302	279 898	228 456	210 387	198 312	242 823	143 402	87 136
Net balance sheet position	x	(97 270)	58 724	-64 367	(52 494)	(33 817)	(87 241)	65 867	78 670	131 929
Cumulative net balance sheet position	x	(97 270)	(38 546)	(102 914)	(155 407)	(189 224)	(276 466)	(210 599)	(131 929)	(0)
as a percentage of total assets	x	(3.89)	(1.54)	(4.12)	(6.22)	(7.57)	(11.06)	(8.42)	(5.28)	(0.00)

Assets and liabilities by residual maturity as of 31 December 2002

(for banks with licences as of 31 December 2002; in CZK millions)

	Total	of which								
		under 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 5 years	over 5 years	non-specified
Total assets	2 503 726	479 115	376 464	178 224	139 602	171 174	175 984	350 040	278 858	354 266
Total liabilities	2 503 726	1 219 942	276 487	159 198	87 465	99 721	141 487	135 826	78 651	304 950
Net balance sheet position	x	(740 827)	99 977	19 027	52 136	71 453	34 498	214 214	200 207	49 316
Cumulative net balance sheet position	x	(740 827)	(640 850)	(621 824)	(569 687)	(498 234)	(463 736)	(249 523)	(49 316)	(0)
as a percentage of total assets	x	(29.59)	(25.60)	(24.84)	(22.75)	(19.90)	(18.52)	(9.97)	(1.97)	(0.00)
Liabilities taking into account demand deposit liquidity	2 503 726	526 699	345 811	228 522	226 114	203 707	245 473	239 813	182 638	304 950
Net balance sheet position	x	(47 585)	30 653	(50 298)	(86 512)	(32 533)	(69 489)	110 227	96 220	49 316
Cumulative net balance sheet position	x	(47 585)	(16 932)	(67 230)	(153 742)	(186 275)	(255 763)	(145 536)	(49 316)	(0)
as a percentage of total assets	x	(1.90)	(0.68)	(2.69)	(6.14)	(7.44)	(10.22)	(5.81)	(1.97)	(0.00)

Foreign exchange activities

(for banks with licences as of 31 December 2002)

	31 Dec. 2000	31 Dec. 2001	2002 31 Mar.	2002 30 Jun.	2002 30 Sep.	2002 31 Dec.
	Assets in CZK millions					
Credits granted (gross)	225 980	189 354	160 174	147 288	150 535	160 625
Securities (gross)	53 835	54 122	46 775	41 575	46 862	64 896
Deposits and credits with banks (gross)	238 130	286 470	251 707	218 202	206 317	165 452
Other (gross)	32 049	52 108	36 211	31 375	29 488	52 845
Total assets (gross)	549 993	582 053	494 868	438 440	433 202	443 817
	as a percentage of foreign exchange assets					
Credits granted (gross)	41.09	32.53	32.37	33.59	34.75	36.19
Securities (gross)	9.78	9.30	9.45	9.48	10.81	14.62
Deposits and credits with banks (gross)	43.30	49.22	50.86	49.77	47.63	37.28
Other (gross)	5.83	8.95	7.32	7.16	6.81	11.91
Total assets (gross)	100.00	100.00	100.00	100.00	100.00	100.00
	as a percentage of the total in foreign currencies and CZK					
Credits granted (gross)	26.16	19.42	16.74	15.78	16.17	16.91
Securities (gross)	12.70	11.17	11.02	9.57	10.37	13.97
Deposits and credits with banks (gross)	42.16	51.03	49.80	45.69	48.57	41.53
Other (gross)	3.00	4.55	3.25	2.48	2.40	4.46
Total assets (gross)	23.36	22.35	19.82	16.66	16.59	17.07
	Liabilities in CZK millions					
Deposits received	227 190	240 565	210 374	199 129	199 502	200 939
Deposits and credits from banks	168 127	159 348	134 361	120 704	114 673	117 262
Bond issues	25 392	33 721	32 607	26 985	27 593	26 993
Other	60 166	45 875	45 513	42 652	41 264	64 841
Total liabilities	480 875	479 509	422 855	389 471	383 032	410 035
	as a percentage of foreign exchange liabilities					
Deposits received	47.25	50.17	49.75	51.13	52.09	49.01
Deposits and credits from banks	34.96	33.23	31.78	30.99	29.94	28.60
Bond issues	5.28	7.03	7.71	6.93	7.20	6.58
Other	12.51	9.57	10.76	10.95	10.77	15.81
Total liabilities	100.00	100.00	100.00	100.00	100.00	100.00
	as a percentage of the total in foreign currencies and CZK					
Deposits received	17.34	15.88	14.02	12.12	12.01	12.34
Deposits and credits from banks	47.21	43.40	38.40	37.67	39.52	38.84
Bond issues	10.61	16.23	18.01	16.42	17.87	16.79
Other	17.20	11.16	12.47	10.54	10.16	15.70
Total liabilities	21.32	19.18	17.65	15.38	15.25	16.38
	Off-balance-sheet assets in CZK millions					
Derivatives transactions	787 533	1 052 626	1 068 299	975 787	982 717	761 444
Other off-balance-sheet transactions	208 275	138 796	153 382	195 080	162 823	141 022
Total off-balance-sheet assets	995 809	1 191 422	1 221 681	1 170 867	1 145 540	902 466
	as a percentage of foreign exchange off-balance-sheet assets					
Derivatives transactions	79.08	88.35	87.44	83.34	85.79	84.37
Other off-balance-sheet transactions	20.92	11.65	12.56	16.66	14.21	15.63
Total off-balance-sheet assets	100.00	100.00	100.00	100.00	100.00	100.00
	as a percentage of the total in foreign currencies and CZK					
Derivatives transactions	35.82	30.17	30.36	27.34	27.60	24.99
Other off-balance-sheet transactions	42.44	36.19	26.98	31.27	26.93	23.98
Total off-balance-sheet assets	37.03	30.76	29.89	27.92	27.51	24.83
	Off-balance-sheet liabilities in CZK millions					
Derivatives transactions	857 843	1 144 061	1 129 713	1 032 980	1 037 137	785 712
Other off-balance-sheet transactions	175 717	132 522	154 101	203 080	187 422	215 455
Total off-balance-sheet liabilities	1 033 560	1 276 584	1 283 814	1 236 060	1 224 559	1 001 167
	as a percentage of foreign exchange off-balance-sheet liabilities					
Derivatives transactions	83.00	89.62	88.00	83.57	84.69	78.48
Other off-balance-sheet transactions	17.00	10.38	12.00	16.43	15.31	21.52
Total off-balance-sheet liabilities	100.00	100.00	100.00	100.00	100.00	100.00
	as a percentage of the total in foreign currencies and CZK					
Derivatives transactions	32.03	29.32	28.56	25.20	25.46	22.24
Other off-balance-sheet transactions	36.46	31.80	34.18	37.79	36.83	44.05
Total off-balance-sheet liabilities	38.59	32.71	32.46	30.16	30.06	28.34

Activities vis-à-vis non-residents

(for banks with licences as of 31 December 2002)

	31 Dec. 2000	31 Dec. 2001	2002			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
	Assets in CZK millions					
Credits granted (gross)	79 202	56 504	66 129	52 792	55 198	61 248
Securities (gross)	120 204	125 889	118 661	113 944	118 528	137 631
Deposits and credits with banks (gross)	292 901	368 266	314 552	296 218	262 258	230 733
Other (gross)	31 740	55 630	44 252	50 158	55 954	79 617
Total assets (gross)	524 047	606 288	543 595	513 112	491 937	509 229
	as a percentage of assets vis-à-vis non-residents					
Credits granted (gross)	15.11	9.32	12.17	10.29	11.22	12.03
Securities (gross)	22.94	20.76	21.83	22.21	24.10	27.03
Deposits and credits with banks (gross)	55.89	60.74	57.86	57.73	53.31	45.31
Other (gross)	6.06	9.18	8.14	9.77	11.37	15.63
Total assets (gross)	100.00	100.00	100.00	100.00	100.00	100.00
	as a percentage of the total vis-à-vis residents and non-residents					
Credits granted (gross)	9.17	5.80	6.91	5.66	5.93	6.45
Securities (gross)	28.36	25.99	27.96	26.24	26.23	29.62
Deposits and credits with banks (gross)	51.86	65.60	62.24	62.02	61.73	57.92
Other (gross)	2.98	4.86	3.97	3.97	4.56	6.71
Total assets (gross)	22.26	23.28	21.77	19.50	18.84	19.58
	Liabilities in CZK millions					
Deposits received	75 445	75 106	71 918	69 020	68 248	64 470
Deposits and credits from banks	181 247	178 265	163 957	147 550	136 646	143 971
Bond issues	29 118	13 286	11 788	12 273	13 984	14 306
Other	52 159	52 988	44 707	48 967	59 152	79 425
Total liabilities	337 970	319 644	292 370	277 810	278 030	302 173
	as a percentage of liabilities vis-à-vis non-residents					
Deposits received	22.32	23.50	24.60	24.84	24.54	21.34
Deposits and credits from banks	53.63	55.77	56.08	53.11	49.15	47.65
Bond issues	8.62	4.15	4.03	4.42	5.03	4.73
Other	15.43	16.58	15.29	17.63	21.28	26.28
Total liabilities	100.00	100.00	100.00	100.00	100.00	100.00
	as a percentage of the total vis-à-vis residents and non-residents					
Deposits received	5.76	4.96	4.79	4.20	4.11	3.96
Deposits and credits from banks	50.89	48.56	46.85	46.05	47.09	47.68
Bond issues	12.17	6.40	6.51	7.47	9.06	8.90
Other	14.91	12.90	12.25	12.10	14.57	19.23
Total liabilities	14.99	12.78	12.20	10.97	11.07	12.07
	Off-balance-sheet assets in CZK millions					
Derivatives transactions	1 237 369	2 256 213	2 397 126	2 493 409	2 509 121	2 156 284
Other off-balance-sheet transactions	108 350	81 625	105 277	134 855	110 138	109 576
Total off-balance-sheet assets	1 345 719	2 337 839	2 502 403	2 628 263	2 619 259	2 265 860
	as a percentage of off-balance-sheet assets vis-à-vis non-residents					
Derivatives transactions	91.95	96.51	95.79	94.87	95.80	95.16
Other off-balance-sheet transactions	8.05	3.49	4.21	5.13	4.20	4.84
Total off-balance-sheet assets	100.00	100.00	100.00	100.00	100.00	100.00
	as a percentage of the total vis-à-vis residents and non-residents					
Derivatives transactions	56.28	64.66	68.13	69.86	70.48	70.77
Other off-balance-sheet transactions	22.08	21.29	18.52	21.61	18.22	18.63
Total off-balance-sheet assets	50.04	60.37	61.22	62.68	62.89	62.33
	Off-balance-sheet liabilities in CZK millions					
Derivatives transactions	1 216 966	2 266 937	2 390 666	2 483 265	2 487 256	2 159 017
Other off-balance-sheet transactions	146 806	129 798	159 207	193 612	182 152	199 639
Total off-balance-sheet liabilities	1 363 771	2 396 735	2 549 872	2 676 877	2 669 408	2 358 656
	as a percentage of off-balance-sheet liabilities vis-à-vis non-residents					
Derivatives transactions	89.24	94.58	93.76	92.77	93.18	91.54
Other off-balance-sheet transactions	10.76	5.42	6.24	7.23	6.82	8.46
Total off-balance-sheet liabilities	100.00	100.00	100.00	100.00	100.00	100.00
	as a percentage of the total vis-à-vis residents and non-residents					
Derivatives transactions	55.41	65.04	68.22	69.73	69.76	70.94
Other off-balance-sheet transactions	30.46	31.14	35.31	36.03	35.79	40.82
Total off-balance-sheet liabilities	100.00	100.00	100.00	100.00	100.00	100.00

Selected bank group indicators

(for banks with licences as of 31 December 2002)

	31 Dec. 2000	31 Dec. 2001	2002			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
	Large banks					
Total assets (in CZK millions)	1 469 061	1 614 537	1 554 756	1 644 626	1 643 832	1 556 412
Credits granted (net) (in CZK millions)	542 275	616 489	582 397	559 136	545 172	553 614
Deposits received (in CZK millions)	995 106	1 117 284	1 106 973	1 183 067	1 206 466	1 112 761
Total off-balance-sheet assets (in CZK millions)	1 122 053	1 724 642	1 960 863	2 072 918	2 149 050	1 987 690
Receivables from derivatives transactions (in CZK millions)	867 416	1 529 857	1 596 925	1 653 642	1 740 726	1 612 764
Profit from financial activities (in CZK millions)	56 006	66 925	16 160	35 221	51 415	67 790
Net profit (in CZK millions)	10 899	11 480	6 840	12 796	18 670	23 154
Classified credits / total credits (in per cent)	38.45	26.25	24.03	21.29	20.47	19.87
Capital adequacy (in per cent)	13.69	14.82	14.13	14.78	14.60	13.41
Quick assets / total assets (in per cent)	22.55	23.22	28.39	33.88	37.40	33.17
	Medium-sized banks					
Total assets (in CZK millions)	331 915	370 928	359 408	410 593	399 257	416 195
Credits granted (net) (in CZK millions)	123 714	143 552	151 764	156 182	163 823	164 273
Deposits received (in CZK millions)	137 789	183 189	182 121	218 663	217 040	239 407
Total off-balance-sheet assets (in CZK millions)	596 196	744 123	918 221	1 045 562	1 042 297	836 800
Receivables from derivatives transactions (in CZK millions)	490 608	651 619	814 694	931 843	932 960	710 851
Profit from financial activities (in CZK millions)	11 473	11 906	3 246	6 463	10 354	13 002
Net profit (in CZK millions)	1 909	2 837	950	1 531	3 995	2 829
Classified credits / total credits (in per cent)	22.55	18.66	17.88	19.10	18.50	18.88
Capital adequacy (in per cent)	17.72	16.01	15.74	16.24	16.56	16.42
Quick assets / total assets (in per cent)	19.83	25.20	20.72	30.52	35.25	35.75
	Small banks					
Total assets (in CZK millions)	48 165	57 147	63 462	67 075	72 834	84 248
Credits granted (net) (in CZK millions)	24 939	31 163	33 506	33 494	37 153	42 184
Deposits received (in CZK millions)	11 223	18 927	23 349	24 750	28 141	39 721
Total off-balance-sheet assets (in CZK millions)	10 388	8 085	9 152	7 657	12 827	11 974
Receivables from derivatives transactions (in CZK millions)	3 074	1 802	1 644	1 099	3 666	2 466
Profit from financial activities (in CZK millions)	1 693	2 068	574	1 074	1 644	2 456
Net profit (in CZK millions)	-191	246	129	175	162	-1 862
Classified credits / total credits (in per cent)	15.71	14.33	13.36	14.17	13.81	12.20
Capital adequacy (in per cent)	21.58	22.42	23.38	24.49	22.25	17.36
Quick assets / total assets (in per cent)	17.29	19.02	24.20	24.82	30.31	31.06
	Foreign bank branches					
Total assets (in CZK millions)	275 976	301 332	256 318	244 101	221 541	241 556
Credits granted (net) (in CZK millions)	86 497	91 869	94 196	90 546	89 569	93 036
Deposits received (in CZK millions)	47 055	52 197	45 730	63 977	49 049	48 010
Total off-balance-sheet assets (in CZK millions)	954 006	1 391 747	1 191 470	1 057 959	952 622	789 572
Receivables from derivatives transactions (in CZK millions)	835 309	1 305 994	1 105 381	982 575	882 666	720 920
Profit from financial activities (in CZK millions)	4 218	4 447	1 182	2 392	3 497	4 722
Net profit (in CZK millions)	894	1 171	484	926	2 432	2 473
Classified credits / total credits (in per cent)	3.09	2.79	2.62	2.71	2.43	4.23
Capital adequacy (in per cent)	0.00	0.00	0.00	0.00	0.00	0.00
Quick assets / total assets (in per cent)	9.76	8.85	11.89	12.97	19.24	17.91
	Building societies					
Total assets (in CZK millions)	130 143	156 365	162 092	166 122	174 896	205 314
Credits granted (net) (in CZK millions)	31 180	38 713	42 486	44 550	47 233	51 583
Deposits received (in CZK millions)	118 795	142 959	141 904	152 584	160 990	188 017
Total off-balance-sheet assets (in CZK millions)	6 810	4 147	7 526	8 990	7 731	9 055
Receivables from derivatives transactions (in CZK millions)	2 306	0	0	0	0	0
Profit from financial activities (in CZK millions)	3 882	4 100	1 310	2 597	3 515	4 656
Net profit (in CZK millions)	873	1 216	466	823	1 273	1 576
Classified credits / total credits (in per cent)	3.27	3.28	3.42	3.39	3.60	3.39
Capital adequacy (in per cent)	17.71	16.20	16.05	15.08	14.75	13.59
Quick assets / total assets (in per cent)	4.83	8.39	33.78	35.70	39.93	38.31

Concentration

(for banks with licences as of the given date; classified loans exclude Konsolidační banka and credit to Slovak Collection Unit; profit and loss account figures exclude Konsolidační banka)

	31 Dec. 2000	31 Dec. 2001	2002			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
	Percentage share in banking sector 3 largest banks					
Total assets (net)	53.00	58.77	59.10	59.93	60.22	57.18
Credits granted to clients (net)	52.12	59.27	56.83	54.89	54.04	53.51
Deposits and credits with banks (net)	43.31	59.27	44.32	47.82	48.45	47.07
Securities excluding Treasury securities and CNB bills (net)	66.29	73.98	84.19	79.63	81.73	81.55
Tangible and intangible assets	76.94	79.78	79.78	79.11	79.31	80.06
Deposits received from clients	70.97	69.14	69.37	67.70	68.04	64.24
Issues of short-term and long-term bonds	48.66	48.91	52.48	54.96	55.21	53.81
Total off-balance sheet assets	41.92	45.93	47.49	48.11	49.60	48.71
Receivables from derivatives transactions	47.58	49.67	53.45	54.18	54.06	48.71
Profit from financial activities	57.81	68.78	66.06	68.82	67.96	68.19
Administrative expenses	59.36	65.86	63.43	65.43	66.35	65.79
Net profit (profitable banks only)	62.77	57.24	60.01	72.98	65.14	65.79
Classified credits	82.94	78.82	75.79	71.47	69.78	67.95
Quick assets	67.54	64.86	65.32	67.19	64.00	59.26
Tier 1	55.50	52.47	51.40	51.84	51.79	58.58
Total capital	49.18	60.86	58.65	58.48	57.71	56.89
Foreign exchange assets	50.44	55.09	53.98	54.09	54.51	56.32
Assets vis-à-vis non-residents	58.80	58.28	60.53	65.17	66.62	66.36
	5 largest banks					
Total assets (net)	66.09	68.38	68.15	68.35	68.66	65.75
Credits granted to clients (net)	68.46	70.66	68.25	67.58	65.93	65.48
Deposits and credits with banks (net)	57.04	70.66	57.24	59.91	59.54	58.08
Securities excluding Treasury securities and CNB bills (net)	76.18	84.48	89.64	86.33	89.26	89.77
Tangible and intangible assets	82.12	84.97	84.98	84.46	84.57	85.06
Deposits received from clients	77.06	76.86	76.80	75.39	76.08	72.29
Issues of short-term and long-term bonds	61.32	63.95	68.07	72.03	71.54	70.08
Total off-balance sheet assets	61.61	67.36	71.05	71.61	73.75	74.35
Receivables from derivatives transactions	68.36	70.24	73.33	74.08	75.69	75.60
Profit from financial activities	73.05	78.01	75.85	77.63	76.99	77.38
Administrative expenses	70.90	75.54	72.87	74.17	75.26	74.80
Net profit (profitable banks only)	72.13	70.28	76.37	80.35	77.10	79.63
Classified credits	89.78	87.16	85.52	82.45	81.39	80.79
Quick assets	77.11	77.02	75.81	76.51	73.79	69.51
Tier 1	72.88	70.59	70.28	70.32	70.24	71.50
Total capital	70.29	74.46	72.11	72.62	71.86	70.41
Foreign exchange assets (gross)	61.77	67.64	66.34	69.65	70.65	70.66
Assets vis-à-vis non-residents (gross)	71.98	74.73	74.31	78.03	78.33	79.29
	10 largest banks					
Total assets (net)	78.54	80.60	80.18	81.63	81.58	79.78
Credits granted to clients (net)	82.67	82.99	81.58	81.62	80.51	79.96
Deposits and credits with banks (net)	74.18	82.99	76.31	77.60	78.82	77.91
Securities excluding Treasury securities and CNB bills (net)	89.52	94.94	97.02	95.62	95.57	95.82
Tangible and intangible assets	91.09	92.79	92.46	92.13	92.13	92.33
Deposits received from clients	87.40	87.96	87.88	87.13	87.53	85.41
Issues of short-term and long-term bonds	81.63	89.19	90.31	93.49	93.20	94.27
Total off-balance sheet assets	84.46	92.38	92.56	93.63	93.08	94.43
Receivables from derivatives transactions	91.67	95.38	95.58	96.38	95.87	96.22
Profit from financial activities	84.95	87.14	86.19	87.33	86.41	86.81
Administrative expenses	82.64	85.61	84.95	85.88	85.85	85.95
Net profit (profitable banks only)	88.09	86.71	87.94	90.09	90.27	91.08
Classified credits	95.05	95.05	94.65	93.97	93.39	91.90
Quick assets	88.40	88.33	87.08	88.48	86.65	83.79
Tier 1	86.54	85.25	85.18	85.76	85.88	85.29
Total capital	86.38	87.99	86.28	86.77	86.79	86.04
Foreign exchange assets (gross)	80.88	86.81	87.17	89.20	89.60	88.44
Assets vis-à-vis non-residents (gross)	88.61	90.82	90.36	92.73	92.28	91.69

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