

2003

BANKING  
SUPERVISION  
2003

**CNB** CZECH  
NATIONAL  
BANK

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### **METHODOLOGICAL NOTE**

All data used in this publication are for banks licensed as of 31 December 2003, 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 2003 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

Banking Supervision 2003 is the eighth publication in the series describing the Czech National Bank's activities in the field of banking supervision. This publication aims to provide the public with pooled information on developments in the Czech banking sector over the past year and to inform it about the focus, scope and plans of banking regulation and supervision.

As usual, the publication is divided into two main sections. The first describes the main changes in the banking business environment associated with the work of CNB Banking Supervision. In particular it covers legislative amendments, changes in the performance of banking supervision (on-site examinations and off-site surveillance) and the co-operation between the Czech National Bank and foreign and domestic regulators. The second section presents specific statistical data on the Czech banking sector, covering in particular its structure and performance and the main risks associated with banking business.

Overall we can say that the banking sector as a whole continued to consolidate in 2003. This process was closely linked to previous privatisations and the positive influence of foreign owners on banks' management methods. Despite isolated problems in some institutions (Union banka and Plzeňská banka), the sector's profitability remained high, allowing a further strengthening of its capital adequacy and other prudential indicators.

The new methods and technology brought in by foreign owners meant among other things a huge expansion in lending to households, which grew at a rate of more than 30% last year. The modest economic recovery also contributed to this trend.

In the legislative area, the changes were relatively minor compared to 2002 and were linked more with the coming into effect of previously adopted legal rules and the Czech Republic's accession to the European Union. They chiefly concerned the implementation of the "single licence" concept. As from the accession date, banks licensed in EU member states are allowed to carry on business in the Czech Republic without any additional licensing in the Czech Republic, and likewise banks with a Czech banking licence are allowed to carry on business in EU member states without additional licensing. Although the single licence concept is not expected to be used to any great extent and hence should not present any risk to the stability of the Czech banking sector, the related legislative changes will nonetheless place increased demands on the co-operation between the Czech banking supervisory authority and foreign national regulators and the EU authorities. The Czech National Bank is already very active in this area both on a bilateral level (under "memoranda of understanding") and on a multilateral level (in the committees and working groups of the European Commission and the European Central Bank).

Another legislative change that impinged strongly on the banking sector in 2003 was an amendment to the Building Savings Schemes Act, which decreased the amount of state support to be paid out as from 2004. Expectations of this change led in 2003 to a massive surge in deposits at building societies and to a rise in building societies' share of the banking sector generally. But however great the impacts of this amendment, the changes are temporary in nature and a rapid return to a gradual and smooth trend can be expected.

Also important for improving the efficiency of banking business and enhancing information flows on the creditworthiness of corporate customers was the launch of the Central Register of Credits (CRC) operated by the Czech National Bank. In its first year of operation the CRC proved itself a truly significant information channel and was much used by banks. Phase II of the CRC's development – which will enable the Register to be used for analytical and research work to a greater extent – will make it even more useful.

Preparations for the implementation of the New Basel Capital Accord (known as "Basel II) also continued in 2003. This should bring regulation much more closely into line with the risk measurement and management methods applied in the most sophisticated banks. As in the past, the Czech National Bank played an active role in drafting the new capital adequacy framework, both in the Basel Committee on Banking Supervision and during the preparation of the EU directives that will incorporate Basel II into European law. As for the domestic financial market, the Czech National Bank continued working on its joint project with the Czech Banking Association and the Czech Chamber of Auditors to prepare the Czech banking market and the related legislation for smooth and timely implementation of the new rules. In May 2003, a Committee on the Co-ordination of Financial Market Supervision – made up of representatives of the Czech National Bank, the Czech Ministry of Finance and the Czech Securities Commission – began work. At its four meetings the Committee addressed the issue of the future institutional structure of the regulation and supervision of the Czech financial market, as well as numerous other problems.

The trends in the Czech banking sector in 2003 can be viewed positively and there are many reasons for believing that the sector will continue to develop smoothly in the years ahead. The Czech National Bank and the commercial banking sector are fully aware of the challenges posed by the Czech Republic's accession to the European Union and are ready to hold their own in the single financial market.

Pavel Racoča  
Bank Board Member  
and Chief Executive Director of the CNB

## A. BANKING SUPERVISION IN 2003

CNB Banking Supervision develops its activities in line with a medium-term plan approved for the three years to the end of 2004. Its supervisory work is focused primarily on improving the quality of on-site and off-site supervision, on forging closer ties with authorities in other countries and other financial market regulators, and on enforcing the rules of supervision on a consolidated basis. Its regulatory activities are targeted at creating a comprehensive regulatory framework for banks and consolidated groups, a framework which must comply with the principles of regulation applied in the EU and the rest of the developed world.

The priorities for 2003 were defined on the basis of the Core Principles for Effective Banking Supervision issued by the Basel Committee on Banking Supervision and the recommendations of the FSAP (Financial Sector Assessment Program) mission.<sup>1</sup> These priorities were:

- to base banking supervision on risk assessment,
- to intensify supervision on a consolidated basis,
- to intensify on-site inspections and to concentrate on the risks generated by new banking products,
- to enhance the knowledge of supervisory staff in order to supervise individual banks and consolidated groups according to their risk profiles,
- to enhance the transparency of supervisory activities both to banks and to the public,
- to ensure a fast and efficient supervisory response to deficiencies identified,
- to enhance co-operation with domestic regulators and to eliminate duplication of effort in banking supervision,
- to introduce regulatory provisions stipulating the requirements for the management of banking risks,
- to determine regulatory requirements for anti-money-laundering and anti-terrorism-financing procedures in banks,
- to enhance co-operation with foreign regulators.

Implementation of the Core Principles continued in 2003. As part of the effort to foster effective banking supervision, supervisory responsibilities and goals were clearly defined. Laws and other regulations establishing a minimum set of prudential standards were adopted. Information on the financial strength and results of the banking sector is disclosed to the public. The independence of CNB Banking Supervision and its funding is provided for in law. CNB Banking Supervision's authority is founded on the professionalism and credibility of its staff. Agreements are in place that ensure the exchange and protection of information between supervisory authorities. There is a system of co-operation in place between the regulators of the domestic banking sector and regulators in other countries. An in-depth and up-to-date report of compliance with the Core Principles is published on the CNB website (<http://www.cnb.cz>).

### 1. LEGISLATIVE CHANGES IN THE BANKING SECTOR IN 2003

Two major revisions to the laws relating to the banking sector were made in 2003. On 1 January 2003, Act No. 124/2002 Coll., on Payment Systems, took effect. The other important change was an amendment to Act No. 96/1993 Coll., on Building Savings Schemes and State Support for Building Savings Schemes (Act No. 423/2003 Coll.), passed in November 2003 with effect from 1 January 2004. This amendment was prepared by the Ministry of Finance of the Czech Republic, assisted significantly by the Czech National Bank.

### **MAIN SUPERVISORY TASKS IN 2003**

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<sup>1</sup> The Financial Sector Assessment Program was conducted by the International Monetary Fund and the World Bank on the basis of an identification of the financial sector's strengths and weaknesses and system problems, including areas which need to be improved so that the sector can develop and be stable. An integral part of the FSAP is an assessment of compliance with relevant international financial sector standards. The assessment of the Czech Republic's compliance was carried out between 28 November 2000 and 12 December 2000.



## **MAIN CHANGES TO THE BUILDING SAVINGS SCHEMES ACT**

The main thrust of this amendment was to change the parameters of the state support provided for building savings schemes. Changes to building societies' licensing terms and scope of activities were made at the same time.

Under the previous legislation, any entity wishing to become a building savings scheme operator had to obtain Ministry of Finance approval to establish a building society. Subject to such approval being granted, the Czech National Bank would then issue a banking licence allowing the building society to carry on all the activities laid down in the Building Savings Schemes Act. The Czech National Bank was not authorised to restrict the scope of those activities. The 2003 amendment abolished the requirement for the applicant to submit Ministry of Finance approval for the establishment of a building society. The applicant now goes straight to the Czech National Bank with a banking licence application under Act No. 21/1992 Coll., on Banks, as amended, and may request a licence only for the activities laid down in the Building Savings Schemes Act. Before issuing the licence, the Czech National Bank examines the applicant's preparedness to carry on the activities requested in the licence application. Subject to the results of this examination, it may restrict its scope of activities in relation to both the law and the application.

A building society's core activity is the operation of building savings schemes. In addition, it may carry on the other activities for which it is licensed. By comparison with the previous legislation, these activities have been widened to include trading on own account in bonds issued by OECD member states, central banks and financial institutions of OECD member states and banks having their registered offices in such states, as well as bonds issued by the European Investment Bank, the Nordic Investment Bank and the European Central Bank. Building societies are also now allowed to execute transactions to hedge against foreign exchange risk and interest rate risk, to provide banking information and to operate money broking. The widening of building societies' activities will be the content of new licences issued at the building societies' request. Applications may be submitted not earlier than after the statutory re-licensing process ends. The activities that building societies may carry on differ with regard to material and technical provision. In the area of acquisitions of ownership interests, a building society may acquire stakes in other building societies, in business companies engaged in house building or production for such purposes, and in ancillary banking services undertakings.

From the perspective of savers in such schemes, the main changes concern the payment of state support. Following the revision of the Building Savings Schemes Act the advance payment of state support is 15% of the amount saved in the applicable calendar year on a maximum amount of CZK 20,000, as compared to the original 25% on a maximum of CZK 18,000. The maximum amount of state support has thus fallen from CZK 4,500 to CZK 3,000.

The amendment also extended the minimum saving period to qualify for state support by one year. The advance payment of state support – credited to the saver's account at the end of the saving period – is paid to the saver by the building society provided that:

- a) the saver has not touched the saved amount for a period of six years since signing the contract, or
- b) the saver signed a building savings loan agreement within six years from signing the contract and will use the saved amount, the money from the said loan and the said advance payments of state support for housing purposes.

In other cases the saver is not entitled to state support and the building society is obliged to return the advance payment of state support entered on the saver's account to the Ministry of Finance within two months of ascertaining that the saver has lost his entitlement to state support.

On 1 January 2003, the Act on Payment Systems passed in 2002 took effect. This law impinges strongly on banks' business, as it regulates transfers of funds in the Czech Republic, in the Czech currency, 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 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). This duty took effect on 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 PAYMENT SYSTEM ACT***

The Czech National Bank issues the licence which is a necessary condition for operating a payment system. In addition to conditions for establishing and operating payment systems, the law provides for the principle of irrevocability of orders, even in the event of bankruptcy. The law also lays down conditions for issuing and using 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.

The Act also presumes the existence of a special authority authorised to settle disputes arising during the execution of transfers or the issuing and use of electronic payment instruments. This authority is provided for in Act No. 229/2002 Coll., on the Financial Arbiter, which sets forth the requirements placed on the Arbiter, the way 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 covering the information duty of institutions and international co-operation. The Financial Arbiter started work on 1 January 2003.

The passing of the Payment System Act also required some revisions to other laws. These are contained in Act No. 125/2002 Coll., which has provisions regulating current account agreements and deposit account agreements under Act No. 513/1991 Coll., the Commercial Code, as amended. The account holder must be clearly identified in current account agreements. The content of such agreements is specified, and the time limits for executing transfers as provided 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 accounts and the interest rate applicable where no rate is stated in the agreement.

In 2003, the Czech National Bank started to draft new provisions and decrees, and amend existing ones, regulating and changing the regulatory framework for bank business. These measures reflect the need to strengthen internal control systems in banks, disclose information and prevent money laundering.

## ***CHANGES TO THE BANKING BUSINESS REGULATIONS***

Requirements for banks' internal control systems and risk management systems are set forth in Provision of the Czech National Bank No. 2 of 3 February 2004, on the Internal Control System of a Bank (promulgated in the CNB Bulletin of 16 February 2004). Most

## ***INTERNAL CONTROL SYSTEMS***

of the requirements of this provision were part of previous provisions (on the internal management and control system of a bank, market and credit risk management and liquidity risk management). The requirements of these provisions have been left essentially unchanged in the February 2004 provision. Requirements for internal audit, operational risk management and information systems have been newly incorporated. The reason for including internal audit requirements is the key role that the internal audit plays in the effective functioning of the overall internal control system. The aim is to provide for an appropriate internal audit framework enabling effective and independent control activities to be conducted in the bank.

In the area of operational risk, the provision requires banks to start addressing this risk on a regular basis, i.e. to identify, assess, monitor and, where necessary, reduce it. Owing to the wide variety of approaches applied in this area, detailed requirements are not laid down. A significant component of operational risk is the risks associated with information systems. As the use of information systems in banks increases, so do the related risks and losses. Laying down requirements for this area will enhance the banking environment, reduce losses in this area and ensure compliance with the statutory duty to protect sensitive data on banks' customers. By incorporating requirements for the three areas mentioned above, the provision creates an integrated set of regulatory requirements laying the groundwork for effective internal control systems in banks

***DISCLOSURE  
OF INFORMATION  
BY BANKS***

Minimum requirements for the disclosure of information by banks are set out in Provision of the Czech National Bank of 30 December 2003. The main reason for issuing this regulation was the fact that the Ministry of Finance's regulation on individual financial statements ceased to be in effect as from 31 December 2003. The parts of this concerning financial statements were replaced as from 1 January 2003 by Decree of the Ministry of Finance of the Czech Republic No. 501/2002 Coll., implementing some provisions of Act No. 563/1991 Coll., on Accounting, as amended, for accounting units that are banks and other financial institutions. However, this Decree does not set forth relative and other indicators (in particular indicators relating to capital adequacy), nor does it specify requirements for annual reports, which had been set out in the aforementioned Ministry of Finance regulation. Therefore, these requirements were incorporated into the Czech National Bank provision stipulating minimum requirements for information disclosure by banks. Another reason for issuing this regulation was the need to specify certain provisions based on the past experience of applying it. The provision sets minimum requirements for the disclosure of information by banks only, not branches of foreign banks.

***PREVENTING  
MONEY  
LAUNDERING***

The new Provision of the Czech National Bank of 8 September 2003, on the Internal Control System of a Bank for the Area of Money Laundering Prevention, is based on Act No. 61/1996 Coll., on Certain Measures Against Money Laundering and on the Amendment of Related Acts, as amended, as well as on the recommendations of the Basel Committee on Banking Supervision, the requirements set out in the Core Principles for Effective Banking Supervision, the recommendations of the FSAP and other documents. It is intended to minimise the risk of banks being misused for money laundering. The provision does not simply develop the general principles contained in the aforementioned act, but sets clear rules for applying the "know-your-customer" principle. It lays down rules for how banks should proceed in particular areas. In their internal regulations banks must have procedures for complying with the requirements in the provision with due regard to their size and management method, and the type, character and complexity of the activities that they perform. Compliance with the requirements in the provision should minimise the risk of banks being misused for money laundering. The provision's fundamental requirements include:

- proper customer identification,
- the stipulation and active implementation of a customer acceptance policy,

- a suspicious transactions evaluation process and the money laundering reporting officer's duties,
- the use of an appropriate information system,
- a suitable training system.

Provision of the Czech National Bank No. 5 of 18 December 2003, amending Provision of the Czech National Bank 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, was issued with a view to further relaxing the regulations in the area of acquiring shares and participating securities in affiliates of banks. The amendment to Article 12 of CNB Provision No. 9 allows banks to acquire participations in affiliates, provided that the latter are not persons having a qualifying holding in the bank either alone or acting in concert with others. The prohibition on banks acquiring participations or subordinated receivables in persons having a qualifying holding in the bank either alone or acting in concert with others therefore remains in force.

***ASSESSMENT OF FINANCIAL RECEIVABLES, CREATION OF PROVISIONS AND RESERVES, AND RULES FOR THE ACQUISITION OF CERTAIN TYPES OF ASSETS***

A fundamental change arising from the 2002 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. 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 August 2002, the Decree:

***CONSOLIDATED SUPERVISION***

- lays down detailed requirements for information on each member of a consolidated group,
- defines the term "regulated consolidated group" and lays down 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.

From the banking supervision perspective, banking financial groups form regulated consolidated groups headed by a parent bank. The members of the group are subsidiaries and affiliates. Banking supervision is performed with respect to general risk regulation and with respect to the risk arising from membership of financial groups. The introduction of an information duty requiring banks to submit accounting statements on a quarterly basis for consolidated groups laid the groundwork for supervision on a consolidated basis. The ever closer integration and links between financial market participants also require close co-operation between financial market regulators. Institutionally, the co-operation process was crowned with the signing of a second consecutive revised Memorandum of Understanding for the Performance of Banking Supervision and State Supervision of the Financial Market between the CNB, the Ministry of Finance of the Czech Republic and the Czech Securities Commission in February 2003.

The main area of banking supervision, however, remains the supervision of individual banks, i.e. supervision on a solo basis. On 1 January 2003, Provision of the Czech National Bank No. 2 of 3 July 2002, on Capital Adequacy of Banks and Other Prudential Rules on a Solo Basis (promulgated in the CNB Bulletin in July 2002) took effect. The provision aims 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. This provision is economical in content, merely specifying the differences between the aforementioned calculation methods. The fundamental calculation rules and methods are laid down in the decree stipulating the consolidated prudential rules.

***CAPITAL ADEQUACY ON A SOLO BASIS***

**PREPARING THE BANKING SECTOR  
FOR APPLICATION OF THE SINGLE  
LICENCE PRINCIPLE**

Under the 2002 "harmonisation amendment" to the Act on Banks, provisions relating to the single licence were incorporated into the Act with effect from the date the Czech Republic's Treaty of Accession to the European Union enters into force. An internal document was drawn up in 2003 aimed at analysing all the effects of the single licence principle on the CNB's supervisory activities and potentially on the structure of the Czech banking sector after accession. Another aim was to pinpoint areas that still needed attention in relation to the single licence. Further to this analysis, preparations for the practical application of the single licence on accession were launched. This phase of the preparations involved discussions with regulators from other countries as well as the other regulators in the Czech Republic, namely the Czech Securities Commission and the Ministry of Finance of the Czech Republic.

No less important were the discussions within the Czech National Bank concerning in particular the regulations relating to entities operating under the single licence and the statements and information to be submitted to the Czech National Bank by such entities. Besides changes to the set of licensed entities (foreign entities from EU member states are entitled to carry on business on the territory of another member state without the need for a licence from the host supervisory authority), there are major changes in the host state's powers to supervise such entities. These changes require closer co-operation between the Czech National Bank and other regulators from EU member states. For this reason, too, the Czech National Bank in 2003 continued the process of signing memoranda of understanding. To date it has concentrated on regulators whose banks have branches or subsidiaries in the Czech Republic. In future, however, the Czech National Bank can be expected to sign such agreements with other regulators as well.

The Czech National Bank issued official information on certain provisions of the Act on Banks relating to the single licence, specifying the CNB's policy vis-à-vis entities enjoying the benefits of the single licence. This official information can be found on the CNB's website at [http://www.cnb.cz/leg\\_bd\\_sub01.php](http://www.cnb.cz/leg_bd_sub01.php). To provide basic information on how the single licence principle works, the Czech National Bank also published on its website a document containing an interpretation of the single licence and its function ([http://www.cnb.cz/bd\\_bdindex.php](http://www.cnb.cz/bd_bdindex.php)).

**OFFICIAL INFORMATION**

The provisions and decrees issued by the Czech National Bank were supplemented and clarified by official information of the CNB. In all, five such documents relating to the banking supervision area were issued in 2003, dealing with:

- disclosure of information by banks and branches of foreign banks,
- the CNB's policy on selecting auditing firms (defining independence criteria for auditors),
- the procedure for submitting shareholder lists prior to AGMs,
- the risk weight for receivables from the European Investment Bank,
- the procedure for complying with the information duty in Articles 4 and 5 of CNB Decree No. 333/222 Coll., stipulating the prudential rules of parent undertakings on a consolidated basis.

A full and updated list of the CNB's prudential decrees, provisions and official information currently in force can be found on the CNB website ([http://www.cnb.cz/leg\\_bd.php](http://www.cnb.cz/leg_bd.php)).

## **2. PERFORMANCE OF BANKING SUPERVISION**

Banking supervision in the Czech Republic takes the form of off-site and on-site supervision. Off-site surveillance is based primarily on regular financial analyses of banks and monitoring of their activities. This area also includes licensing and authorisation activities under the Act on Banks. On-site supervision, consisting of examinations in banks, is the basic tool for assessing qualitative aspects of banks' activities, in particular their management and control mechanisms.

CNB Banking Supervision's organisational structure reflects the main supervisory tasks set out in its medium-term plan. Since the start of 2002, two divisions have been performing off-site supervision (monitoring, analyses and relations with banks), each covering a set of banks classed by size/orientation (large banks, building societies and specialised institutions in one division, and medium-sized banks, small banks and foreign bank branches in the other). This breakdown allows the CNB to make better supervisory provision for the specifics of each bank group. The issue of licensing and penalties is concentrated in the Licensing and Enforcement Division, which also covers activities relating to banks whose licences have been revoked. On-site supervision is performed by two divisions subdivided into four sections specialising in particular risk areas. Division 1 is responsible for credit risk and internal control systems (including money laundering prevention) and Division 2 for market risks and bank information systems.

### **2.1 OFF-SITE SURVEILLANCE**

Off-site supervision consists chiefly of regular monitoring of each bank's activities, reviews of compliance with the prudential rules and limits, and the imposition of remedial measures when deficiencies are identified. It is based on continuous appraisal of all available information on banks' activities, taken from various sources, in particular the statements and reports regularly submitted by banks, auditors' reports, the results of on-site examinations and information-gathering visits, and others. The main analytical instrument employed in off-site surveillance is regular comprehensive analyses of the condition of banks in relation to the risks they undertake. To catch negative tendencies in time, monthly early warning system on each bank is regularly appraised for the management of CNB Banking Supervision. Proposals are made for further supervisory action in banks showing negative trends.

Staff involved in off-site surveillance use an automated Banking Supervision Information Centre, which pools the data from all the supervisory reports and statements and generates standard outputs. This informational support provides a quick overview of the main indicators of each bank's financial condition and its compliance with the prudential rules.

To acquire additional information on banks' activities, 19 information-gathering visits were made in 2003. Some of these formed part of reviews of building societies' activities and of risk management in foreign banks' subsidiaries and their relations with their parent companies and groups.

In 2003, auditors' reports on banks' internal control systems and risk management systems for 2002 (commissioned for selected banks in a precisely specified scope tailored to their individual risk profiles) were used as a source of information for the first time. The CNB assigned auditors the task of examining 12 control system areas in eight banks. Examinations of credit risk management systems were most frequently requested. Trilateral discussions with individual banks and auditing companies were subsequently held to assess

### **PRINCIPAL OFF-SITE SUPERVISORY ACTIVITIES**

### **AUDITORS' REPORTS AS A SOURCE OF INFORMATION**

the results of these examinations. The CNB's requests for examinations for 2003 were commissioned in the same way. These examinations concern 14 banks, and the results from them will be appraised in 2004.

**REMEDIAL  
MEASURES**

On the strength of the findings from off-site supervision and on-site inspections, remedial measures were imposed on a total of 18 banks. Most of these required the institutions concerned to eliminate shortcomings in their activities within a set timeframe. Banks' progress in eliminating shortcomings is constantly monitored.

**CONSOLIDATED  
SUPERVISION AND  
CO-OPERATION  
WITH REGULATORS**

In line with the regulations for banking supervision on a consolidated basis, the supervisor's work in this area was significantly broadened in 2003. Banks started to submit consolidated reports on a quarterly basis, and the co-operation and exchange of information between domestic and foreign regulators was expanded. CNB Banking Supervision started focusing in more detail on the specific features of individual financial groups. In all, ten regulated consolidated groups headed by parent banks are being supervised on a consolidated basis by the Czech National Bank. Consolidated supervision also involved assessing the type of consolidation of two major financial groups. One of them was declared to be a consolidated group of a financial holding company, while the assessment of the other has yet to be concluded.

Following the signing of the Memorandum of Understanding for the Performance of Banking Supervision and State Supervision of the Financial Market on 28 February 2003, a working group for each consolidated group – covering the entities regulated and supervised by the Czech National Bank, the Ministry of Finance of the Czech Republic and the Czech Securities Commission – was set up. The first meetings of these working groups took place in the third quarter of 2003. The main reason for setting them up is the increased emphasis placed on direct co-operation and the exchange of necessary information on entities in consolidated groups, their activities and the work of regulatory bodies. This co-operation is important for more effective banking supervision and state oversight.

The year 2003 saw continuing and ever closer co-operation and exchange of information and experience with the 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. This allowed the CNB to acquire information on the methods used to supervise banks and consolidated groups operating on the Czech market.

**LICENSING AND  
AUTHORISATION  
ACTIVITIES**

In line with its legal powers, CNB Banking Supervision opened 30 administrative proceedings in the area of licensing and authorisation in 2003. One of its key activities was the re-licensing of banks and branches of foreign banks. Based on the harmonisation amendment to the Act on Banks, No. 126/2002 Coll., this process involved bringing banking licences into line with the banking regulations in force on the Czech Republic's EU accession date. In line with the set timetable the re-licensing process was completed in 11 banks during 2003 (and in the remaining seven banks by the start of 2004; by the same date the process was also under preparation in six building societies). The situation as regards branches of foreign banks active on the market is being dealt with as part of the preparations for the switch to the single licence regime following EU entry.

Other administrative proceedings were also conducted in 2003, these being either proceedings related to requests submitted by banks or proceedings of a punitive nature (opened by the Czech National Bank). Specifically, there were five licence extension proceedings (eBanka, Wüstenrot hypoteční banka, Česká exportní banka, J&T BANKA and

První městská banka), two licence revocation proceedings (Union banka and Plzeňská banka) and two fine imposition proceedings.

Another major element of the authorisation work in 2003 was the administrative proceedings relating to applications submitted to the Czech National Bank for consent (prior or subsequent) to the acquisition of qualifying holdings under the Act on Banks. In all, nine such proceedings were opened, most of them concerning changes in shareholder structure or acquisitions of holdings in banks by new, as a rule foreign, shareholders.

In all, 124 decisions were issued outside the framework of administrative proceedings. These included in particular:

- approvals of external bank auditors and specifications of the scope of requirements for the auditing of banks' control systems;
- approvals of shareholder structure prior to general meetings;
- consents to the inclusion of subordinated debt in capital;
- consents to early repayment of subordinated debt;
- approval of internal model for the calculation of capital requirements for market risks;
- notifications of termination of supervision of a consolidated group;
- specifications of the type of a consolidated group;
- and, for building societies, opinions on proposed changes to general business conditions.

CNB Banking Supervision issued 21 opinions on persons nominated for managerial positions, based on written documents and, in some cases, on interviews conducted with the candidates.

Banks have the option of using internal models for determining capital requirements for market risks, provided that they have the supervisor's approval to do so. In this regard, the supervisor's activities also include verifying such models and maintaining ongoing communication with banks on the use of such models. In 2003, one bank was given permission to use its own model.

## **2.2 ON-SITE EXAMINATIONS**

In 2003, CNB Banking Supervision undertook 18 examinations in 15 banks and foreign bank branches, two of them comprehensive and 16 partial (focusing on selected types of risks undertaken). The supervisors primarily targeted the systems used for credit risk and market risk management, the functionality and effectiveness of internal control systems, and the area of risks connected with information systems and technology. The examinations usually involve either specific risks (partial examinations) or all the main risk areas (comprehensive examinations).

Another important aspect of the examinations is to check the system the bank uses for its regular reporting to CNB Banking Supervision. The reports and statements drawn up by banks on, for example, their credit portfolios, capital adequacy and liquidity and submitted regularly (monthly and quarterly) to the supervisor are important identifiers of their soundness and are vital information for off-site supervision. Consequently, it is very important that the system for compiling such reports in banks generates accurate information.

The examinations of selected risk management systems focus on credit risk (linked not only with lending transactions, but also with trading on financial markets), market risks (i.e. interest rate risk, equity risk, foreign exchange risk and commodity risk), liquidity risk, information systems and information technology (IS/IT) risks, and risks connected with striking, processing and settling deals on the money, capital and forex markets. In this

## **EXAMINATIONS OF INDIVIDUAL RISK MANAGEMENT SYSTEMS**



context, the examinations 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 the segregation of conflicting duties and whether it has a comprehensive, integrated and up-to-date set of regulations etc.).

The examinations also involve assessing the methods used to measure and monitor risks, including whether the related data in the bank's information system are correct, reliable and up-to-date, as well as the efficiency and effectiveness of its internal control function in the areas examined. Close attention is paid to the system of limits used to mitigate market risks.

Credit risk remains the largest risk undertaken by banks. The examination of credit risk management systems involves checking a sample of loan receivables from non-bank clients. This is taken from various client segments so as to provide the information needed to assess the condition and quality of the bank's credit portfolio and credit risk management system. Also assessed are its systems for evaluating client creditworthiness, identifying and monitoring groups of connected entities, managing and assessing credit transaction quality, creating provisions, and assessing and valuing collateral. Credit risk checks were conducted in five banks in 2003, focusing on credit risk management systems for transactions with non-bank clients.

Besides the standard checks, market risk examinations also usually involve assessing the risks arising from acting as a depository, providing custody services and managing clients' assets. These examinations are primarily intended to evaluate whether the bank is complying with the legislation and generally recommended procedures. Market risk examinations were conducted in five banks in 2003.

In line with the growing use of information technology in banking, which is increasing the share of IS risks in banks' overall risk profiles, the Czech National Bank stepped up its checks of the security and functionality of bank information systems in 2003. When assessing banks' IS risks, supervisors focused on IS management, security and operation. Besides assessing management and control procedures, they scrutinised the way in which banks identify, evaluate and control the related risks. A standard element of the examinations is a review of logical, physical and personal IS security. Four IS/IT examinations were conducted in 2003.

***VERIFYING THE OPERATION  
AND EFFECTIVENESS  
OF INTERNAL CONTROL SYSTEMS***

Examinations in this area are conducted chiefly as part of the examinations of particular risk management systems or as part of comprehensive examinations. In particular, they involve assessing the operation and effectiveness of the internal 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. Such examinations were conducted in four banks in 2003.

In the area of corporate governance, the examinations 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 examinations 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 examinations 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 context, 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 examinations 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 are 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.

The operation and effectiveness of the system the bank uses is examined. Supervisors concentrate on the following areas: the strategy and internal control system in this area; the compliance of the bank's system with the legislative requirements; observance of the relevant provisions of the legislation; practical application of an appropriate "know-your-customer" policy; and the bank's ability to detect and evaluate suspicious transactions and to notify the Ministry of Finance's Financial Analytical Unit within the statutory time limits. Such examinations were conducted in nine banks in 2003.

**PREVENTION  
OF MONEY  
LAUNDERING**

The Czech National Bank works closely with the Ministry of Finance's Financial Analytical Unit in this area. In 2003, the Czech National Bank also participated in a pilot assessment project run by the International Monetary Fund and the World Bank in the area of money laundering and terrorist financing in the Czech Republic. The recommendations of the IMF and WB will be incorporated into the future work of CNB Banking Supervision.

**3. NEW BASEL CAPITAL ACCORD**

Work continued in 2003 on the preparation and introduction of new rules for setting minimum capital requirements – the New Basel Capital Accord (NBCA), sometimes also referred to as Basel II, drafted in 1999 by the Basel Committee on Banking Supervision (BCBS). By comparison with the current Basle Capital Accord, the new framework concentrates on more accurate risk measurement and on promoting enhanced risk management in banks. By applying more risk-sensitive approaches, banks can make better and more efficient use of capital to cover their risks. The aim is to increase the safety and soundness of financial systems by introducing capital regulation of operational risk and more accurate reflection of credit risk in capital requirements, and to enhance competitive equality among banks and management responsibility. The new rules will facilitate convergence between the banks' internal risk management and measurement systems and the regulatory rules.

The newly proposed framework is more comprehensive and is based on three pillars. Pillar 1 contains methods for risk management and for setting capital requirements for credit, market and (newly) 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 the bank's capital adequacy by the bank and the regulator. The basic principle consists in having appropriate internal processes in place in the bank to assess the adequacy of its capital in relation to its risk profile.

***CONTINUING  
CO-OPERATION ON DRAFTING  
THE EUROPEAN DIRECTIVE***

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 bolstering market discipline and attaining market transparency by means of reporting and comprehensive disclosure of relevant information by banks. Full changeover to the new rules is planned for 2007.

July 2003 saw the publication of a third consultation paper on the draft European directive known as the RBCD (Risk Based Capital Directive). The RBCD is the mirror image of the NBCA, but is more adapted to the specifics of the European environment. The third consultation paper was a follow-up to the publication of the third consultative version of the NBCA in April 2003. Conceptually, the two documents differ neither from each other nor from previous versions. The goals remained unchanged, although numerous revisions were made to reflect the comments of the banking community and the feedback from an international quantitative impact study (QIS3) aimed at assessing the impact of the capital changes on the banks and banking sectors of each country. The banking community was invited to send comments on both documents. Following the processing of these comments, several problem areas were identified at the end of 2003. These will be addressed by the relevant bodies.

These objectives can only be achieved through active co-operation at national and international level in the preparation and implementation of the NBCA. The Czech Republic took the opportunity to get involved in the drafting of the NBCA. Its involvement in the Core Principles Liaison Group (CPLG) and the CPLG's Working Group on Capital guarantees access to information and enables the Czech side to voice its opinions and help shape the new rules. The BCBS supports international co-operation and to this end has established an Accord Implementation Group (AIG) to address issues relating to the implementation of Pillar 2.

The harmonisation of regulatory and supervisory approaches at European level was addressed by the Banking Advisory Committee (BAC) and the Groupe de Contact, which in 2003 operated on a less formal basis, chiefly as a discussion forum for supervisors from the European Economic Area. Representatives of the Czech National Bank have been regularly attending the meetings of these bodies as observers since 2003. Generally accepted principles and their uniform interpretation ("high level principles") should be main outputs of these bodies in the NBCA area (e.g. Pillar 2 and the validation of internal ratings systems). For the implementation of the NBCA rules in the Czech Republic it is vital for the CNB to work both with individual banks and with professional organisations, especially the Czech Banking Association and the Czech Chamber of Auditors. This co-operation is embodied by a joint Czech financial sector project. The Czech Securities Commission is also involved. The joint project is aimed at ensuring effective implementation of the NBCA in the Czech Republic, establishing a uniform interpretation of the NBCA rules and requirements, and at informing all parties involved of the implementation measures. The success of the project hangs on ensuring that all those involved understand and embrace the NBCA. For this reason the participants decided to entrust the management of the project to a professional manager.

Work on implementing the joint project began in September 2002 and continued intensively in 2003. Each of the participating institutions is represented in working groups assigned specific – and regularly updated – tasks. Within this project, discussions were held in 2003 on the newly issued NBCA document and, later, on the third version of the corresponding draft European directive. Further to these discussions, the Czech National Bank and the Czech Banking Association formulated

comments and joint positions and sent them to the BCBS and the European Commission. At the end of 2003, it was agreed that the project would continue in 2004 with intensive work in teams of experts scrutinising the individual provisions of the draft directive and the options for drawing up more detailed implementation conditions.

In 2003, CNB Banking Supervision geared up for a fundamental change in banking sector regulation connected with the NBCA. Work started on elaborating relevant approaches, incorporating them into the laws and regulations, and subsequently applying them in practice. The new, more complex principles, combined with the individual approach to each bank, will require an upgrading of supervisors' skills and a greater emphasis on teamwork. To ensure success, the entire implementation process will have to be transparent.

The CNB's progress with, and approach to, implementing the NBCA is published and regularly updated on the CNB website at ([http://www.cnb.cz/bd\\_nbca\\_struktura.php](http://www.cnb.cz/bd_nbca_struktura.php))

#### **4. CENTRAL REGISTER OF CREDITS**

The Central Register of Credits (CRC) operated by the Czech National Bank facilitates the exchange of information on the soundness and creditworthiness of corporate clients. The system has been in routine operation since November 2002. All banks and branches of foreign banks based in the Czech Republic are connected to it, as is the Czech Consolidation Agency. The system is used to monitor the business-related credit commitments of legal entities (except banks and branches of foreign banks) and individual entrepreneurs. Banks supply information in accordance with CNB Provision No. 5/2002. The information is updated once a month. Users can obtain information on repayments made during the month approximately in the second half of the following month.

Despite the fairly short time that has elapsed since the system went live, banks are starting to make increasing use of the CRC's services. As of 31 December 2003, 1,392 users were registered, from all banks. However, the number of users in each bank depends on the organisation of work within that bank, the size of its branch network and so forth. Some banks prefer all lending staff to have individual access to the register, while in other banks this work is centralised in a selected group of employees, which in turn of course affects the number of users in the bank.

Each bank uses a monthly report on the credit commitments of all its clients. The number of enquiries for information on new applicants for credit, or some other future bank claim entailing credit risk, is rising. The information access rules are laid down in CNB Decree No. 164/2002. Access is given to the individual CRC participants – banks and branches of foreign banks operating in the Czech Republic and the Czech Consolidation Agency – and to the CNB as the CRC operator. Moreover, clients exercise their right to know the information kept on them in the CRC database (as provided for in Article 38a of the Act on Banks). The number of extracts made is constantly rising.

### Key statistics on the CRC in 2003

No. of users as of 31 December 2003	1,392
No. of clients registered as of 31 December 2003	256,608
of which individual entrepreneurs	160,977 (63%)
legal entities	95,631 (37%)
No. of active claims as of 31 December 2003	225,114
No. of enquiries on clients registered for 2003	<b>256,734</b>
No. of enquiries on total credit commitments of client (including credit commitments of own clients obtained via batch reports which bank has available after each update) for 2003	<b>2,820,950</b>
No. of extracts made for clients	62

The present version of the application offers only basic functions, i.e. data transmission and processing, monthly updates, execution of enquiries on clients and their credit commitments, and generation of predefined reports. On the basis of a CNB Bank Board decision of 3 July 2003, preparatory work started on implementing phase II of the CRC's development. Phase II is targeted at implementing additional functions for the needs of banks and the Czech National Bank, which can use the register as an important information source for its analytical and research work. Some minor modifications will also be made to the application to increase work efficiency (monitoring of economically connected groups, simplification of some modules, enlargement of standard reports, etc.)

### **5. ACTIVITY OF THE FINANCIAL ARBITER**

The Financial Arbiter has been operating in the Czech Republic since 1 January 2003 under Act No. 229/2002 Coll., on the Financial Arbiter, as amended. The Czech National provides the Financial Arbiter and his four members of staff with premises, material resources and information technology. However, the Arbiter is not dependent on the CNB and is not a part of CNB Banking Supervision. Information on the work and powers of the Arbiter, including conditions for opening proceedings and the option of filing an electronic petition to open proceedings, is published on the Financial Arbiter's website ([www.finarbitr.cz](http://www.finarbitr.cz)). The site also lists the Arbiter's awards and adjudications and gives examples of the disputes that do and do not fall within his jurisdiction. Information on similar institutions in member states of the European Union, states constituting the European Economic Area, and European Union candidate countries is also available.

Any client of an institution may request the Arbiter's assistance, provided that the dispute falls within his jurisdiction. Conversely, a transfer institution or an issuer of electronic payment instruments may not be a plaintiff for the opening of proceedings before the Arbiter. The Arbiter may adjudicate on disputes arising between institutions and their clients during the execution of transfers under parts two and three of the Payment Systems Act, i.e. disputes arising during the execution of domestic and cross-border payments and the clearing of credit card transactions charged to cardholders' accounts. This essentially involves compliance with the statutory time limits for clearing individual payment transactions. To the extent laid down in the law, such disputes can also be settled by the Deputy Financial Arbiter, who also deputises for the Arbiter in his absence to the full extent of his powers and responsibilities. The Financial Arbiter will start settling cross-border payment disputes as of the date of the Czech Republic's accession to the European Union. The Arbiter may settle disputes involving transfers not exceeding EUR 50,000, which is equivalent to around CZK 1.5 million. In other cases a competent court must adjudicate.

Proceedings are opened upon the petition of the plaintiff. Petitions may be filed either in

writing by letter or on a form issued by the Arbiter. Such forms can be downloaded from the Arbiter's website. Petitions may also be filed by fax.

Petitions must contain all the information prescribed by law. The petitioner must precisely identify himself and the relevant institution with which he has unsuccessfully made a complaint falling under the terms of reference of the Payment Systems Act. This means giving his full name, birth certificate number or date of birth, and permanent address, as well as the institution's full name, identification number and registered address. The petitioning client must give a complete and clear description of all the significant facts of the case and provide evidence, or at least a specification or description of the evidence. Another important part of the petition is a description of what the plaintiff is seeking. An integral part of the petition is a declaration that the case has not been settled before a court of law or by an arbiter. The client must also furnish proof that he has unsuccessfully sought redress with the relevant institution (this will usually be a bank). At the end he must append the date and his signature.

The Arbiter, the Deputy Arbiter or an authorised member of staff will study the petition to see whether or not it has all the information prescribed by law. If any such information is missing, the Arbiter will call upon the petitioner to provide it. If the petition contains all the required elements, proceedings will be opened before the Arbiter. The plaintiff will be notified of this fact in writing and the transfer institution will be called upon to comment on the case within the statutory time limit. The time limit is 30 days and may be extended by 30 days if the institution so requests.

The Arbiter need not be bound by the petition, but may himself acquire other evidence and order a hearing on the merits of the case attended by both parties to the dispute. He is authorised to solicit from the transfer institution all the evidence he requires, as well as to search the institution's systems.

The Financial Arbiter Act requires the Arbiter to co-operate with analogous authorities in the member states of the European Union and the European Economic Area. Preparations for the Financial Arbiter to join FIN-NET (a consumer complaints network for financial services in EU and EEA member states) are currently ongoing with the Ministry of Industry and Trade.

Although the public often does not have the necessary information on the existence of the Financial Arbiter, it has welcomed the establishment of an institution to settle payment disputes. In the first year of operation, the Arbiter settled 66 cases out of a total of 170 motions and petitions submitted. Four of the total of 27 legitimate and opened disputes were discontinued after withdrawal requests were submitted by the plaintiffs. In all, 11 final and conclusive awards were issued. In two cases, institutions appealed (filed objections) within the set time limit. In both these cases, however, the Arbiter – after reviewing the objections – issued decisions on the objections confirming the original award. A total of 13 legitimate cases were suspended because of the declaration of bankruptcy on the transfer institution<sup>2</sup>. In the aforementioned period, two fines were imposed under the Financial Arbiter Act.

The Financial Arbiter Act imposes an information duty on institutions (i.e. transfer institutions and issuers of electronic payment instruments). A regularly updated list of these institutions is maintained on the Arbiter's website. The website also contains a specimen information-duty compliance form. Five fines – totalling CZK 500,000 – were imposed for non-compliance with the information duty in 2003.

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<sup>2</sup> Transfer institutions are institutions that are allowed by law to execute payments.

The Financial Arbiter is a new institution and the public does not have in-depth information about it. The Financial Arbiter Act is still being misinterpreted and the Office of the Arbiter continues to receive petitions that do not fall within its jurisdiction. In recent months, for instance, the Office of the Arbiter has been contacted by a succession of clients whose cases concern transfers and use of electronic payment instruments outside the Czech Republic and also new fees charged by building societies "for the recording of interest allowances".

With effect from 1 May 2004, the jurisdiction of the Financial Arbiter under the Payment Systems Act was extended to include cross-border payments. Upon the Czech Republic's accession to the EU a rise in the number of complaints can be expected in this area as well.

## **6. INTERNATIONAL CO-OPERATION**

CNB Banking Supervision is increasingly involved in international co-operation. The bases for developing international co-operation are the activity of foreign entities in the domestic banking sector and co-operation in tackling methodological issues, creating regulations and performing banking supervision in the working groups of the BIS's Basel Committee on Banking Supervision (see section 3) and the committees and working groups of the EU (including the ECB and ESCB). Active co-operation is also evolving with supervisors in countries whose banks operate in the Czech Republic and with other national regulators. The stepping-up of bilateral and multilateral co-operation is linked with the intensification of consolidated supervision (in relation to the structure of individual consolidated groups), the Czech Republic's accession to the EU, and the activities of banks and financial institutions in the single EU market under the single banking licence regime. For effective supervision of banking market entities, co-operation with supervisory institutions from their parent institutions' home countries will be vital.

### **6.1 EU COMMITTEES AND WORKING GROUPS**

In the context of the stepping-up of the Czech Republic's preparations for joining the European Union and the EU authorities' preparations for EU enlargement, international co-operation developed in 2003 in the committees and working groups of the EU. The Czech National Bank was represented as an observer in bodies whose work relates to banking supervision.

The *Banking Advisory Committee (BAC)* is involved primarily in discussing proposals for further co-ordination in the area of regulation and supervision of credit institutions in the European Union, including the preparation and unified implementation of new regulations. The *Committee of European Banking Supervisors (CEBS)* promotes the convergence of supervisory practices in order to ensure consistent implementation of directives, to promote the exchange of information and to provide technical support for the drafting of European banking legislation.

The *European Banking Committee (EBC)* is to take over the regulatory functions of the BAC once the relevant directive has been adopted. The BAC will then cease to perform those functions. This new structure ensues from the extended application of the Lamfalussy plan to the supervision of credit institutions.

Besides these top-level bodies, the Czech National Bank is also represented in working groups involved in preparing documents for discussion and decision-making by the European Commission and the aforementioned committees. In 2003 these included:

The *Groupe de Contact (GdC)*, which is a working group of the Committee of European Banking Supervisors (CEBS). Its activities include the exchange of information and experience

from the implementation of banking regulations and performance of supervision, the comparison of regulatory and supervisory approaches, and the drafting of common principles in defined areas of supervision. It focuses in particular on issues relating to the second pillar of the NBCA.

The *Working Group on the Capital Requirements for Banks and Investment Firms*, which advises the European Commission on the preparation of amendments to Directives 2000/12/EC and 93/6/EEC, which inter alia lay down the prudential rules for banks and securities dealers, in particular concerning capital adequacy and exposures to clients. In 2003 it focused on the incorporation of the NBCA into the European legislation.

In 2003, the Czech National Bank was also involved in the work of other EU working groups for which other institutions – usually the Czech Ministry of Finance – have primary responsibility. CNB staff members gave opinions on specific documents under discussion relating to banks, banking supervision and banking regulation. These working groups consist of experts involved, for instance, in the co-ordination of banking legislation, the interpretation and application of banking directives, the regulation of financial conglomerates, financial services, banking supervision performance, the protection of natural persons (protection of personal data and transfers thereof, including protection during the processing of personal data), accounting, the application of international accounting standards, the regulation of European financial markets and so on.

At the European Central Bank (ECB), the issue of banking supervision and financial stability is addressed by the *Banking Supervision Committee (BSC)*. Its main tasks include monitoring and assessing developments in the financial sector with regard to financial stability, assessing the impact of regulations on the financial sector's stability and structure, and promoting co-operation and exchange of information among central banks and regulatory authorities.

The BSC sets up working groups to perform its tasks. The most important of these are:

- the *Working Group on Macro-Prudential Analyses (WGMA)*, which, besides drafting regular analyses of the financial stability of the banking sector, focuses on topical issues in this area with regard to the potential risks;
- the *Working Group on Developments in Banking (WGDB)*, whose remit includes monitoring structural trends in banking systems both at EU level and in the individual member states.

## **6.2 MEMORANDA OF UNDERSTANDING**

An important element of international co-operation is the CNB's specific bilateral relations with supervisors in other countries, based contractually on memoranda of understanding. The first of these was signed with the Slovak Republic in 1999. This was replaced by a memorandum of November 2002 reflecting the new treatment of co-operation between home and host supervisors in Directive 2000/12/EC. By the end of 2003 a total of six memoranda had been signed, with the regulators in Austria (Bundesministerium für Finanzen), France (Commission Bancaire), the USA (State of New York Banking Department), Germany (Bundesanstalt für Finanzdienstleistungsaufsicht) and Belgium (Commission Bancaire et Financiere). Draft memoranda are also under negotiation with regulators in the Netherlands and Italy.

The banking supervisors and regulators have set themselves the goals of co-operating in the field of banking supervision, achieving mutual understanding in matters relating to banking regulation and supervisory procedures, and facilitating the exchange of information on supervisory matters such as licensing, mergers and acquisitions, the entry



of new shareholders, consolidated supervision, and co-operation in the supervision of branches of foreign banks by home supervisors (including co-operation in on-site examinations).

Besides these official agreements, co-operation is being developed with foreign regulators and supervisors based on bilateral contacts to resolve topical supervision-related problems and deal with methodological issues of banking regulation. Representatives of the central bank are actively involved in seminars, training programmes and presentations of the results of partner institutions. Information sharing based on informal contacts is a major source of information.

### **6.3 CO-OPERATION IN CENTRAL AND EASTERN EUROPE**

The Group of Banking Supervisors from Central and Eastern Europe (BSCEE) was formed at the Basel Committee on Banking Supervision back in 1990 to address topical supervisory issues in Central and Eastern European countries. Representatives of the member states meet once a year. The Group's 2003 meeting took place on 29–30 May in Tallin, Estonia. The agenda was devoted to the issues of regulation, supervision of branches of foreign banks, and supervision on a consolidated basis. A seminar "Credit Risk, Risk Mitigation and Securitisation Techniques" took place in September in Prague, attended by 29 foreign and 16 domestic participants. In May 2003, a workshop was held in Croatia on the theme of "New Capital Accord Proposals".

### **7. CO-OPERATION WITH REGULATORS AND PROFESSIONAL ORGANISATIONS**

To attract clients, the banking and financial institutions operating on the domestic financial market are diversifying their businesses and expanding the range of products and services they offer. To this end they are building strong financial groups and establishing networks of subsidiary and affiliate companies to ensure that the supply of financial products and services satisfies the demand from clients. Banking and financial institutions are joining forces on this interlinked financial market, which in turn is placing increased demands on regulators. In the Czech Republic, the Czech National Bank currently supervises banks, the Ministry of Finance is responsible for the oversight and regulation of insurance companies and pension funds, and the Czech Securities Commission covers securities transactions. The interconnected banking and financial market has generated a need for close co-operation between regulators, a need that culminated in the signing of a tripartite Memorandum of Understanding in 1998. An amendment to this original agreement was signed in early 2003.

#### **MEMORANDUM OF UNDERSTANDING BETWEEN THE CZECH NATIONAL BANK, THE MINISTRY OF FINANCE AND THE CZECH SECURITIES COMMISSION**

The amended version of the Memorandum can be found on the websites of all three signatories. The original Memorandum was modified to reflect the development of consolidated supervision and now specifies the responsible body of supervision on a consolidated basis. The parties have agreed to work together directly without needless formalities. The Memorandum contains an information duty in respect of all material facts. It also covers mutual notification of remedial measures and penalties imposed, and guarantees the exchange of analytical information on sub-sectors of the financial market, the presentation of annual reports for individual sub-sectors and the mutual provision of documents needed for administrative proceedings. The basis of the Memorandum is to co-ordinate the parties' work in supervising the financial market as a whole. The parties have agreed to co-ordinate their examination plans and on-site examinations (including the option of requesting another party to conduct an on-site examination) and to establish a working group 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. A very important area is co-operation in creating legislation and regulations in the area of licensing and prior approvals. The supervisory institutions' work is being streamlined by efforts to eliminate duplicate and multiple regulation of analogous relationships and facts and by the setting-up of working groups to carry out long-term and one-off tasks and to fulfil the Memorandum's obligations. At international level, the co-ordination of co-operation with foreign regulators, European Union authorities and international institutions will have positive effects.

The Memorandum of Understanding sets out to deepen the level of co-operation between the regulators in the Czech Republic. In its framework, a Committee on the Co-ordination of Financial Market Supervision, consisting of two representatives of the management of each party, started operating in 2003. The Committee met four times in 2003, discussing in particular the institutional structure of supervision in the Czech Republic, convergence in the application of IAS to supervised entities, and convergence of licensing, supervision and information exchange procedures.

Co-operation with professional organisations developed in 2003 in line with the activities of banking and financial institutions in the Czech Republic, the requirements for supervision and regulation of financial institutions, and, ahead of accession to the EU, the stepping-up of international co-operation and involvement in the work of European bodies. Co-operation is evolving in particular with the Czech Banking Association and the Czech Chamber of Auditors.

### ***CO-OPERATION WITH PROFESSIONAL ORGANISATIONS***

The cornerstone is co-operation in preparing the regulations issued by the Czech National Bank, when both institutions have an opportunity to express in advance their views on the problems being addressed. The exchange of expert opinions is beneficial to both sides and prevents any problems arising during the implementation of the individual measures. Work also continued in 2003 on a joint project of the Czech National Bank, the Czech Banking Association and the Czech Chamber of Auditors aimed at establishing an effective communication platform and at involving the interested parties in addressing NBCA-related tasks (see section 3).

CNB Banking Supervision is deepening its co-operation with auditing firms, which play a very important role in the general framework of banking regulation. Discussions with individual auditors are already held on a regular basis. In 2003, auditors' reports on banks' internal control systems and risk management systems for 2002 were used as a source of information for the first time. This activity is to continue. The assignments are tailored to the selected banks' individual risk profiles. Every year auditing firms audit the accounts and prudential reports of each bank and send those audits to CNB Banking Supervision. Under CNB Provision No. 11/2002 they also verify the efficiency and effectiveness of particular components of the control systems of selected banks in the given year according to the specific orders of the Czech National Bank. In the presence of representatives of the relevant bank, CNB supervisory staff hold discussions with auditors on any differences that arise between their assessments of the banks they audit and the CNB's own findings. Auditing firms work with the Czech National Bank in the exchange of information, and on request they present their bank auditing methods (including their auditors' risk management procedures) and approaches to the CNB.

CNB Banking Supervision's related active co-operation with the Czech Institute of Internal Auditors (CIIA) continued in 2003. Delegated representatives of both institutions attend official discussion forums for internal auditors. This form of co-operation is again beneficial to both sides, as it provides a platform for sharing information and views.

## **8. MAIN TASKS FOR THE PERIOD AHEAD**

In 2004, CNB Banking Supervision will continue to focus on the tasks specified in the Medium-term Banking Supervision Plan for 2002–2004 as well as on new tasks. Its main tasks are:

- to collect and appraise suggestions for the drafting of either an amendment to the Act on Banks or a statement of intent for a new Act on Banks;
- to prepare new banking and related laws and the implementation or amendment of laws based on EU legislation;
- 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 institutions;
- to perform regular inspections of individual banks in relation to the overall level of risk and importance of the banks in the sector;
- to complete the re-licensing of 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, and to contribute actively to the amendment of the existing banking act or the drafting of a new one and to the creation of a new financial collateral act;
- to perform the organisational, technical and legislative tasks ensuing from the government's decision on the integration of supervisory institutions;
- to implement the joint project of the CNB, the Czech Banking Association and the Czech Chamber of Auditors: "Development and Implementation of the New Capital Adequacy Framework in the Czech Republic".

A new banking supervision development plan for 2005–2008 is to be drafted in 2004.

## **B. BANKING SECTOR IN 2003**

### ***SUMMARY***

The banking sector was favourably affected in 2003 by the growth of the Czech economy, which developed at a brisker pace than in the previous year. Gross domestic product grew by 0.9 percentage point faster than in 2002. Other factors affecting banks' performance in 2003 included extraordinarily low inflation, repeated reductions of key domestic interest rates, nominal and real wage growth and modest growth in unemployment. The banking sector can be regarded as stable at present. Competition on the banking services market continued to rise in 2003. Even the closure of two banks during 2003 failed to disturb the stability and rising competition on the market.

The ownership structure of banks in 2003 shifted slightly in favour of investors from EU-15 countries. There was a simultaneous fall in the proportion of Czech private capital.

The year 2003 saw continued modest growth in the total assets managed by banks. The main engines of this growth were a rise in lending on the asset side and growth in deposits on the liability side. Banks concentrated primarily on households by offering an attractive range of housing loans and consumer credit. The increase in deposits was largely due to a rise in deposits in building society accounts linked with changes to the legislation governing the terms and conditions for building savings schemes as from January 2004.

The banking sector was profitable for the fourth year in a row in 2003. Profit from financial activities and net profit were only slightly lower than in 2002. Falling rates on the interbank market and on the client transaction market led to a decrease in the interest rate spread and net interest margin. As a result of this development, which was reinforced by an increased range of non-loan and non-deposit services and products, the structure of profit from financial activities changed in favour of profit from fees and commissions. However, interest profit remained the largest component of profit from financial activities. A significant factor underlying the generation of net profit was reduced creation of reserves and provisions, thanks mainly to the improving quality of the credit portfolio.

Credit transactions remain the primary potential source of banking sector risks, owing to a high ratio of lending to total assets. Compared with a year earlier, though, there was a further positive shift in the area of lower-quality assets. The share of non-performing credits in total credits recorded a further significant decrease. At the end of 2003, all the potential risks associated with lending were fully covered by reserves and provisions. Banks' low and steadily falling exposure to foreign currency operations and balanced foreign exchange position is curbing foreign exchange risk. The risks associated with securities transactions are considerably reduced by a high proportion of bonds. Banks have a high ratio of quick assets. Country risk is limited by the banks' diversified international exposure linked with their diversified ownership structure.

The banks' capitalisation was further strengthened in 2003, chiefly as a result of the repeated generation of high net profits. All the banks satisfy the regulatory requirement of a minimum capital ratio of 8%. Banks thus have sufficient capital at present to cover their potential losses.

### ***1. THE ECONOMIC ENVIRONMENT IN 2003***

The Czech economy grew at a brisker pace in 2003 than in the previous year. This growth was due to rising domestic demand. The contribution of the external sector to gross domestic product growth remained negative. In 2003, GDP totalled CZK 1,587 billion at constant

prices. The rate of growth of GDP was 2.9%, an increase of 0.9 percentage point on 2002. As in the previous two years, a low-inflation environment persisted in the economy.

The favourable GDP growth trend was fostered by household consumption and gradually accelerating investment growth. The consumption behaviour of households was affected not only by growth in their disposable income, but also by the low inflation, low interest rates on loans and deposits, and also by expectations of rising prices in 2004 (linked with planned changes to excise duties and VAT). Households financed part of their consumption expenditure with consumer credit. However, housing loans – which support investment demand – recorded larger growth. The debt burden of households did not indicate any significant negative tendencies in households' ability to repay loans. Investment growth was affected by the completion of major investment projects linked with previous foreign direct investment and government investment.

The ratio of the current account deficit to GDP fluctuated around 6.5%. The high current account deficit was adversely affected by an income deficit, while the trade deficit decreased for the third consecutive year to stand at CZK 69.4 billion at the end of 2003. This improvement was linked chiefly with economic restructuring and greater competitiveness, especially on the part of engineering firms. An appreciation of the koruna's exchange rate against the dollar fostered a better position as regards imports of oil and natural gas. Industrial exporters took advantage of the koruna's favourable exchange rate against the euro, improved their EU export results and established conditions for stable growth of industrial production (of 5.8% year on year). The current account deficit of CZK 157.2 billion was fully offset by a surplus of CZK 163.9 billion on the financial account, even though the inflow of foreign direct investment fell sharply as a result of unrepeated privatisation sales in 2002.

Neither inflation abroad nor the growth in domestic demand exerted any upward pressure on consumer prices in 2003. Consumer price inflation in 2003 fell below its 2002 level and was even negative for six months. The inflation rate in December 2003 was 0.1%. The extraordinarily low inflation was fostered by favourable import prices supported by the year-on-year appreciation of the koruna-dollar exchange rate. The potential demand-pull inflationary pressures stemming from the fairly fast growth of consumer demand were attenuated by the strongly competitive environment on the retail market. A moderate rise in inflation at the end of the year (to 1%) was primarily due to faster growth in food prices resulting from a fall in the supply of agricultural commodities on the domestic market, caused in turn by adverse weather in 2003.

The contrary trends in the koruna's exchange rate against the major currencies derived from the depreciation of the dollar's rate against the euro. From an annual average of CZK 30.81 to the euro in 2002, the koruna weakened to CZK 31.84 to the euro in 2003. Its average rate against the dollar recorded a year-on-year appreciation from CZK 32.74 to CZK 28.23.

On the labour market the gap between demand and supply widened. The registered unemployment rate was 9.9% on average in 2003. It reached 10.3% in December, a rise of 0.5 percentage point on a year earlier and the highest level in the entire transformation period. The rising unemployment was due to several factors. The labour market felt the effects of restructuring processes linked with labour productivity growth and job cuts in industry. Other factors included high indirect labour costs, strong competition for unskilled jobs, and high wage growth in the enterprise sector. Moreover, the services sector failed to absorb those laid off. The performance of the domestic and external economy in 2003 fell short of the level that would have allowed a greater upswing in the demand climate in the economy.

In the tough competitive conditions, the productivity and real wages in industry improved in 2003. In this context, nominal unit wage costs recorded a year-on-year fall in industry and were flat in the national economy. Overall, the average nominal wage increased by 6.8% year on year and the average real wage by 6.7%. 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 causes of the growth on the expenditure side still lie in the impacts of transformation costs linked with the cleaning-up of banking portfolios and spending associated with the restructuring and modernisation of the economy. Another factor is the rising proportion of mandatory social expenditures. Falling privatisation revenues, which were CZK 102 billion lower in 2003 than in 2002, are also having a negative effect. Fiscal policy and the reform of public finances are not yet fulfilling their expected function as an instrument of macroeconomic stabilisation. At the end of 2003, the state debt stood at 20.5% of GDP and the total consolidated debt of the government sector at 29.4% of GDP.

The central bank lowered its key monetary policy instruments three times during the course of 2003. The monetary policy decisions reflected the declining inflation in the context of a persisting negative output gap, and responded to the economic stagnation recorded by the Czech Republic's major trading partner economies in the EU and the interest rate reductions in the euro area. The key domestic interest rates were reduced as follows during 2003: the two-week repo rate from an initial level of 2.75% to 2%, the discount rate from an initial 1.75% to 1%, and the Lombard rate from 3.75% to 3%.

## **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)*

As of 31 December 2003, the banking sector of the Czech Republic consisted of 35 banks and foreign bank branches. Compared with the preceding year, their number decreased by two banks. On 2 May 2003 the CNB revoked the licence of Union banka, a. s. The same process followed on 4 July 2003 with respect to Plzeňská banka, a. s. The reason for revocation of the banking licence of Union banka was persistence of a serious shortcoming in the bank's activity. The bank breached the Act on Banks by not maintaining permanently its solvency. The reason for revocation of the banking licence of Plzeňská banka was the judicial decision requiring that it should repay a debt which was the subject of an action, to which the bank responded by suspending its payments and closing down its outlets. Subsequently, the bank's banking licence was revoked, as the bank did not maintain permanently its solvency. Both banking institutions are now, after the declaration of bankruptcy, in liquidation and in bankruptcy proceedings.

After the withdrawal of two banks from the banking sector, the breakdown of entities in the sector by size into bank groups, the so-called "peer groups", has remained in principle unchanged. The criterion of the size of total assets determines that the decisive group is the group of large banks, i.e. banks with total assets in excess of CZK 100 billion. Altogether four banks are included in this group. The group of large banks consists of universal banks providing a wide range of banking products. Their business activities are oriented on the domestic banking market. Apart from the corporate sector, small clientele of natural persons is increasingly becoming the targeted client segment of these banks and they are beginning to address the sector of small and medium-sized companies as well. In all large banks the ownership of foreign entities predominates; in three of them it has asserted itself subsequently, after the arrival of a strategic partner as a result of privatisation of the state's stake.

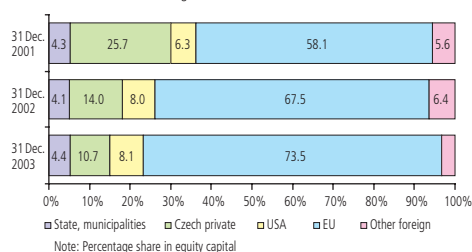
In 2003, the group of building societies, which are for the most part members of large financial groups, expanded. Conducive to their mighty development was both the popularity of the state-supported product of building saving and the endeavour to make the most of the advantageous conditions valid for their clients until the end of 2003, with a possibility of transferring the conditions to the subsequent five-year period.

The process of formation of financial groups continued in the domestic banking sector. This process is not limited exclusively to the banking sector, but passes across the wide spectrum of the financial sector. In the past year the most significant banking financial groups headed by large banks operating in the Czech Republic were those of Československá obchodní banka, a. s., Česká spořitelna, a. s. and Komerční banka, a. s. The basic offer of their services is differentiated, paramount in the case of banking financial groups being the offer of banking services, the products of investment banking, investment funds, insurance companies with a diversified structure, pension funds, factoring companies, building societies, leasing companies and advisory firms.

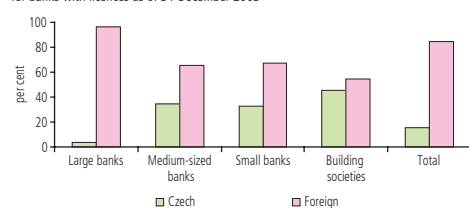
## 2.2 OWNERSHIP STRUCTURE

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

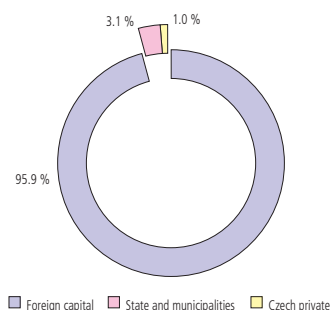
**CHART 1**  
BANK OWNERSHIP STRUCTURE  
for banks with licences as of the given date



**CHART 2**  
CAPITAL ORIGIN AS OF 31 DECEMBER 2003  
for banks with licences as of 31 December 2003



**CHART 3**  
STRUCTURE OF TOTAL ASSETS BY OWNER  
AS OF 31 DECEMBER 2003  
for banks with licences as of 31 December 2003



In 2003 the position of foreign owners in the domestic banking sector strengthened as a result of a change of its internal structure. The capital of the two banks which terminated their activities in the course of 2003 was predominantly of private domestic origin. The equity capital of domestic origin leaving the sector together with the terminating banks amounted to CZK 2.9 billion and represented 30% of the total capital of domestic origin.

As of 31 December 2003 the banking sector was equipped with capital in the total value of CZK 67.9 billion. The share of foreign capital in the total equity capital increased as of 31 December 2003, in year-on-year terms, by 3 points. Owners from the member countries of the European Union contributed most to this increase. On the contrary, a counterbalance to this is a decrease of the share of domestic private owners by 3.3 points due to the withdrawal of banks with predominantly domestic capital from the sector. The ownership interlinking of the banking sector with the U.S.A. has stabilized on the level of 8.1%.

In all bank groups foreign capital already holds the dominant position, in all of them its share exceeds 50%.

The predominating trend towards reinforcement of foreign capital has also asserted itself with regard to the individual banks. As of 31 December 2003 out of the total number of 26 banks (excluding foreign bank branches) altogether nine entities were 100% owned by foreign capital and in another eight foreign capital predominated. In contradiction to this, domestic capital prevailed in eight banks, of which, however, four were subsidiaries of Czech banks that are owned by foreign capital. One building society also continues to have a balanced share of domestic and foreign capital.

The strengthening of foreign capital manifests itself even more markedly through both direct and indirect control of total assets. Towards the end of 2003 foreign shareholders exercised direct control<sup>1</sup> over 87.1% of the total assets of the banking sector. The share and the year-on-year increase are higher, if indirect control is taken into consideration as well, i.e. if subsidiaries of the large Czech banks that are owned by foreign banks are included. In this case already 95.9% of the total assets would be controlled from abroad, which is 2.6 points

<sup>1</sup> Direct control means a share in equity capital in excess of 50%, including foreign bank branches.

more, in year-on-year terms. This increase as against 2002 occurred in particular due to a decrease in the total assets of the state banks.

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

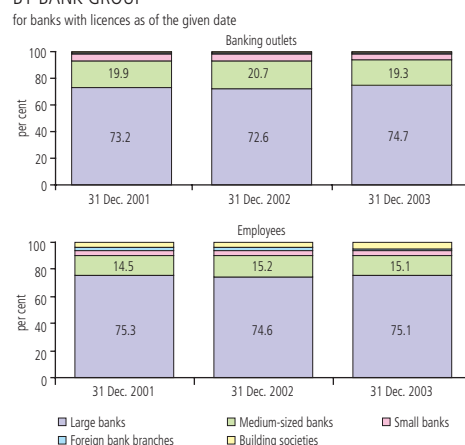
In 2003, the trend towards decreasing the number of employees in the banking sector continued. At the end of 2003 there were 4% less employees working in the sector, their total number being 39,004. Altogether 1,621 persons left the banking sector (of this number 1,132 employees worked in the two closed-down banks). In the course of the year workforce reductions occurred in all bank groups, except for foreign bank branches and building societies. Large banks took the greatest share in the reduction of the number of employees.

In 2003, banks continued to expand the offer of their products and services. They used for their business expansion in particular alternative distribution channels, widening the forms of service with the use of direct banking. On the contrary, the number of banking units (banking outlets) in the banking sector as a whole decreased again this year, by 3%. As of 31 December 2003, the total number of banking outlets attained 1,670, which was 52 units less than in the previous year. By rational utilization of their business networks, banks increased the efficiency of banking business. Large banks are using their already built extensive branch networks, which they in principle do not expand any further. Building societies operating within the framework of financial groups share the distribution networks of their parent banks; the business networks themselves are stabilised.

The productivity of work indicators expressed by the number of citizens per bank, per banking outlet and per bank employee were improving in the course of the year, in line with the growth of efficiency of banking business. The population of the Czech Republic moderately increased by the end of 2003, attaining 10,211 thousand. The greater number of citizens, together with non-residents and visitors to the country meant that there was an expansion of the banking market and higher demands on its performance. In comparison with the preceding year no substantial changes occurred, the established trend of rationalisation of client service with the use of new technology and processes continued. As at 31 December 2003, the number of citizens served by one bank increased to 292 thousand, which is 6% more than in the preceding year. Banks have changed their attitude towards the client, the character of the branch and its organization are changing. The personal approach to the client, the activities of personal bankers at the branches, together with the establishment of service zones, offer higher levels of convenience to the clients in the conditions when one bank employee in one banking outlet attends to multiple clients. The decreasing of the number of employees in the banking sector occurs as a rule in banks' head offices and in their back office operations. In large banks some processes and operations, usually those which include the entire financial group, were transferred to the head offices of their parent banks abroad. The number of inhabitants per one banking unit as a result of these changes increased by 7%, to 6.1 thousand. In 2003, when the number of citizens moderately increased and the number of employees in the banking sector at the same time fell, the productivity of work increased by 4.5%; there were 262 citizens per bank employee.

The rationalisation of banking activities manifests itself also in the services provided to the clients by one banking outlet. The higher frequency of banking operations carried out by the clients is also reflected in the increasing volume of the assets managed. The Czech Republic thus both in the extent and level of its banking services approaches the advanced countries of Europe. Banking services are becoming an everyday part of the essentials of life. At the end of 2003, one banking outlet managed assets in the amount of CZK 1.5 billion, which represents an increase by 4.1% on 2002. The increase was the result of the growth of banking

**CHART 4**  
STRUCTURE OF BANKING OUTLETS AND EMPLOYEES  
BY BANK GROUP

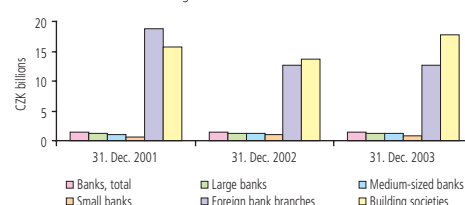


**TABLE 1**  
NUMBER OF EMPLOYEES AND BANKING OUTLETS  
IN THE BANKING SECTOR

for banks with licences as of the given date

	31 Dec. 98	31 Dec. 99	31 Dec. 00	31 Dec. 01	31 Dec. 02	31 Dec. 03
Number of employees (thous.)	52.8	49.4	45.5	40.9	40.6	39.0
Number of banking outlets (thous.)	2.2	2.0	1.8	1.8	1.8	1.7
Number of employees per bank (thous.)	1.2	1.2	1.1	1.1	1.1	1.1
per banking outlet	23.8	24.6	25.2	23.3	22.8	23.4
Number of citizens per bank (thous.)	228.7	244.7	256.7	270.3	275.0	291.7
per banking outlet (thous.)	4.6	5.1	5.7	5.9	5.7	6.1
per employee	195.0	208.2	225.6	251.3	250.5	261.8

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





transactions in large and medium-sized banks, which simultaneously increased the efficiency of utilization of their business networks. The already substantially higher value of assets managed in building societies increased by almost 30%. This result was due to the advantageousness of the building saving product and in particular to a change in the conditions for providing state support to this product towards the end of 2003. Building societies avail themselves of the opportunity to share the business networks of the banking financial groups of which they are members. They build distribution networks of their own only to a smaller extent. Small banks have endeavoured to come nearer to their clients and are expanding their business networks. Considerably bigger than average values of total assets managed by one banking outlet (almost 8.5 times) were recorded by foreign bank branches. The retail banking market, which requires a dense branch network, is not, for the most part, their business target.

Productivity measured by the size of the total assets managed by one employee shows trends which are identical with the development of productivity measured by banking outlets. At the end of 2003, one employee in the banking sector managed on average assets amounting to CZK 64.8 million. In comparison with the year 2002, this value increased by CZK 2 million per employee. Decisive in this respect is the identical trend in the large banks, where each employee manages altogether CZK 53.6 million assets. In medium-sized and small banks the assets managed by one employee decreased by 9% and 12%, respectively, in the last year, even though the reasons for this are not the same. In the group of medium-sized banks the size of total assets in the course of the past year decreased; small banks, on the contrary, are expanding their business activities and have increased their numbers of employees. In foreign bank branches banking transactions stagnated in 2003, the value of the indicator of performance of one employee measured by the size of assets administered by such employee dropped by 4%. In building societies, as a result of an amendment to the Act on Building Saving and due to the above-average increase of their business transactions, also the productivity of employees measured in this way increased by one quarter.

## 2.4 NEW TECHNOLOGY

The utilisation of new technology, in accordance with the trends of development of world banking, has been asserting itself increasingly in the domestic banking sector. Through the mediation of this technology banks offer their clients a wider range of products, provide them with services representing higher levels of convenience and enable them to use banking services directly and continuously throughout 24 hours. New technology asserts itself also within the banking processes; it enables banks to optimise their activities when providing services to the clients and contributes towards increasing the security of banking services. Banks are using new technology as a means to cut their costs, to reduce the number of their employees and to optimise their business networks. Based on new technology is the electronic banking which enables to increase the quality and extent of banking services, together with their availability.

Banks in their offers start from the changing behaviour of their clients, from a change in the lifestyle of the population. Withdrawals of cash from ATMs and the use of payment cards have become an absolute commonplace. At present the banks orientated on the retail clientele endeavour to enrich their offers with new services of higher quality and security. There continue to exist four ATM networks in the Czech Republic. The number of ATMs is increased on a regular basis; as of 31 December 2003, altogether 2,669 ATMs were installed. The volumes of transactions implemented by means of ATMs are increasing more rapidly (by 23.4%) than the numbers of transactions (by 9.4%). This development is a consequence of the fee policies of banks, which stimulate lower frequency of transactions at higher volumes. Banks mitigate the general growth of fees connected with the use of the ATM networks by making the use of their own networks more advantageous or, as the case may be, by limiting

**TABLE 2**  
SELECTED TYPES OF PAYMENT CARDS, ATMS  
AND ATM NETWORKS

for banks with licences as of the given date

	31 Dec. 98	31 Dec. 99	31 Dec. 00	31 Dec. 01	31 Dec. 02	31 Dec. 03
Number of ATM networks	5	4	4	4	4	4
Number of ATMs	1,463	1,499	1,602	1,923	2,254	2,669
Annual number of ATM transactions (millions)	59.1	70.0	85.8	100.7	106.8	116.8
Annual ATM transaction turnover (CZK billions)	91.3	128.0	175.5	232.7	285.4	352.3
Cash withdrawal cards (thous.)	1,590.2	2,784.5	3,976.6	4,556.3	5,768.9	6,373.6
Debit cards (thous.)	1,881.8	2,790.0	3,960.4	4,516.3	5,658.3	5,803.1
Credit cards (thous.)	3.6	5.6	38.7	53.2	113.2	206.2
Number of terminals	6,628	8,962	13,187	17,931	25,358	31,678
Annual number of card payments (millions)	2.8	6.0	14.5	26.6	41.0	55.1
Annual card payment turnover (CZK billions)	8.4	14.0	27.0	44.7	52.5	73.7

Note: Cards issued by banks only

the number of transactions in a given period. The average amount withdrawn by means of an ATM increased in the course of 2003 by 13% and equals CZK 3,016.

Payment cards accompany the clients of banks in all ordinary activities. Simple cards serving for withdrawal of cash from the ATM networks are supplemented with payment cards which enable to effect payments; credit cards are beginning to be used. In 2003, the number of payment cards issued increased by 10.5%. Credit cards that enable clients to draw credit under the stipulated conditions recorded growth by full 82%, with regard to their still very small base (3.2% of the issued cards with the cash withdrawal function). In spite of the dynamic development of payment cards as regards quantity and quality, cash withdrawals from ATMs still prevail in terms of transactions, for the volume of payments effected by payment cards amounts only to 20.9% of the volume of cash withdrawals from ATMs. Among the main causes of the prevalence of the use of payment cards for cash withdrawals over direct payments by them is, apart from the persisting conservatism of some clients, also the insufficiently developed network of sellers who accept the cards. Growth of direct payments can be also expected with the expansion of the use of credit cards. The optimisation of the ATM network, which is being built, and the increasing of the number of ATMs are in keeping with the current trend. The volumes and number of transactions implemented by payment cards are, of course, increasing at higher rates when compared with the use of ATMs. The annual number of transactions effected by payment cards increased by full 34% and the turnover of implemented payments by 40%. The higher rates are connected with a change in the lifestyle, the constraint on cash operations is asserted. The average amount of payments by a card increased only insignificantly, by 4.6%, and attained CZK 1,338. The reason is also an appropriately chosen fee policy of banks, which makes non-cash payments by payment cards more advantageous than cash withdrawals. The number of terminals where it is possible to pay by a card increased, year-on-year, by one quarter. Banks envisage the continuation of the newly embarked-upon trends, i.e. the increasing of the number of the ATMs that enable at the same time to pay charges through them, to deposit money into an account, to transfer funds from one account to another or to recharge the credit of a mobile phone. An expansion of chip cards is under preparation.

## 2.5 CONCENTRATION

*(for banks with licences as of the given date)*

The process of concentration and consolidation of the banking sector continued also in the year 2003. It can be expected that after the accession of the Czech Republic to the EU further changes will occur in the structure of the banking sector, above all by reason of strategic decisions of parent banks or head offices abroad. In the forthcoming period changes can be expected above all in connection with the application of the single banking licence principle, mergers or acquisitions reflecting the development in parent banking institutions abroad and the establishment of new, above all specialized, banking entities.

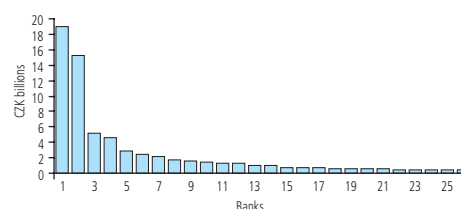
In terms of size of equity capital, the situation changed substantially, in comparison with the end of the year 2002, in the group of banks with capital from CZK 1 billion to 2.4 billion, as two banks left it in connection with the revocation of their licences. Further changes and shifts were caused by capital increases implemented by some banks. It can be expected that other banks will follow and strengthen their capital in the interest of maintaining their positions on the market. As at 31 December 2003, three banks recorded the minimum acceptable threshold of CZK 500 million.

In terms of distribution of equity capital as of 31 December 2003, the banks operating on the territory of the Czech Republic can be evaluated as a whole consisting of a relatively large group of banks managing similar amounts of equity capital and a group of banks, the equity capital of which is many times higher. Among the banks with the biggest capital background,

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

CZK billions	31 Dec. 98	31 Dec. 99	31 Dec. 00	31 Dec. 01	31 Dec. 02	31 Dec. 03
over 5	6	6	6	5	3	3
2.5 to 4.9	1	0	0	0	2	3
1 to 2.4	13	13	12	12	10	8
0.5 to 0.9	7	6	6	6	9	9
0.5	8	7	6	5	4	3
under 0.5	0	0	0	0	0	0

**CHART 6**  
EQUITY CAPITAL DISTRIBUTION OF BANKS AS OF 31 DECEMBER 2003  
for banks with licences as of 31 December 2003

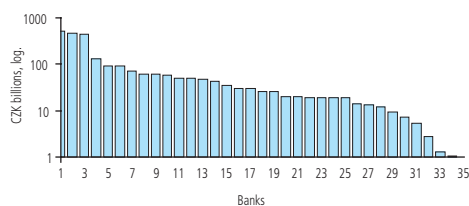


**TABLE 4**  
BREAKDOWN OF BANKS BY SIZE OF TOTAL ASSETS

for banks with licences as of the given date						
CZK billions	31 Dec. 98	31 Dec. 99	31 Dec. 00	31 Dec. 01	31 Dec. 02	31 Dec. 03
over 100	5	5	5	5	4	4
50 to 99	2	3	5	6	7	7
25 to 49	13	12	8	7	6	8
10 to 24	9	9	11	8	11	9
under 10	16	13	11	12	9	7

**CHART 7**  
TOTAL ASSET DISTRIBUTION OF BANKS  
AS OF 31 DECEMBER 2003

for banks with licences as of 31 December 2003



**TABLE 5**  
PERCENTAGE SHARES OF INDIVIDUAL BANK GROUPS  
IN TOTAL ASSETS

for banks with licences as of the given date						
	31 Dec. 98	31 Dec. 99	31 Dec. 00	31 Dec. 01	31 Dec. 02	31 Dec. 03
Banks, total	100.0	100.0	100.0	100.0	100.0	100.0
of which:						
large banks	65.3	65.1	61.5	63.8	62.2	62.1
medium-sized banks	15.2	13.2	18.2	14.8	16.6	15.8
small banks	3.9	3.3	2.6	2.3	3.4	2.0
foreign bank branches	11.1	13.6	11.8	12.8	9.6	9.6
building societies	4.5	4.8	5.2	6.3	8.2	10.5
banks under conservatorship	0.0	0.0	0.7	0.0	0.0	0.0

however, a clear gradation can be seen. The first four banks, which are the strongest as regards capital, administer almost 65% of the equity capital of the banking sector.

The structure of banks by size changed above all as a result of the development of banks with lower total assets, while the number of banks administering assets in excess of CZK 50 billion remained unchanged in year-on-year comparison.

The decrease in the total number of banks administering a smaller volume of total assets was influenced above all by the development of these banks' business transactions, which resulted in the growth of their total assets and, therefore, also in their shift to higher categories. The entities which contributed to the development of active business transactions in 2003 were above all the building societies with their increasing lending. Another reason leading to the reduction of the number of banks with lower assets was the revocation of the licences of two banks.

The distribution of total assets of banks in the Czech banking sector as of 31 December 2003 shows greater differences between the individual banks than are the differences discernible in the distribution of their equity capital. While at the end of 2003 the equity capital of the largest bank exceeded the equity capital of the smallest bank approximately 40 times, the total assets recorded by the largest bank as at the same date attained a value which was approximately 800 times higher than that of the bank managing the least assets.

At the end of 2003 the group of large banks accounted for 62.1% of the total assets of the banking sector, which was 0.1 point less than in the preceding year. The overall total assets of the banking sector grew by 1.9% in 2003, above all thanks to the building societies, which increased, year-on-year, their shares in total assets and at the same time compensated for the decrease of assets in the group of medium-sized and small banks.

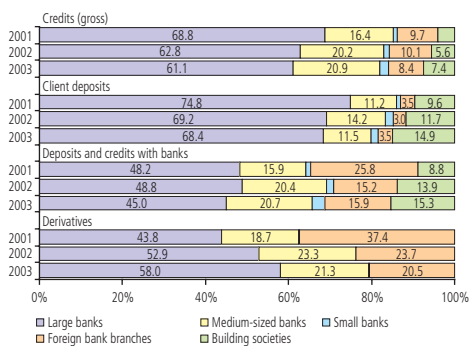
## 2.6 COMPETITIVENESS

(for banks with licences as of the given date)

The driving force of commercial banking is a functioning competitive environment based on diversified activities of banks. In this environment, the processes of expanding of the offer of services to the clients and re-distribution of the market due to sophisticated offer of new products and distribution channels are taking place. The development of the banking sector suggests that the dominating position of the large banks continues to exist not only as regards the extent of the products and services which are of interest for the clients, but also as regards the pricing policy, in spite of the fact that they are facing ever stronger pressure on the part of the other bank groups. An exception is the building societies, which by their offer of products and pricing policy represent a specific market that takes advantage of the support of the state to their clients.

**CHART 8**  
MARKET SHARES OF BANK GROUPS IN SELECTED  
PRODUCTS IN PER CENT

for banks with licences as of 31 December 2003



As of 31 December 2003 the large banks accounted for 61.1% of the credit market. Their position on the market weakened further, by 1.7 points in year-on-year terms. In the privatised large banks the process of restructuring and "cleaning-up" of their credit portfolios was still going on, accompanied by the sale of poorer-quality credits. There was a different development in the other groups of banks which, except for foreign bank branches, in 2003 strengthened their position on the client-credit market in both relative and absolute terms. The growth of credits manifested itself most markedly in the group of building societies, the share of which showed a year-on-year increase by 1.8 points.

The distribution of the client-deposit market among the individual bank groups underwent a similar development. Here, too, the weight of the large banks is gradually decreasing, in

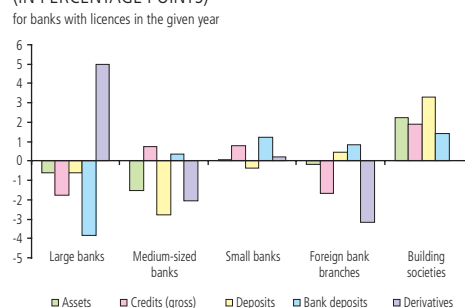
spite of the fact that their share of the total deposits accepted by the banking sector continues to be dominant, amounting to 68,4% as of 31 December 2003. The large banks' share of client deposits, it is true, dropped by 0.8 point in year-on-year terms; nevertheless, it remains stronger than that of client credits. Client deposits accepted by the medium-sized banks hold, similarly as credits, the second position. When comparing the respective shares, however, it is evident that the medium-sized banks focus more intensively on credit transactions than on deposit ones. Foreign bank branches were, after the large banks, another group, which recorded a year-on-year growth of client deposits. In spite of this, client deposits in foreign bank branches are lower in both relative and absolute terms, owing to the generally lower level of activities of these branches on the Czech banking market and their orientation on specific groups of clients. For branches of foreign banks, client deposits are only a complementary source of funding, in addition to funds from other banks. Client deposits of the building societies, on the contrary, are constantly growing and strengthening significantly their share in deposits of the banking sector. At the end of 2003 they accounted for almost 15% of all deposits accepted.

The group of large banks recorded the greatest changes in the shares of receivables from banks and receivables from derivatives transactions, respectively, in year-on-year comparison with the year 2002. It follows from these figures that in 2003 the large banks devoted more attention to the development of derivatives transactions, were losing their positions on the credit market, on the deposit market and with respect to receivables from other banks. The situation is opposite with respect to client credits, client deposits and interbank assets of building societies, which were gaining and strengthening their positions in the market segments mentioned. On the credit market, apart from building societies, also the medium-sized and small banks were increasing their market shares; on the deposit market grew the share of foreign bank branches. These branches participated in the derivative market to a smaller extent than in the previous year and decreased their derivatives transactions in absolute figures as well. Their position on the credit market was weakening. The group of small banks recorded the smallest year-on-year changes in their market shares.

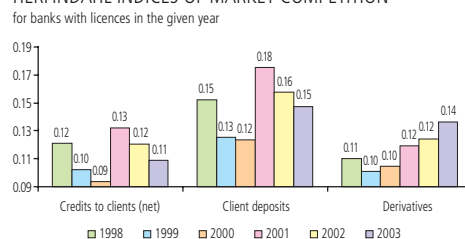
The changes in the structure of the Czech banking sector and the development of market shares on the domestic banking market were reflected in the values of the Herfindahl index of market competition<sup>2</sup> for selected groups of banking transactions. In 2003 there was a decline of the Herfindahl index on the credit market, above all as a result of a drop in the volume of credits of some large banks (in connection with the completion of transfers of credits to the Czech Consolidation Agency) and some foreign bank branches. The departure of two banks, the licences of which were revoked, played an important part in the distribution of the credit and deposit markets. A decrease of the index and, therefore, also an increase of competition occurred on the expanding deposit market, where some medium-sized and small domestic banks have retreated from their previous positions. On the derivatives market, the Herfindahl index increased already for the third consecutive year, which signals rising concentration of the predominating volumes of business transactions of this type into a smaller number of banks. In terms of the activities compared, the least competition as at 31 December 2003 continued to be on the client-deposit market, above all with regard to the development of the building saving and the retail transactions of the banking sector.

The market shares of the largest banks within the framework of the banking sector are falling only gradually, in spite of the above-mentioned changes in competition and in the structure of the Czech banking sector. The activities of the sector are for the most part

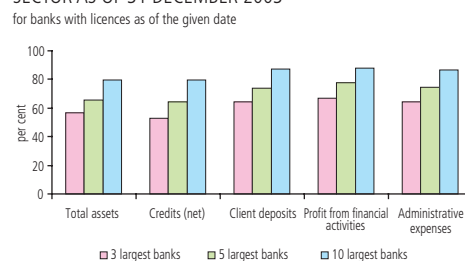
**CHART 9**  
YEAR-ON-YEAR CHANGES IN MARKET SHARES IN INDIVIDUAL MARKET SEGMENTS AS OF 31 DECEMBER 2003 (IN PERCENTAGE POINTS)



**CHART 10**  
HERFINDAHL INDICES OF MARKET COMPETITION



**CHART 11**  
SHARES OF GROUPS OF LARGEST BANKS IN BANKING SECTOR AS OF 31 DECEMBER 2003



<sup>2</sup> The Herfindahl index of market competition can attain values in the range of 0 to 1, where 1 represents a completely uncompetitive environment. The competition on the given market increases with the decreasing value of the Herfindahl index.

concentrated in the three leading banks<sup>3</sup>. In the individual selected items of the balance sheet and the profit and loss statement and also in capital equipment the three decisive banks attain for the most part values in excess of 60% of the entire market; in some cases (assets, credits, deposits with banks) their values fluctuate below this level. As of 31 December 2003 the three leading banks administered 56.9% of the total assets of the sector, granted 52.9 % of client credits and accepted 64.2% of client deposits.

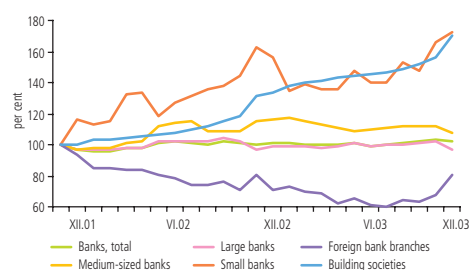
Corresponding to the high concentration of banking activities are the values attained by the three banks; they have the largest share in profit from banking activities (66.9%) and in administrative expenses (64.3%). The relatively small differences in the mentioned shares of the three, five and ten largest banks suggest the continuously maintained lead of the three dominating banks over the other banks.

## 2.7 ASSETS AND LIABILITIES

(for banks with licences as of 31 December 2003)

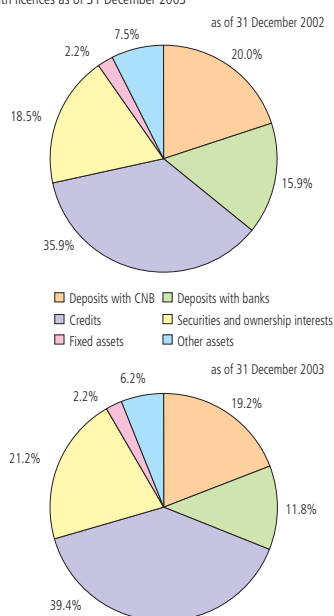
**CHART 12**  
GROWTH OF TOTAL ASSETS

for banks with licences as of 31 December 2003



**CHART 13**  
ASSETS STRUCTURE

for banks with licences as of 31 December 2003



As of 31 December 2003, the total assets of the banking sector amounted to CZK 2,527.7 billion, which was 1.9% more than in 2002. This increase, in year-on-year terms, represents an acceleration of the growth rate by 1.6 points. The development of the total assets of the banking sector in the course of the year 2003 has thus confirmed the still existing potential for further growth.

The development of total assets in 2003 was again influenced mainly by the development in the group of large banks, the total assets of which at the end of 2003 accounted for 62.1% of the assets of the entire sector. Significant deviations from this main trend, however, can be identified in the development of assets of banks included in other groups. The large banks recorded only a moderate growth in the volume of their total assets, by 0.9%, which was less than the growth of assets of the entire sector. The growth of total assets was markedly drawn upwards also by the building societies and the small banks. The assets of the building societies rose by 29.4% in 2003, while their share in the total assets of the sector was 10.5%. The building societies, therefore, have become the most dynamically growing group. Although the assets of the building societies were increasing on an ongoing basis throughout the year, the most marked jump was recorded in the last quarter of 2003, when this bank group, which specializes in the housing needs of the population, as a result of the prepared amendment to the conditions governing building saving, attracted many new clients, who increased significantly the total deposits of building societies. The growth of client deposits in this bank group became the main driving force behind the growth of their total assets. The year-on-year increase attained by the group of small banks was considerably smaller, 6.3%. However, the influence of small banks on the overall development was less significant, as their share in the total assets of the banking sector as of 31 December 2003 amounted only to 2%. The medium-sized banks and the foreign bank branches, on the contrary, decreased the volumes of their assets in the past year, by 7.0% and by the very moderate 0.1%, respectively.

The structure of assets and liabilities of the banking sector has in principle remained unchanged in year-on-year comparison. The development of total assets of the entire sector and its individual groups, apart from the growth of deposits of building societies, which resulted in an increase on the liabilities side of the banking sector, was to a great extent influenced by changes in the area of credits. The overall credits granted represent permanently the decisive part of total assets. The share of client credits granted by banks, after a moderate

<sup>3</sup> These banks are not identical with the official group of large banks. The structure of the group of three leading banks with a decisive share in a given type of business transactions or a balance-sheet and profit and loss statement item may differ according to the specific type of transaction or item.

decrease in 2002, strengthened again in 2003, when it increased by 3.5 points in comparison with the end of the previous year. Similarly as total assets, also client credits grew in their absolute volume. The average share of client credits in total assets as of 31 December 2003 amounted to 39.4%. The medium-sized banks, the share of credits of which approached 50% of the total assets, became the group with the greatest proportion of credits. The building societies continue to be the group, which from the point of view of its share in assets (28.5% of total assets) for the time being involves itself the least in credit transactions.

The second most important component in the structure of assets of the banking sector is securities; in 2003 their share in total assets exceeded the limit of 20%. As against them, deposits with the central bank were slightly below the 20% limit, having moderately decreased year-on-year. Deposits with other banks occupied again the fourth position in terms of size of their share in total assets. Their share in the total decreased, year-on-year, as a result of a drop in their absolute volume by 4.1 points. Fixed assets of banks, the predominating component of which is tangible assets, represented to a considerable degree by real estate (the branch network) have retained in the long term their share of total assets on a level moderately exceeding 2%.

Client deposits, with regard to the continuing orientation of domestic banks on traditional banking, represent the decisive component of the liabilities side of the balance sheet. Their share, which has been in the long term moderately increasing, approached 66% at the end of 2003. Deposits accepted from other banks, on the contrary, decreased again their share in total liabilities in 2003.

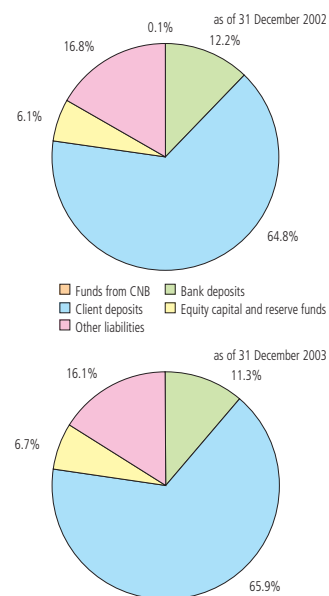
The overall own funds recorded a growth by 11.3% in 2003, amounting to CZK 177.0 billion at the year-end. At the end of 2003, the share of own funds in total assets attained on average 7%.

The decisive component of own funds is equity capital. While at the end of 2002 the share of equity capital in own funds attained 43.7%, at the end of 2003 it already dropped below the level of 40%. The aggregate value of the other components of own funds depends mainly on the profits/losses of the banking sector in previous years and in the given year. Reserve funds grew in 2003, above all as a result of the repeated attainment of profit. Their growth rate was more rapid than that of liabilities, which resulted in a year-on-year increase of the share of equity capital and reserve funds in total liabilities by 0.6 point. When comparing the structure of own funds of the individual banks and also when comparing their structure in the same bank in the individual years, markedly differing situations may arise. The evaluation of the entire banking sector showed a moderate weakening of the component made up of reserve funds, capital funds and other funds created from profit, the aggregate share of which in own funds attained 17.5% of total own funds at the end of 2003 (a year-on-year decrease by 1.2 points). There was, on the contrary, a marked growth of the aggregate value of the profits attained (by more than one third), while their share in own funds recorded an increase from 33% to 39%. The share of subordinate financial liabilities, which display the characteristics of both own funds and external funds, decreased in the course of 2003 from the level of 1% to 0.3% of total liabilities.

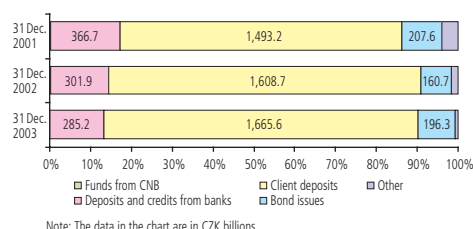
In the structure of external funds, primary funds strengthened further their position in 2003 and the influence of funds acquired on the interbank market continued to decrease. A change in the trend of development occurred in the area of issuance of bonds, the position of which was reinforced above all by the growing volume of the mortgage bonds issued.

Client deposits (including deposits from government bodies) constitute, in accordance with the orientation of the majority of banks operating in the territory of the Czech Republic, the decisive component of their external funds. In 2003, client deposits increased by 3.5%. Their

**CHART 14**  
**LIABILITIES STRUCTURE**  
for banks with licences as of 31 December 2003



**CHART 15**  
**BANKS' EXTERNAL FUNDS**  
for banks with licences as of 31 December 2003



share in external funds also recorded a slight growth in year-on-year comparison (by almost 1 point). The bank group which contributed to a decisive extent to the growth of client deposits in 2003 were building societies; in their case, the deposits concerned were almost exclusively household deposits. Also foreign bank branches and the large banks contributed partially to the growth of client deposits. While in the group of building societies the share of client deposits as of 31 December 2003 attained more than 90% of the liabilities side of the balance sheet, in the group of medium-sized and small banks this share in the course of the year fluctuated around 50% of the volume of total liabilities and in the group of foreign bank branches at the end of 2003 it was below one quarter of the volume of total liabilities.

Deposits accepted from other banks have remained the second most significant component of external funds also in 2003; they, however, in this year recorded again a decrease both in their absolute volume (by 5.5%) and in their relative share in external funds (by 1.1 points, to 13.2%). The reason for the decrease of deposits accepted from other banks is the continuously increasing volume of primary resources. The issue of debt securities, which increased, year-on-year, by almost a quarter, at the end of 2003 occupies the third position in terms of the share in external funds (9.1%). A group, in which external funds obtained on the interbank market represent in the long term more than a half of external funds, are foreign bank branches. This item, on the contrary, becomes quite negligible in the case of building societies.

As of 31 December 2003, the total issue of bonds attained CZK 196.3 billion. The debt securities issued constitute a kind of transitory step as regards the breakdown of external funds of banks into primary and secondary sources, as the creditor of a bank may be both some other bank and a non-bank entity. In the issues of debt securities bonds with maturities under 1 year (short-term bonds) predominate; at the end of 2003 they represented approximately 55% of debt securities. This share, however, attains considerably differing values for various groups of banks. While the medium-sized banks recorded the value of less than 37% in this indicator, the foreign bank branches invest exclusively into short-term debt securities. 2003 was a year, in which banks began to issue in greater volumes also mortgage bonds, i.e. debt securities covered by receivables under mortgage credits. The issue of mortgage bonds grew, year-on-year, by more than one half and at the end of 2003 accounted for almost 60% of the total long-term debt securities issued. The reason for the increasing issue of mortgage bonds by domestic banks is the growth in the volume of the mortgage credits granted.

### **3. RISKS IN BANKING**

Banking institutions are exposed to many risks, some of which are typical of banking or of some other financial business. The risk profiles of the individual banks may in some cases markedly differ, as they reflect the activities in which the respective bank engages and at the same time the level of its management of these risks.

The final result of the risks realised may be a loss ensuing from a certain transaction, a certain type of product or from other individual events, just as a loss resulting from a failure to manage some cross-sectional type of risk relating to the same or similar extent to an entire range of banking activities.

The most significant risk the Czech banks are exposed to, i.e. credit risk, relates, just as market risk, only to selected groups of products and services that may be its bearers. In the case of both the risks mentioned it is often possible to identify a direct link to specific banking transactions. Banks, therefore, as a part of their overall risk management often use further instruments which secure the respective risks connected with the specific transactions, thus minimising the impacts of any potential losses.

Among the risks banking institutions are faced with, operational risk occupies a special position. This type of risk relates to all processes of the banking institution and may, therefore, affect the bank adversely at any point. At present, operational risk is still difficult to quantify. Liquidity risk, reputational risk or country risk currently do not represent a serious threat to the Czech banking sector. However, also these risks are given adequate attention.

### 3.1 CREDIT RISK

Credit risk is a risk, which is most frequently associated with the banks operating in the Czech Republic. A typical characteristic of many of these banks is the predominance of traditional banking operations, i.e. a significant share of credits granted on the asset side and similarly significant client deposits on the liabilities side. Even though credit risk also appears as a part of other banking activities, it is ever more frequently associated with the granting of credits. In relation to credits, credit risk represents the inability of the debtor to fulfil the conditions of the credit contract. The potential risks of the Czech banking sector associated with credit derivatives for the time being account for only a small part of the overall credit risk.

The management of credit risk, with regard to its importance, is given extraordinary attention in banks. Today, two independent registers of credits (of debtors) have already become instruments commonly used by banks. These registers enable banks participating in a given project to share credit information.

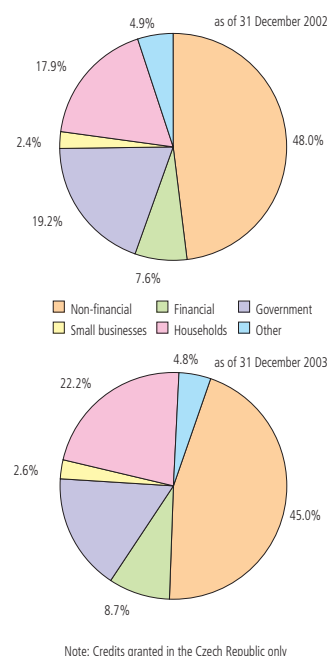
#### 3.1.1 CREDIT STRUCTURE AND CREDIT TRENDS (for banks with licences as of 31 December 2003)

At the end of 2003 the total volume of net client credits granted by banks<sup>4</sup> attained CZK 996.2 billion, which represents a year-on-year growth by 11.8 %. The volume of gross credits amounted to CZK 1,024.8 billion as of 31 December 2003; this represents growth on the level of 9.9% over the same period. In comparison with the development in 2002, therefore, in both cases a change of the trend occurred, from a moderate decrease of the credits granted in 2002 to their moderate growth in 2003.

Neither in 2003 was the development of the volumes of credits granted in all bank groups harmonious. The large banks recorded, year-on-year, growth approaching 10% (the decrease which occurred in this group in 2002 was influenced among other things by extraordinary transfers of credits). Also the other groups, with the exception of foreign bank branches, recorded growth in the volume of credits granted. Relatively the most successful from the point of view of the growth of credits granted were the small banks; at the end of 2003 the volume of their credits attained a 1.8 multiple of the level at the end of the previous year. In comparison with the other bank groups, however, the total credits granted item of the small banks has remained small.

The gradual growth of credits granted throughout the year 2003 is related above all to the growth of household credits, even though also some other sectors of the economy were increasing their indebtedness, if only at a slower rate. The common element that speaks in favour of the growth of credits granted to natural persons and business entities was the extraordinarily advantageous offer of low interest rates in the Czech economy in 2003. Even though banks also in 2003 observed the prudent approach towards granting new credits and strictly assessed the projects submitted to them, the year 2003 saw the first symptoms of growth of the volumes of credits granted to companies operating in the non-financial sector.

**CHART 16**  
CREDIT STRUCTURE BY SECTOR  
for banks with licences as of 31 December 2003



<sup>4</sup> The credits granted also include the credits granted to government bodies and bonds acquired in primary issues that are not designed for trading.

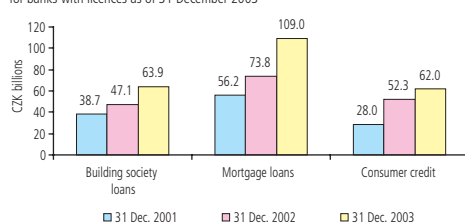


Because banking institutions succeeded in maintaining the trend of granting new credits only for the purposes of quality projects and to creditworthy clients, the overall growth of bank credits granted was accompanied by an increasing quality of banks' credit portfolios. The development of client credits in 2003 was at the same time only to the minimum extent affected by non-standard operations as were, for example, transfers of poor quality assets from the portfolios of banks to entities outside the banking sector. The volume of credits granted to entities conducting business in the non-financial sphere attained CZK 427.5 billion at the end of 2003, which in comparison with the end of 2002 represents an increase by 1.7%. In spite of the fact that there was, in absolute terms,, a moderate growth and the sector of non-financial organizations continues to be the main recipient of bank credits, the share of these credits in the total amount of credits granted decreased again. At the end of 2003, owing to the higher growth rate of some other sectors, it attained 45% of total client credits, which was 3 points less in comparison with the end of 2002.

The household sector became for the first time the second most important recipient of credits; it thus overtook the government sector and shifted it to the third position. At the end of 2003 households had at their disposal an amount of CZK 210.8 billion borrowed from banks, which represents a year-on-year growth by 34.6%. Credits to the government sector fell not only in terms of their share in the total (by 2.5 points, to 16.7%), but also in absolute terms,, by 5.3%, year-on-year. The decrease in the level of credits granted to the government sector at the end of 2003 in comparison with the end of 2002 can be justified by the gradual restraining of the activities of the Czech Consolidation Agency. The year 2003 saw significant growth of credits drawn by the financial sector (by almost one quarter), which, therefore, also strengthened their overall share in the bank credits granted. Notwithstanding this intensive growth, however, the share of these credits did not exceed the level of 10%. Some banks had proclaimed already in the past years their outgoing approach towards financing of small businesses. The new trend manifested itself partially in the volume of credits granted in 2003. Bank credits granted to sole traders increased at the end of 2003 by 17.8% in comparison with their level a year before and attained CZK 24.7 billion. This growth subsequently led also to a moderate increase of the share in the total. In spite of this, small businesses continue to be the most poorly financed sector of the economy.

**CHART 17**  
BUILDING SOCIETY LOANS, MORTGAGE LOANS  
AND CONSUMER CREDIT

for banks with licences as of 31 December 2003



Mortgage credits, credits of building societies primarily designed to cover the housing needs, and consumer credits recorded further significant growth in 2003. Mortgage credits, which increased, year-on-year, by almost 48%, as at 31 December 2003 attained the total level of CZK 109.0 billion. A slightly lower growth rate was recorded in the case of credits provided by building societies (35.7%), the total amount of which was CZK 63.9 billion at the end of 2003. The decisive group of recipients of both mortgage credits and credits granted by building societies is households; however, neither business companies nor cooperatives are an exception. At the end of 2003, six building societies offered their services on the financial market and ten banks had licences for issuing mortgage credits. While the number of building societies has remained stable for several years, a further bank has newly obtained a licence for mortgage transactions in 2003. On the part of the clients, among the significant motives for acquisition of credits connected with housing needs was, apart from the acceptable level of interest rates, also a wide offer of mostly newly built houses and housing units. A gradual change occurred also in the development of perception and acceptability of this type of indebtedness from the point of view of the population, for which credits serving to satisfy its housing needs are becoming ever more common. Although the main purpose of both the types of credits mentioned is the satisfaction of a person's own housing needs, a part of these credits also served as a paid-in capital invested into real estate, as an investment. From the point of view of banks households represent a relatively least risky group of debtors. Credits provided to households to cover their housing needs are usually not only well secured, but with regard to their character their repayment becomes

a priority for the owner of the real estate, because in the event of non-repayment the debtor might lose its house or flat serving as collateral.

The development of consumer credits, which at present are already offered by many banks, in the year 2003 can be evaluated as the continuation of their trend of high growth. The popularity of consumer credits with clients, similarly as in the case of other credits granted to households, is linked to the slowly changing patterns of conduct (purchase on credit) and to the generally lower level of interest rates in 2003. Another factor which contributes to the growth of consumer credits is massive campaigns and continually growing volumes of the funds banks are willing to lend to the individual persons interested. The year-on-year growth rate of consumer credits, however, has moderately slowed down.

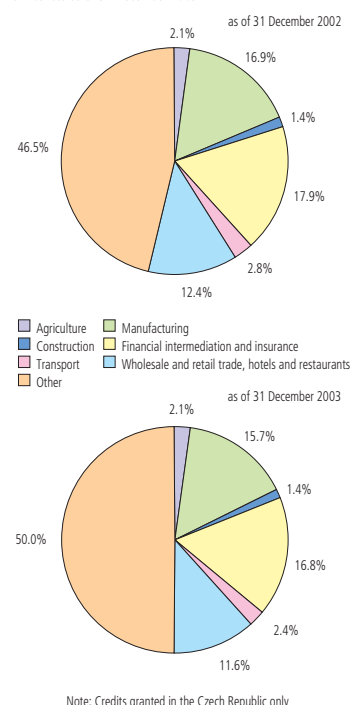
The structure of credits by economic sector recorded only negligible changes in year-on-year comparison. The sector of financial intermediation (i.e. financial intermediaries and the Czech Consolidation Agency) and insurance, with CZK 159.3 billion borrowed from banks at the end of 2003, became again the most significant recipient of bank credits. The second position was occupied, just as in 2002, by manufacturing, the entities of which as at 31 December 2003 disposed of bank credits in the amount of CZK 149.0 billion. The credits of both these sectors increased moderately in year-on-year terms, finance and insurance by 1.8%, manufacturing industry by 0.9%. While credits provided to institutions conducting business in the sectors of financial intermediation and insurance continued in the growth trend of the year 2002, the development of credits to entities of the manufacturing industry, after the fall in 2002, showed a change of trend. From the point of view of the share in total credits granted, however, both the sectors recorded a moderate decrease in 2003. Wholesalers and retailers, hotels and restaurants are the third most important group of recipients of bank credits in terms of the economic sectors. The share of credits accepted by this sector in total credits, however, likewise declined moderately, year-on-year, in spite of the fact that also in this case the absolute volume of credits slightly increased (by 1.8%, i.e. just as it did in the case of finance and banking). The shares of the other sectors under review in total credits granted were within the range of 1.4% to 2.4% at the end of 2003. Other credits, representing above all households and some further activities and services, attained the record level of 50%.

From the point of view of maturity, the largest share in the total as of 31 December 2003 was attained by long-term credits with 43.5%. This group of credits, just as medium-term credits, recorded in the course of the year 2003 a moderate growth in both relative and absolute terms. There was a perceptible fall in credits with maturities up to 1 year. Their absolute level decreased, year-on-year, by 1.6% and their share in total credits dropped by 2.8 points, to 26.4%. The growth in the volumes of credits with maturities exceeding 12 months and also the growth of their share in total bank credits granted could be explained above all by an extraordinary growth of household loans granted for housing purposes. Mortgage loans belong mostly to the group of long-term credits (above 5 years) and also loans provided by building societies are usually repaid within the long-term, only rather exceptionally within the medium-term (1-5 years) horizon. The comparison with the year 2001 is affected by a change in the methodology, which occurred at the beginning of 2002 (the maturity period of medium-term credits was extended from 4 to 5 years).

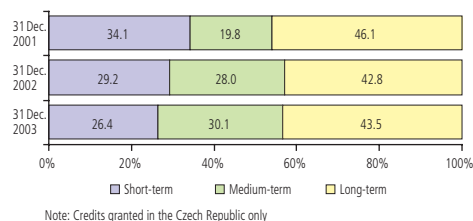
### 3.1.2 CLASSIFIED AND NON-PERFORMING CREDITS AND THEIR COVERAGE (for banks with licences as of 31 December 2003)

The substantial improvement in the quality of the credit portfolio, which occurred in the course of the year 2003, is the result of three factors. The first one is the persisting increased prudence of banks when assessing credit applications, which was reflected in the almost stagnating level of credits to corporations in the course of the entire year. The main cause

**CHART 18**  
CREDIT STRUCTURE BY ECONOMIC ACTIVITY  
for banks with licences as of 31 December 2003



**CHART 19**  
TIME STRUCTURE OF CREDITS  
for banks with licences as of 31 December 2003



of this state continues to be, in spite of a moderate improvement, the persistent weaker financial position of corporations, which have only a few projects for which credits could be effectively granted. The creditworthy corporations, mostly foreign-owned, are financing themselves predominantly from their own funds. Households, which in comparison with entrepreneurial subjects are less risky, have become the target group of the majority of banks. This is the second moment that enables the growth of the quality of client credits. The last reason was the transfers of poor-quality assets outside the banking sector. The volume of credits transferred in this manner was, however, much smaller in comparison with the year 2002.

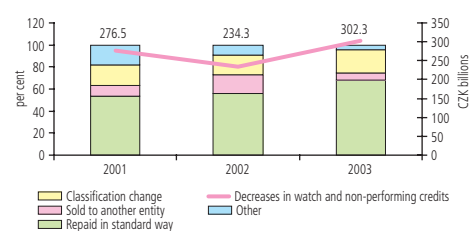
As of 31 December 2003, classified credits amounted to CZK 114.0 billion, which represents a drop by almost 22.5% compared with the end of the preceding year. Non-performing credits attained at the same time horizon the level of CZK 49.6 billion, which represents a 4.9% share in the total. The overall volume of classified credits and the share of these credits in total credits granted were decreasing gradually, throughout the year 2003.

**TABLE 6**  
STRUCTURE OF CLASSIFIED AND NON-PERFORMING CREDITS  
for banks with licences as of 31 December 2003

	31 Dec. 01		31 Dec. 02		2003			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.		
Classified credits in CZK millions	199,285	147,102	137,712	128,504	121,534	114,014		
as percentage of total credits	20.8	15.8	15.0	13.4	12.3	11.2		
Non-performing credits in CZK millions	128,94	75,770	69,948	60,509	52,426	49,610		
as percentage of total credits	13.4	8.1	7.6	6.3	5.3	4.9		
of which:	in CZK millions							
watch credits	71,091	71,332	67,764	67,994	69,107	64,404		
substandard credits	31,859	27,515	29,268	22,822	21,486	19,299		
doubtful credits	29,447	11,689	9,311	8,692	9,222	6,913		
loss credits	66,889	36,566	31,370	28,995	21,719	23,398		
of which:	in per cent							
watch credits	35.7	48.5	49.2	52.9	56.9	56.5		
substandard credits	16.0	18.7	21.3	17.8	17.7	16.9		
doubtful credits	14.8	7.9	6.8	6.8	7.6	6.1		
loss credits	33.6	24.9	22.8	22.6	17.9	20.5		

The improving quality of the credit portfolio is also reflected in a positive shift in the structure of classified credits, for the greatest decreases in the volumes of classified credits are recorded in the most risky categories. Loss credits, i.e. credits of the lowest quality, at the end of 2003 attained 20.5% of classified credits and doubtful credits 6.1%. In the case of loss credits there occurred, in year-on-year comparison, a decrease by more than 4 points, in the latter case by less than 2 points. Watch credits, i.e. credits involving a very low risk, with CZK 64.4 billion represented the most significant category of classified credits (56.5% of all classified credits). While watch credits in relative terms, as a proportion of total credits, recorded in the course of the year 2003 significant growth, in absolute terms their volume dropped, specifically by 9.7%.

**CHART 20**  
DECREASES IN WATCH AND NON-PERFORMING CREDITS  
for banks with licences as of 31 December 2003



The decreasing volume of classified credits is above all the consequence of repayment of these credits in the standard manner. While in 2001 the share of standardly repaid credits in the total decrease of watch and non-performing credits accounted for roughly 53%, in 2003 it was already more than 68%. The second most important component of the decrease was a change in the classification with respect to standard credits, which in the past 3 years fluctuated around the share of 20%. The sale of classified credits to other entities was most markedly represented in the overall decreases of classified credits in 2002, when it attained almost 17% of the total volume of these decreases. In 2003 this component was more than 10 points lower. Realisation of collateral was applied only in the total value of CZK 0.4 billion and its share is negligible. A similar situation can be seen with respect to the classified credits written-off against the provisions and reserves created (CZK 2.3 billion).

CNB Banking Supervision monitors and evaluates on a regular basis the weighted classification indicator, which enables conversion of credits with varying measure of the probability of non-repayment by the debtor to a uniform base. The weighted classification indicator thus enables to evaluate and summarise the actually non-performing classified credits with much greater precision than does the mere addition of the volumes in the individual categories of classified credits. At the end of 2003 the weighted classification of credits attained CZK 32.3 billion, which is a value exceeding only moderately 3% of the total credits granted. The weighted classification is decreasing in the long term, in the course of the year 2003 it dropped by almost 38%, in comparison with the end of 2001 by more than 64%. At the end of 2003, after taking account of the collateral for the credits, the weighted classification attained CZK 27.0 billion (2.6% of total credits). In comparison with the end of 2002, the value of the weighted classification taking account of the collateral for the credits fell by more than one third and its share in total credits decreased by 1.9 points.

The reserves, provisions and collateral created to cover potential losses from classified credits repeatedly exceeded the value of the weighted classification indicator at the end of 2003. The surplus of reserves, provisions and collateral as at 31 December 2003 amounted to CZK 38.0 billion. The ratio of respective reserves and provisions to the weighted classification was slightly exceeded 70% at the end of 2003. In 2003 reserves and provisions attained CZK 38.3 billion, and were thus substantially lower than in 2002. The lower need for provisions and reserves is a direct consequence of the improving quality of credits. Although a part of credits is also secured by quality collateral, which often has the form of real estate, at present this form represents only a certain above-the-standard, additional coverage of potential risks. All potential risks connected with the credit issue of banks expressed by the weighted classification have been fully covered with reserves and provisions ever since 2002.

### 3.2 LIQUIDITY RISK

A bank is threatened with the liquidity risk, if it is unable to meet its financial liabilities when they become due. Lack of disposable liquid funds may thus result in a loss connected with the extraordinary costs of arranging for these funds. The liquidity risk may be also regarded from the point of view of the ability of banks to arrange, if necessary, i.e. if there is a need to cover their actually due obligations, for sufficient liquid funds in the form of a credit. Also in this case the price at which a bank is able to acquire the necessary funds is decisive for the level of the extraordinary costs incurred in this way. Maintaining harmony between the time structure of assets and liabilities is the basic prerequisite for managing this type of risk.

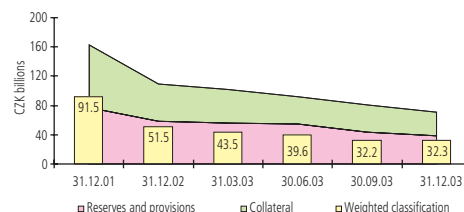
Quick assets generally belong to the safest investments of banks. At the same time, however, they are associated with relatively low yields. It is possible to include among liquid assets of banks also publicly tradeable securities. In this case, however, the decisive aspect is the liquidity of the given capital market on which these securities may be encashed. Also here the liquidity risk is connected with a potential loss a bank might incur if it needs to sell the securities rapidly on the secondary market under the conditions of temporarily disadvantageous prices of the shares or bonds it holds in its trading portfolio.

#### 3.2.1 PRIMARY FUNDS

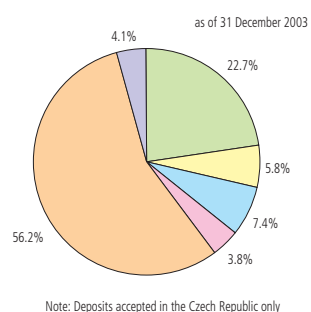
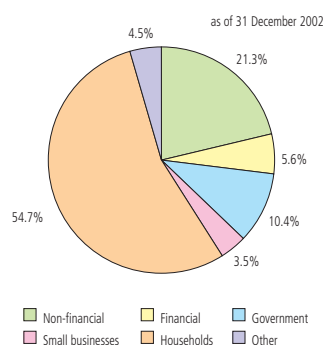
*(for banks with licences as of 31 December 2003)*

Deposits from clients, including deposits from government bodies, continue to represent the decisive component of total disposable funds of banks. As of 31 December 2003, deposits accepted from clients amounted to CZK 1,665.6 billion. This is, in year-on-year comparison, an increase by 3.5%, which represents a slow-down in the growth rate of primary funds by 4.2 points in comparison with 2002. At the end of 2003 primary funds accounted for more than three quarters of total external funds; as compared with the end of the preceding year, this share moderately strengthened, above all as a result of a parallel decline in liabilities towards other banks. The maintenance of the growth of client deposits is connected with the overall situation on the financial markets, where it is possible only with difficulty to find a comparable level of returns while taking comparable risks. The slowed-down growth rate, however, suggests that the environment of low interest rates, which fosters the growth of credits granted and curbs the volume of banks' primary funds, has influenced, together with some attractive and to a certain extent state-supported alternatives to bank deposits (life insurance and additional pension insurance) the decision-taking of many investors from among the population. The slowly growing capital markets and the possibility of investments abroad offer further alternatives for the diversification of financial investments of both retail and corporate clients of banks. In some cases the generally low level of interest rates on deposits is no longer able to compensate for the increasing of banking fees, which is another factor that is taken into account by the present and potential bank clientele.

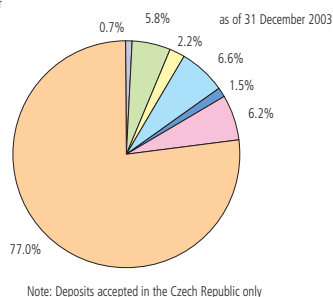
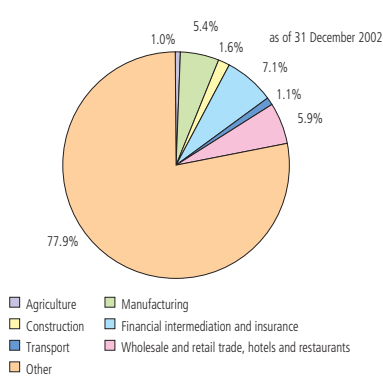
**CHART 21**  
COVERAGE OF POTENTIAL LOSSES FROM CREDIT PORTFOLIO  
for banks with licences as of 31 December 2003



**CHART 22**  
DEPOSIT STRUCTURE BY SECTOR  
for banks with licences as of 31 December 2003



**CHART 23**  
DEPOSIT STRUCTURE BY ECONOMIC ACTIVITY  
for banks with licences as of 31 December 2003



The structure of deposits by sector recorded only partial changes at the end of 2003 in comparison with December 2002. More than a half of total client deposits as of 31 December 2003 consisted, just as in the preceding years, of deposits accepted from households. These deposits amounted to CZK 897.3 billion at the end of 2003, thus accounting for 56.2% of total client deposits. As a result of the fact that the growth rate of household deposits was higher than the overall growth of bank deposits, the share of deposits accepted from households in total deposits rose by 1.5 points. The development in 2003 thus resumed, after the decrease of bank deposits from households which occurred in the course of 2002, the preceding growth trend. The growth of deposits from households is to a considerable extent related to the amendment of the Act governing the conditions for building saving, according to which deposits made into accounts maintained with building societies by the end of the year 2003 opened for depositors with newly concluded contracts the opportunity of maintaining the existing level of yields.

Also in 2003, the non-financial sector has remained the second most important depositor. In the course of 2003 there was an increase not only in the total volume of this component of client deposits (by 9.8%, to CZK 362.1 billion), but also in its share of total deposits, by 1.4 points, to 22.7%. The growth rate of deposits from the non-financial sector in 2003, therefore, exceeded that of total deposits.

Deposits from the government sector, which in the area of bank deposits recorded an enormous upsurge in 2002 (the main reasons being the transactions of the Czech Consolidation Agency, which deposited its temporarily free funds in banks, and a methodological change with respect to the recording of deposits from the government sector, according to which also budgetary funds were newly included in deposits), have remained, in terms of their volume, in the third position in the breakdown of deposits by sector also at the end of 2003. Deposits from this sector with banks, however, markedly decreased as of 31 December 2003 in comparison with the end of 2002, specifically by more than one quarter, to CZK 117.4 billion. The share of government sector deposits in total deposits decreased by 3 points, as a result of which these deposits approached the share of deposits accepted from the institutions of the financial sector.

The structure of deposits by economic activity showed only minor shifts in the course of 2003. At the end of 2003, the most significant depositor from the point of view of the breakdown by sector has remained the sector of financial intermediation and insurance, in spite of the sudden fall, by almost one third, of the level recorded at the beginning of the year. This slump can be explained by parallel operation of several factors. A change that can be considered as significant was the change in the priorities of households, the free funds of which partially get into deposit accounts of banks indirectly, through financial intermediaries. In the environment of relatively low valuation of the capital invested on the financial and capital markets and low inflation a part of households gave priority to consumption over financial investments, while another group of investors deposited its funds in non-financial instruments, above all in real estate, in the expectation of growth of its price. At the same time the recipients of consumer credits, mortgage loans and loans provided by building societies began to repay the amounts due, which became a limiting element for further investment through the mediation of non-banking financial institutions. A further reason which can be identified was a change in the behaviour of non-banking financial intermediaries, who in the environment of low interest rates and recovering capital markets sought alternatives to banking accounts that would enable higher valuation of their clients' funds. Deposits of the financial intermediation and insurance sector in the amount of CZK 104.9 billion as of 31 December 2003 represented a 6.6% share of the total. The shares attained by the wholesale and retail trade, hotels and restaurants sector (6.2%) and by the manufacturing industry (5.8%) were only slightly lower at the end of

2003. Both the last-mentioned sectors, however, reinforced, in year-on-year terms, their shares in total deposits as a consequence of their rapid growth rates, which exceeded the growth rate of deposits as a whole. The other economic sectors under review were fluctuating below the limit of 2.2% of the total. Their influence on primary funds of banks is, therefore, very small.

Demand deposits of banks were strengthening their share in the total throughout 2003, above all to the detriment of short-term deposits. The share of demand deposits as of 31 December 2003 significantly approached one half of the total deposits accepted (48.9%). In year-on-year comparison, demand deposits increased by 19.5% and have thus become for the first time the most significant component of deposits from the point of view of maturity. The shift in the time structure of primary deposits, above all the fact that short-term deposits were outpaced by demand deposits, is related to the development of the preferences of bank clients, for whom in 2003, owing to the falling interest rates on time deposits, it was ever more advantageous to leave their funds on current accounts which assured, under the conditions of only slightly lower yields, immediate availability of the funds deposited. Short-term deposits (with maturities within 1 year) were thus for the first time shifted to the second position from the point of view of the breakdown of bank deposits by maturity. In the course of the year 2003 their volume fell by 17.1% and their share in the total decreased by 8.4 points, to 34.5%. Medium-term deposits maturing within the range of 1 to 5 years recorded year-on-year growth in their absolute value as well as in their share of the total. At the end of 2003, the proportion of deposits of long-term character in total bank deposits was almost negligible<sup>5</sup>. At present not only the clientele from among households, but also those institutional clients which are interested in long-term financial investments are offered a range of other non-banking financial products with a possibility of attaining higher yields.

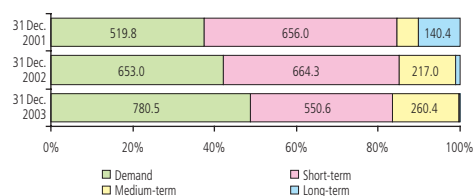
For banks the increasing share of demand deposits may, under certain circumstances, represent growth of liquidity risk due to the lack of liquid funds (although a certain level of demand deposits usually remains permanently available to banks). On the contrary, a decrease in deposits with maturities exceeding 5 years represents a reduction of the resources the bank has at its disposal in the long term.

### 3.2.2 SECONDARY FUNDS

*(for banks with licences as of 31 December 2003)*

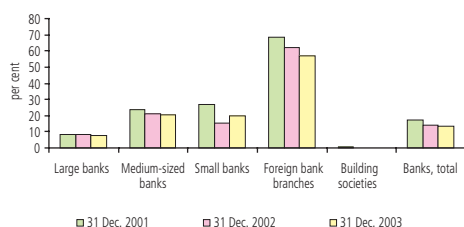
The degree of financing of the individual banks through the mediation of the interbank market depends not only on their need to replenish their funds, but also on their opportunities and abilities to obtain such funds while expending as low costs as possible. The activities on the interbank market, therefore, reach different levels in the individual bank groups and also in the individual banks within the same group. Liabilities to other banks are, after client deposits, the second most important component of banks' financing; at the end of 2003 their value (including bonds of other banks, acquired in primary issues not designed for trading, which are to a considerable extent represented by mortgage bonds), amounted to CZK 285.3 billion. This volume represents somewhat more than 17% of client deposits and almost 50% more than the issue of debt securities. In comparison with the end of 2002 the volume of liabilities to banks decreased by approximately 6%.

**CHART 24**  
TIME STRUCTURE OF DEPOSITS  
for banks with licences as of 31 December 2003



<sup>5</sup> The comparison with the values attained in 2001 is influenced by a change in methodology, which interfered with the time structure of client deposits similarly as it did in the area of credits. According to the methodology which has been in effect since 2002, all deposits with maturities from one to five years are classified as medium-term deposits, while until the end of 2001 the upper limit for classification of a deposit as a medium-term deposit had been four years.

**CHART 25**  
**SECONDARY FUNDS AS A PERCENTAGE OF EXTERNAL FUNDS**  
for banks with licences as of 31 December 2003



The need of the large banks to replenish their resources through the interbank market is very small, as these banks, thanks to their extensive branch networks, have at their disposal sufficient volumes of funds obtained directly from their clients in the form of client deposits. The share of secondary funds in external funds is even smaller in the group of building societies, where client deposits cover the need for funds almost fully, as deposits with this group of banks are preferred by the clients for reasons of a further advantage in the form of state support. The share of deposits accepted from other banks in total external funds at the end of 2003 amounted in the group of large banks to less than 8%, in building societies it did not even attain 1%, these shares being stable in the long-term.

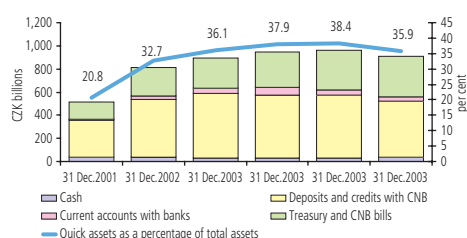
Foreign bank branches are a group which uses funds acquired from other banks most intensively. The proportion of liabilities to banks in the case of this group was in the long term between 60% and 70%; at the end of 2002 it, however, fell to a value exceeding only slightly 60% and as of 31 December 2003 it dropped even lower, under the level of 60%. Foreign bank branches are representatives of banking institutions, which due to their limited branch network have only the minimum share of client deposits (3.5% of the total client deposits accepted by banks in the Czech Republic, while their share in total assets is 9.6%). At the same time they are institutions, which are able to obtain a credit on the interbank market under very advantageous conditions (in most cases they are branches of internationally operating and acknowledged banks). The groups of medium-sized and small banks attain a similar level of financing by means of secondary funds; at the end of 2003 in both cases it was approximately 20%.

### 3.2.3 QUICK ASSETS

(for banks with licences as of 31 December 2003)

The growth rate of quick assets in 2003 slowed down in 2003, and the share of quick assets in total assets also grew less dynamically. Quick assets amounted to CZK 907.7 billion at the end of 2003, liquid assets after inclusion of trading securities attained the level of CZK 933.1 billion. As at 31 December 2003 these volumes represented a share in total assets on the level of 35.9% and 36.9%, respectively. The share of both quick assets and liquid assets in total assets has been permanently increasing during the recent years. The growth rate of the liquid component of the total assets managed by the banking sector is, therefore, more rapid than the growth rate of total assets. In the course of 2003 quick assets recorded a growth by not full 12%, liquid assets by almost 13%; in both cases there was an increase of the share by more than 3 points. The comparison with the values attained at the end of 2001 is influenced by a change in the methodology, which has been in force since the beginning of the year 2002.<sup>6</sup>

**CHART 26**  
**QUICK ASSETS**  
for banks with licences as of 31 December 2003



Both in the course of the year 2003 and at its end, deposits and credits with the central bank remained a component, which played the main part in total quick assets. As of 31 December 2003 their share exceeded 50%, which was roughly 8 points less in comparison with the end of 2002. Deposits and credits with the CNB amounted to CZK 484.8 billion at the end of 2003, having shown a moderate decrease in year-on-year terms. The second most significant component of quick assets is treasury and other bills with a volume of CZK 347.6 billion. The total volumes of treasury bills and their shares in quick assets have repeatedly increased in the course of the past three years. Neither current accounts with banks, nor cash are very important in terms of their volume. At the end of 2003, just as during the two preceding years, their aggregate share in quick assets did not exceed 10%.

<sup>6</sup> In January 2002, quick assets of the banking sector considerably increased their volume as a result of methodological changes, which could not have been taken into consideration retroactively. Deposits with banks under 24 hours and state coupon bonds began to be newly included in the value of quick assets; these, however, were adjusted for securities within the framework of reverse repo-operations.

Trading securities amounted to CZK 25.4 billion at the end of 2003, their decisive component being bonds, which accounted for more than 90% of them. The volume of trading securities increased by more than one half in comparison with end of the previous year. Bonds, and in particular, almost exclusively mortgage bonds, have become their main growth component.

### 3.2.4 MATCHING OF ASSET AND LIABILITY MATURITIES (for banks with licences as of 31 December 2003)

Banks reduce the risk of the rise of extraordinary expenses ensuing from the lack of liquid funds that are necessary to cover their actual needs by means of the maximum matching of maturities of assets and liabilities within the corresponding time horizons. The decisive criterion in this respect is the matching of the actual residual maturities of asset and liability items within the given time bands. The assets and the liabilities sides of the balance sheet are to a considerable extent represented by items payable on demand or those with very short maturities. Noticeable above all is the high, and in the course of the past year further increasing, share of demand client deposits in total liabilities of a bank (the liabilities items payable on demand maintain their volumes on certain levels and are taken account of by banks when they manage their liquidity risk). Similarly, on the asset side, there is noticeable growth of the volume of liquid and quick assets and of their share in total assets.

As of 31 December 2003, the time bands with residual maturities of less than a half-year recorded the predominance of liability items over asset items, even after the liquidity of demand deposits has been taken into consideration. The only exception was the time band from 1 week to 1 month, in which assets exceeded liabilities. The asset side of the balance sheet gained predominance in all intervals of residual maturities in excess of 2 years. The resulting net balance-sheet positions, whether positive or negative, after taking the liquidity of demand deposits into consideration, with respect to any of the time bands monitored do not exceed 6.5% of total assets. In the time bands of up to 3 months, which are considered to be decisive from the point of view of liquidity management, this percentage has in no case exceeded (in absolute terms) 3%. The liquidity position of the banking sector as a whole at the end of 2003 can be, therefore, evaluated as balanced.

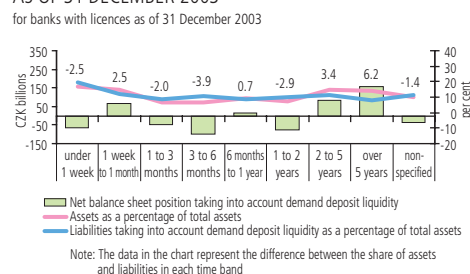
At the end of 2003 the share of the cumulative net position to 3 months in total assets attained, after deducting 80% of demand deposits, in absolute terms less than 2%, therefore a value, which is appreciably better than that reached at the end of 2002. The liquidity risk of the banking sector as a whole expressed by the indicator of the cumulative net position to 1 month (including the off-balance sheet and after deducting 80% of demand deposits) in relation to total assets, signals, at the value of the indicator - 0.9% as of 31 December 2003 a very balanced situation between the most liquid assets and liabilities, with a moderately predominating liability component. The resulting value of the indicator is, therefore, almost as auspicious as was the value of the respective position a year earlier.

In the longer time bands, i.e. from the residual maturity of 1 year upwards, the cumulative net positions show the predominance of asset items over liability items. A similar situation exists in the case of assets and liabilities with maturities in excess of 5 years. In both the maturity bands, therefore, banks use funds with shorter maturities to finance their medium-term and long-term activities, which may represent a potential risk.

### 3.3 MARKET RISK

Market risk represents the risk of potential losses a bank may incur as a result of changes in interest rates, in exchange rates, changes in share prices on the capital market or in prices of other assets. Characteristic of all categories of market risk is, therefore, dependence on

**CHART 27**  
ASSETS AND LIABILITIES BY RESIDUAL MATURITY  
AS OF 31 DECEMBER 2003



**TABLE 7**  
MATCHING OF ASSET AND LIABILITY MATURITIES  
for banks with licences as of 31 December 2003; percentages

	31 Dec. 02	31 Mar. 03	30 Jun. 03	30 Sep. 03	31 Dec. 03
Cumulative net position:					
to 3 months as a percentage of assets <sup>1)</sup>	-2.49	-0.36	-0.31	-0.76	-1.94
to 1 month as a percentage of assets <sup>1,2)</sup>	-0.73	0.25	-0.31	-0.70	-0.94
Assets/liabilities maturing:					
within 1 month	57.39	58.11	54.97	51.75	51.73
in more than 1 year	227.12	222.11	241.16	257.39	251.33
in more than 5 years	354.67	334.45	412.72	482.40	498.46

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



the development of market prices of assets or, as the case may be, of the respective instruments. Market risk also affects the liabilities side of the balance sheet, for it may influence the level of a bank's liabilities.

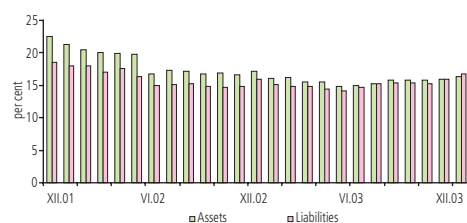
### 3.3.1 FOREIGN EXCHANGE RISK

(for banks with licences as of 31 December 2003)

Foreign exchange risk is a part of market risks. It consists in the possibility of a loss caused by movements of exchange rates. A bank is exposed to this risk in the event that it has foreign currency assets or liabilities in its balance-sheet or off-balance sheet. As the values of these assets and liabilities are expressed in Czech crowns, any changes in exchange rates automatically bring about changes in their values. The degree of a bank's exposure to foreign exchange risk depends on the proportion of foreign currency assets and liabilities in its balance sheet, which is given by the level of its involvement in foreign-currency activities. Czech banks implement most of their activities in the domestic currency. This, however, does not mean that foreign exchange risk is insignificant in the Czech banking sector. The decisive currencies are the euro and the US dollar.

In the course of the past two years the share of foreign exchange assets and liabilities in total assets and liabilities in the Czech banking sector stabilized on a level oscillating around 16%. At the end of 2003 the value of foreign exchange assets attained, at a 4% year-on-year decrease, the amount of CZK 426.0 billion (i.e. 16.3% of gross assets). The value of foreign exchange liabilities increased by 7.2%, to CZK 438.9 billion (17.4% of liabilities). The share of foreign exchange assets in total gross assets in comparison with the end of 2002 decreased by 0.9 point, while the share of foreign exchange liabilities in total liabilities increased, in year-on-year terms, by 0.9 point.

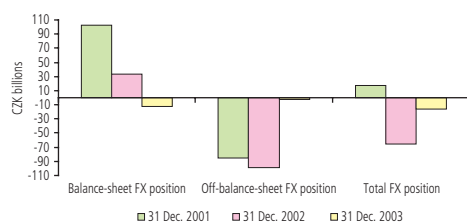
**CHART 28**  
FOREIGN EXCHANGE ASSETS AND LIABILITIES  
AS A PERCENTAGE OF TOTAL ASSETS AND LIABILITIES  
for banks with licences as of 31 December 2003



In the off-balance sheet, between the years 2002 and 2003, there occurred an increase of the foreign exchange component in both foreign exchange assets and foreign exchange liabilities. Foreign exchange off-balance-sheet assets increased to CZK 1,169 billion and, therefore, accounted for 30% of off-balance-sheet assets. Foreign exchange off-balance-sheet liabilities increased to CZK 1,172 billion and accounted for 31% of off-balance-sheet liabilities. The proportion of foreign exchange off-balance sheet assets in total off-balance assets grew by 5.1 points; the proportion of foreign exchange liabilities by 2.8 points. The most significant items were assets and liabilities from fixed-term operations.

The share of foreign currencies in assets and liabilities varies significantly between the individual groups of banks. This share is considerably high in particular in the case of foreign bank branches. The high share of foreign currencies in this group of banks is a consequence of their frequent and significant transactions with their business partners in the countries where their head offices are located. This concerns especially acquisitions of funds in the country of the head office. In the case of other banks the share of foreign currencies in assets and liabilities is considerably lower, which means that the other banks are less exposed to foreign exchange risk.

**CHART 29**  
FOREIGN EXCHANGE POSITION OF THE BANKING SECTOR  
for banks with licences as of 31 December 2003



Foreign exchange positions, i.e. differences between the balance-sheet and off-balance sheet assets and liabilities, recorded a very stormy development between the years 2001 and 2003. The long balance-sheet foreign-exchange position slumped in the course of 2002 from more than CZK 102 billion to less than CZK 34 billion (i.e. by 67%) and changed into a short foreign-exchange position (CZK -13 billion) in 2003. The decrease was due in particular to the falling item of other claims on other banks in foreign currencies, specifically to its component time deposits above 24 hours with other banks in foreign currencies. The foreign exchange risk of the balance-sheet was, therefore, gradually decreasing.

Between the end of the years 2001 and 2002 the short off-balance-sheet foreign exchange position deepened, falling from CZK –85 billion to almost CZK -100 billion. In 2003, however, the opposite development occurred, i.e. the value of the short off-balance-sheet foreign exchange position decreased to CZK –3 billion. The main reason for the change of the foreign exchange position when comparing the situation at the end of the years 2002 and 2003 was the sudden growth of assets from fixed-term operations with interest-rate instruments in foreign currencies (by CZK 235 billion). An important factor was above all a decrease of the guarantees accepted. The foreign exchange risk of the off-balance sheet, therefore, after its growth in 2002 markedly decreased in 2003.

The structure of foreign exchange assets changed in 2003 due to the influence of an absolute fall of the value of foreign exchange deposits with banks (by more than 36%). This item was the most significant item of foreign exchange assets in 2002 (it accounted for 37% of these assets). In 2003, however, its share fell to less than 25%, due to which it shifted to the second position. Credits had the largest share in foreign exchange assets (37%) in 2003. However, neither their share, nor their absolute amount (CZK 158 billion) changed in year-on-year terms. Securities, on the contrary, recorded the greatest growth in the share of foreign exchange assets, as well as in the absolute amount. Their value increased, year-on-year, by more than 50% and their share in foreign exchange assets attained roughly 23%.

On the side of foreign exchange liabilities, the structure did not change very much between the years 2002 and 2003. Client deposits remained the most significant item, even though their share moderately decreased, by 3 points, to 46.3%. There was, on the contrary, moderate growth of the second most important item, specifically bank deposits. Bond issues recorded the greatest growth. However, with regard to the fact that their share is very small, this growth was not reflected to any greater extent in the overall structure of foreign exchange liabilities.

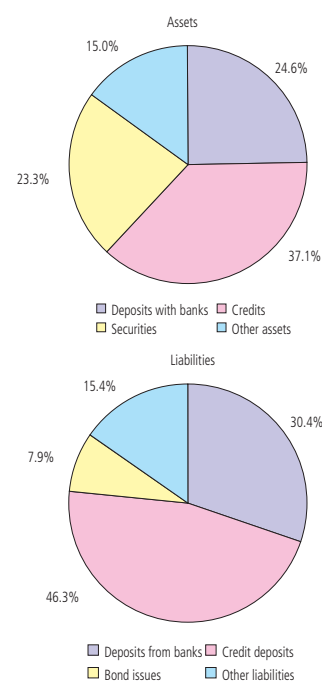
At the end of 2003 the share of the foreign exchange component in total credits granted to clients and deposits accepted from clients was fairly low (15% and 12%, respectively) and showed a repeated moderate decrease in year-on-year comparison. The share of foreign exchange in deposits and credits with banks decreased very markedly, specifically from 42% at the end of 2002 to 35% in 2003. On the contrary, a growing trend of the share of foreign exchange was recorded on the asset side in securities, on the liabilities side in bond issues and partially also in deposits and credits with banks.

The structure and volume of foreign exchange transactions differ very markedly between the individual banks. In 2003, the share of foreign exchange assets in total assets was the highest in the case of foreign bank branches (24.9%). As against 2002, however, it fell by almost 12 points. The lead of foreign bank branches is even more evident as regards the share of foreign exchange liabilities in total liabilities (49.6%), where there occurred, on the contrary, an increase by 9 points.

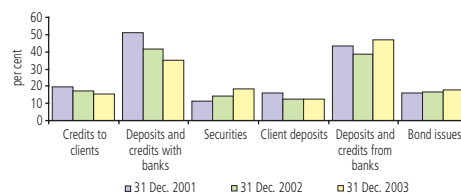
The medium-sized banks have the markedly highest share of foreign exchange in deposits and credits with banks; they recorded year-on-year growth by more than 20 points. The small banks are dominant as regards the proportion of foreign exchange in client deposits and credits. Large banks have the highest share of foreign exchange securities in total securities, just as they had in 2002.

The market shares of the bank groups in the individual foreign exchange items of the balance sheet of the banking sector recorded in the course of 2003 certain shifts in the areas of total assets, client credits and deposits with banks, while in client deposits they

**CHART 30**  
STRUCTURE OF FOREIGN EXCHANGE ASSETS  
AND LIABILITIES AS OF 31 DECEMBER 2003  
for banks with licences as of 31 December 2003



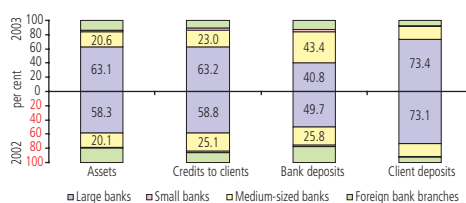
**CHART 31**  
SHARE OF FOREIGN EXCHANGE IN SELECTED PRODUCTS  
for banks with licences as of 31 December 2003



**TABLE 8**  
SHARES OF FOREIGN EXCHANGE IN ASSETS, LIABILITIES  
AND SELECTED TYPES OF BANKING TRANSACTIONS  
for banks with licences as of 31 December 2003; percentages

	Large banks	Medium-sized banks	Small banks	Foreign bank branches
Assets	19,3	14,0	22,1	24,9
Liabilities	8,2	19,4	14,1	49,6
Credits provided	7,1	4,3	38,5	6,8
Deposits and credits with banks	76,0	57,2	30,3	50,5
Securities	34,2	19,1	2,3	1,7
Deposits accepted from banks	4,9	3,4	6,5	4,2
Deposits and credits from banks	49,6	67,1	56,5	65,0
Derivatives	70,4	73,3	43,3	64,5

**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 2003



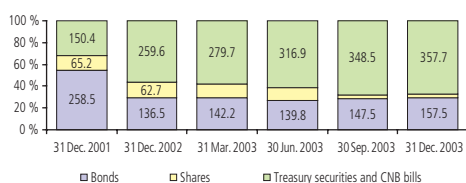
changed only to the minimum extent. In 2003 the share of the large banks in foreign exchange assets amounted to 63.1%, which was almost 5 points more than in the preceding year. In 2002, the shares of the medium-sized banks and the foreign bank branches fluctuated around 20%; in 2003, however, that of the foreign bank branches fell by almost 6 points. In both the years, the share of the other bank groups in foreign exchange assets was negligible.

In client credits, the shares of the individual bank groups were similar to those relating to total foreign exchange assets. In deposits with banks, the medium-sized banks strengthened their position very significantly in year-on-year terms, (the growth by almost 18 points, to 43.4%), thus gaining the largest share of foreign exchange deposits with banks. In the case of the large banks this share, on the contrary, markedly decreased (to 40.8%). Foreign exchange client deposits are constantly most often placed with large banks (73.4%), which can be attributed above all to the large branch network of this bank group.

### 3.3.2 EQUITY RISK

(for banks with licences as of 31 December 2003)

**CHART 33**  
**STRUCTURE OF SECURITIES PORTFOLIO BY SECURITIES TYPE**  
 for banks with licences as of 31 December 2003



The securities portfolios of the banks operating in the Czech Republic contain mainly bonds. Equity securities, i.e. shares and participation certificates (participation certificates are bearers of the risk connected with the assets into which investments are made, i.e. at present above all with shares, bonds and money market instruments), currently represent only a small part of total assets of banks. Banks are, therefore, endangered by equity risk, i.e. by the risk of an unfavourable development of their prices on the capital market, only to a limited extent. With regard to the fact that the portfolios of banks also include securities issued in foreign currencies, shares can be also associated with foreign exchange risk.

Since the beginning of 2002, any changes in prices of trading shares and shares available for sale, which are recorded on the asset side of a bank's balance sheet, have been reflected directly in the values at which they are entered into the balance sheet. These securities, if they are included in the portfolio for trading or for sale, are carried to account at fair value.

In 2003 the trend towards growth in the volume of Treasury bills and CNB bills in banks' portfolios continued. It was accompanied by a decrease in the volume of securities with variable yield. A change of the trend occurred in the area of securities with fixed yield, the volume of which increased in 2003.

Securities, including Treasury bills and CNB bills, attained the volume of CZK 535.0 billion as of 31 December 2003. Their share in total assets exceeded 20%, while in the past years it repeatedly found itself below the limit of one fifth of total assets. After the deduction of Treasury bills and CNB bills the banking sector administered securities in the volume of CZK 177 billion, this component having shown a decrease by 11%, in year-on-year terms. At the end of 2003 Treasury bills and CNB bills accounted for a two-third majority of the total portfolio of securities of the banks operating in the territory of the Czech Republic with year-on-year growth approaching 40%.<sup>7</sup>

In the structure of securities by type of yield, fixed-yield securities predominate markedly in the long term over variable-yield securities. As of 31 December 2003 fixed-yield securities

<sup>7</sup> When making a comparison with the values attained in 2001, it is necessary to take into account a change in the methodology which occurred in 2002 and which brought about an overall decline in the issue of securities in the holding of banks. Among the main changes was the carrying of securities designed for trading and sale to account at fair value and the shift of primary issues of debt securities not designed for trading among receivables.

were recorded in the volume of CZK 157.5 billion, which is more than an eight-multiple of the volume of variable-yield securities. While the volume of fixed-yield securities grew, year-on-year, by approximately 15%, the volume of variable-yield securities over the same period extraordinarily dropped, by more than two thirds. The reason for this decrease is the "clean-up" of the portfolio of ČSOB, from which some equity securities taken over from the former portfolio of IPB were removed.

Securities held to maturity have repeatedly formed the greatest share as regards the three types of portfolios in which securities held by banks are broken down, i.e. trading securities, securities available for sale and securities held to maturity including ownership interests. At the end of 2003 this component attained a-more-than-a-half part of the total securities portfolio. Securities held to maturity were followed by trading securities, while a year earlier the second position had been taken by securities available for sale.

The individual bank groups are characterised by different business and investment strategies. The large banks invested almost CZK 85 billion, i.e. about 57% of their overall securities portfolio, into securities held to maturity, including ownership interests; the greater part of these securities are securities with a fixed yield (over 87%). On the contrary, the medium-sized banks and the foreign bank branches invest above all in securities available for sale,<sup>8</sup> the predominating component of their portfolios being, just as in the case of the large banks, fixed-interest securities. Securities held to maturity are typical of the portfolios of building societies.

In the individual groups very differing shares of securities in total assets can be seen. At the end of 2003 the largest share, almost 50%, was recorded by the building societies. This high proportion is related to the building societies' limited possibilities for investment, which are given by law. On the contrary, the smallest share, less than 5%, was recorded by the foreign bank branches. The resulting average value of the sector, exceeding moderately 20%, is influenced in a decisive manner by the group of large banks, which at the end of 2003 held 22% of its assets in the form of securities.

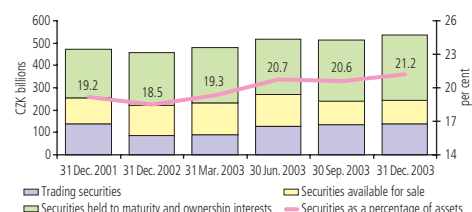
### 3.3.3 DERIVATIVES RISKS

(for banks with licences as of 31 December 2003)

By means of derivatives transactions it is possible to transform other risks attaching to the respective underlying asset and to pass on these risks to other market participants. The importance of the potential risks associated with derivatives transactions increased again in 2003 due to the fact that the volumes of these transactions, after a moderate decrease in 2002, resumed their growth, and it continues to rise, because their range is expanding. The risks attaching to derivatives transactions are, however, substantially smaller than their share in total assets of the sector might suggest (131% at the end of 2003, which represents year-on-year growth by approximately 8 points), for a predominant part of them are hedging transactions. Hedging instruments most frequently have the character of obligations and legally enforceable contracts, by means of which it is possible to secure above all the real value of an asset or liability.

The real value of a derivative changes in dependence on changes in the value of the underlying asset; in the case of banks of the Czech banking sector the underlying assets are most frequently interest rates and exchange rates. Derivatives are relatively easily available

**CHART 34**  
STRUCTURE OF SECURITIES PORTFOLIO BY PORTFOLIO TYPE  
for banks with licences as of 31 December 2003



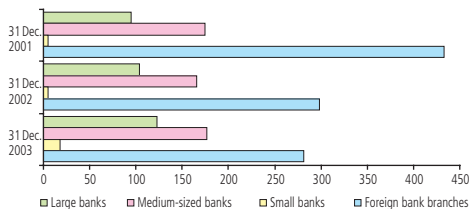
**TABLE 9**  
STRUCTURE OF SECURITIES AS OF 31 DECEMBER 2003  
for banks with licences as of 31 December 2003; excluding Treasury and CNB bills

	Large banks	Medium-sized banks	Small banks	Foreign bank branches	Building societies
Securities, total, in CZK billions	149.5	12.2	0.6	0.4	14.6
of which:		in CZK billions			
trading securities	21.2	3.7	0.2	0.0	0.2
securities available for sale	43.8	7.9	0.2	0.3	0.0
securities held to maturity and ownership interests	84.5	0.6	0.1	0.1	14.4
of which:					
bonds	130.5	11.7	0.3	0.4	14.6
shares	19.0	0.5	0.3	0.0	0.0
of which:		in per cent			
trading securities	14.2	30.7	39.0	0.0	1.6
securities available for sale	29.3	64.5	38.7	79.4	0.0
securities held to maturity and ownership interests	56.5	4.8	22.4	20.6	98.4
of which:					
bonds	87.3	95.8	45.4	99.3	100.0
shares	12.7	4.2	54.6	0.7	0.0

<sup>8</sup> Trading securities are securities which are held for the purpose of attaining profit from price differences within a short-term period. Securities held to maturity may be both equity securities and debt securities that a bank has resolved to keep in its portfolio until their maturity. Securities available for sale are a financial asset, which is neither a trading security, nor a security held to maturity.

**CHART 35**  
RECEIVABLES FROM DERIVATIVES TRANSACTIONS  
AS A PERCENTAGE OF TOTAL ASSETS

for banks with licences as of 31 December 2003



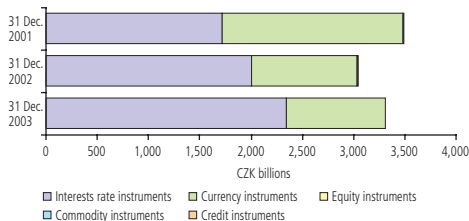
to investors, as they require a very small initial investment, while the risk of loss exceeds this investment many times. A characteristic feature of all derivatives transactions is the settlement of the respective deal as at some future date. The volume of derivatives transactions implemented at the stock exchange is very small, in most cases the transactions concerned are OTC transactions.

The share of receivables from derivatives transactions in total assets has remained almost stable over the past three years in the case of the medium-sized banks, while it has been growing on an ongoing basis in the case of the large banks and the small banks and falling in the case of the foreign bank branches.

There are great differences between the individual groups and between the individual banks, as regards their involvement in derivatives transactions. Foreign bank branches continue to be most active in this respect, in spite of the fact that in the case of this group the ratio between receivables from derivatives transactions and total assets repeatedly decreased in 2003. In December 2003 total receivables from derivatives transactions in the case of foreign bank branches attained a level amounting to less than a treble of their total assets, while as at 31 December 2001 their level exceeded a quadruple of their assets. The next group with a significant proportion of derivatives transactions in total activities is that of the medium-sized banks; the indicator comparing their volumes of derivatives and total assets attained again, after a moderate decrease in 2002, the level from the end of 2001, i.e. a value exceeding 170%. The group of large banks, which has the decisive share in derivatives transactions of the sector, recorded in the course of 2003 their further gradual growth, thus continuing the growth of the preceding years. It was only at the end of 2003 that after the long-term growth trend there occurred a moderate decrease. In year-on-year comparison, the ratio of receivables from derivatives to total assets in the case of large banks increased by approximately 9 points, to 122.4%. The small banks are not for the time being very active in the area of derivatives transactions and the building societies until the end of 2003 had not been allowed to carry out these transactions at all. In the case of the individual banks the ratio of receivables from derivatives to total assets fluctuated within the range of almost 0% to 667%. As of 31 December 2003, twenty-two banks out of the total number of thirty-five recorded receivables from derivatives in their accounts.

**CHART 36**  
DERIVATIVES STRUCTURE BY UNDERLYING ASSETS

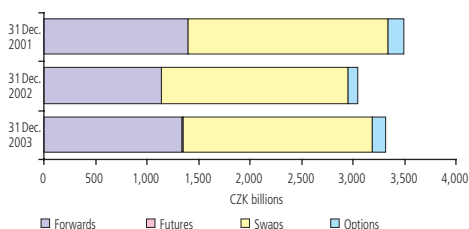
for banks with licences as of 31 December 2003



From the point of view of the underlying asset, with which also the type of risk attaching to the given derivatives transaction is related, and at the same time from the point of view of liquidity, the most strongly represented and continuously increasing component is interest rate derivatives. The following type of transactions, currency derivatives, have repeatedly decreased as regards both volume and share in the total, to the benefit of interest rate derivatives. At the end of 2003 interest rate derivatives accounted for 71% of the total receivables from derivatives (year-on-year growth by 5 points), currency derivatives for 29% (year-on-year decrease by 4 points). Equity instruments represented a quite negligible proportion; they accounted for less than 1% of total receivables from derivatives, while commodity derivatives recorded zero value. Credit derivatives began to be monitored separately for the first time in 2002. At the end of 2003 banks recorded not full CZK 1 billion of receivables from credit derivatives.

**CHART 37**  
DERIVATIVES STRUCTURE BY CONTRACT TYPE

for banks with licences as of 31 December 2003



In 2003, the structure of derivatives by type of transaction remained almost unchanged in comparison with 2002; three most important components of them, however, recorded growth of their absolute value. As regards the breakdown of derivatives by type of transaction, swaps amounting to more than CZK 1.8 trillion occupy the first place. In comparison with the end of 2002, the volume of these operations increased moderately; however, it did not attain the level from the end of 2001. Forwards with more than CZK 1.3 trillion as of 31 December 2003 continue to be the second most important component; their volume is, on the

contrary, higher, by 18%, in year-on-year comparison. Options are rather marginal when compared with forwards and swaps. At the end of 2003 they accounted for less than 4% of total receivables from derivatives. Also this type of transactions, however, developed further in 2003.

The banking sector as a whole recorded in 2003, just as in 2002, a profit from transactions with derivatives designed for trading. While in 2002 all the individual groups attained a profit from this type of transactions, in 2003 it was no longer so. The total profit was driven above all by the medium-sized banks and from among the individual categories of profit by profit from transactions with currency derivatives. With regard to the fact that banks use currency derivatives to hedge against foreign exchange risk, the profit or loss from this type of derivatives is compensated by a loss or profit from the exchange rate differences in the instruments hedged. Total profit from financial activities is only minimally influenced by derivatives transactions of all bank groups; this type of transactions represented less than 3% of profit from financial activities of the entire sector.

### 3.4 COUNTRY RISK

Country risk is a risk of a potential loss related to receivables or fulfilment of other contractual obligations by entities of a certain country. The reason for non-fulfilment of the obligations is in this case common for all business partners or, as the case may be, for the country itself. It may be the mere unwillingness to fulfil one's obligations (for example on a change of the political regime) or the actual inability to meet one's duties, which may be the result of an economic crisis or a natural disaster. Country risk in the narrower definition, when it would mean only a risk from potential non-fulfilment of a financial obligation, is closely linked with credit risk. The level of country risk may be sometimes analogous for several countries in a certain region, provided they display similar basic characteristics. Quantification of country risk is not easy; it is related to the level and structure of the operations aimed at the particular country or region and to the changes that are taking place in the countries of the bank's business partners and the speed of these changes. Banks manage this risk by limiting their exposure towards certain regions and by differentiating the conditions under which their business contracts are concluded.

#### 3.4.1 ACTIVITIES VIS-À-VIS NON-RESIDENTS

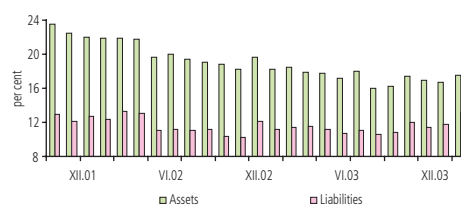
*(for banks with licenses as of 31 December 2003)*

Activities vis-à-vis non-residents as a whole enable to determine the overall level of risk towards clients and other banks having their registered office or residence abroad. An important factor in this respect is above all the absolute level of the bank's assets and liabilities (both balance sheet, and off-balance sheet) exposure, while a further significant moment is the structure of its non-resident assets and liabilities.

In 2003 there was a repeated decrease in total assets-side transactions vis-à-vis non-residents. As of 31 December 2003 gross non-resident assets amounted to CZK 457.6 billion, which represents a year-on-year decline approaching 10%. On parallel lines, there was also a decrease of the non-resident component in total assets. In the course of 2003 the proportion of non-resident assets in total assets fell by more than 2 points and at the end of the year it settled at 17.5%. With regard to the decreasing volumes and shares in asset transactions vis-à-vis non-residents it can be said that the risk connected with these operations is decreasing on an ongoing basis.

The share of non-resident liabilities in total liabilities as of 31 December 2003 attained 13.2%, in absolute terms CZK 333.2 billion. Non-resident liabilities thus, in contradiction

**CHART 38**  
NON-RESIDENT ASSETS AND LIABILITIES AS A PERCENTAGE  
OF TOTAL ASSETS AND LIABILITIES  
for banks with licences as of 31 December 2003



to asset transactions, in 2003 recorded growth in both absolute and relative terms in relation to total assets, specifically by 10.3% and by 1 point, respectively. Liabilities transactions vis-à-vis non-residents constantly remain on a much lower level than asset operations.

The exposure of banks in the area of non-resident business transactions is to a certain extent conditional on the changes in the ownership structure of banks operating in the Czech Republic. With regard to the fact that the privatisation of the original state-owned stakes in large banks was completed already in 2001, the only other factor acting towards growth of banking transactions with non-resident partners was the expected incorporation of the Czech Republic into the European Union. This expectation was reflected within the framework of their balance-sheet transactions only on the liabilities side of the balance sheet, i.e. above all in the area of primary and secondary deposits accepted by banks with licences of the Czech National Bank.

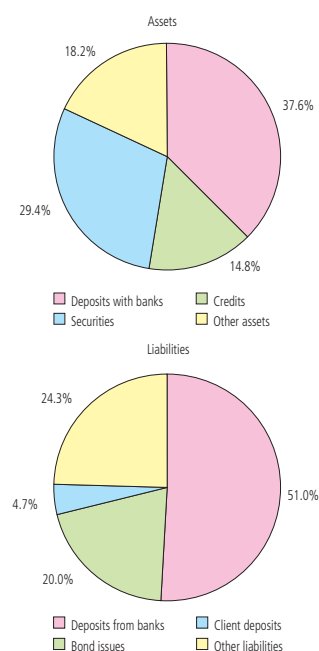
Off-balance sheet transactions during the two past years developed analogously on the assets and liabilities sides of the balance sheet. In 2002 there was a moderate decrease in the absolute values on both sides of the off-balance sheet, which in 2003 was replaced with growth driven by derivatives transactions (on the contrary, a fall was recorded in traditional operations). Not even a change of the trend, which occurred already in the first quarter of 2003, however, sufficed to reverse the falling shares in total assets, or liabilities, monitored in the off-balance-sheet. In terms of the order, non-resident off-balance sheet activities are ten times as big as the balance-sheet items. During the past three years, the share of these activities in the total off-balance sheet transaction always fluctuated above the level of 60%.

The decrease of non-resident business transactions on the asset side in 2003, just as in 2002, occurred above all thanks to the development on the interbank market. Receivables from non-resident banks recorded a year-on-year fall by more than one quarter and at the end of 2003 their volume attained CZK 171.9 billion. The share of non-resident deposits and credits with banks in total deposits and credits with banks in the course of 2003 fluctuated around the value of 60% and at the end of 2003 attained a value which was only negligibly lower than as of 31 December 2002. In 2003 the share of non-resident deposits and credits with banks in total non-resident assets fell by 8 points, attaining 37.6% in December 2003. Another factor that contributed to the overall decrease of non-resident assets was the development of securities issued by non-residents in the portfolios of banks. The decrease of this component was, however, more moderate than the decrease of total assets vis-à-vis non-residents, which is why the overall result was an increase of the share of securities in non-resident assets (by more than 2 points). Client credits are the third decisive component of non-resident assets. In 2003 they recorded growth by 16.5%, accompanied by an increase of the share in total non-resident assets (by more than 3 points). At the end of 2003 the volume of these credits amounted to CZK 67.9 billion, which is about one half of the securities issued by foreign entities.

Interbank business transactions represent the decisive component also on the liabilities side. Liabilities vis-à-vis non-resident banks, in contradiction to receivables from non-resident banks, in the course of 2003 increased (by almost 18%, to CZK 169.8 billion). The growth of the absolute volume brought about an increase of the share in the total vis-à-vis non-residents in excess of 50%, while at the end of 2002 this component was lower by approximately 3 points. Also the issue of debt securities recorded moderate growth in 2003; these securities, however, represent only an insignificant share of the total non-resident liabilities, which in the long term does not exceed 5%; this share slightly decreased in the course of 2003.

At the end of 2003 and likewise at the end of 2002 the large banks had a decisive, more than a half, share in total non-resident assets and also in individual products. A more marked

**CHART 39**  
STRUCTURE OF ASSETS AND LIABILITIES VIS-À-VIS  
NON-RESIDENTS AS OF 31 DECEMBER 2003  
for banks with licences as of 31 December 2003



decrease in the share of the large banks occurred only in the area of client credits. Deposits of clients with residences or registered offices outside the territory of the Czech Republic accepted by the large banks at the end of 2003 accounted for almost 84% of the overall non-resident deposits accepted, which is the highest share attained by the large banks among the components monitored. The position of the large banks on the market of non-resident deposits, has, therefore, strengthened further in year-on-year terms. The extraordinarily high share of non-resident deposits accepted by the group of large banks, just as the high share of credits granted to clients, is for the most part due to Československá obchodní banka, which has a relatively extensive branch network in Slovakia. The share of the large banks in the total is slightly lower in the case of credits granted to non-bank entities abroad, being moderately above the level of 65%. The large banks, therefore, decreased their share on the market of non-resident client credits, year-on-year, by almost 5 points. The medium-sized and the small banks, on the contrary, increased their shares. As regards the area of business activities vis-à-vis non-residents, the large banks repeatedly had the lowest market share on the interbank market. At the end of 2003 their share on this market was slightly below 60%, having recorded a moderate decrease in comparison with December 2002.

The shares of medium-sized banks and foreign bank branches in total non-resident asset transactions are relatively balanced (approximately 13%, foreign bank branches having a moderate predominance). Medium-sized banks are in the second position in non-resident client and bank deposits accepted. Also in the case of credits granted to clients medium-sized banks occupy the second place, being, however, closely followed by small banks. From among all the activities monitored, the share of small banks exceeded the level of 10% only in the case of client deposits (12.8%, with year-on-year growth by 5.2 points); in the other items the shares of this group continue to be very small. Banking transactions of building societies with foreign business partners are quite negligible.

Deposits with other banks and deposits accepted from other banks, respectively, are the items which recorded the greatest, or the second greatest, shares of non-resident business transactions in the total, when comparing the individual products in all bank groups. Activities vis-à-vis non-residents account for more than 50% of assets-side interbank transactions in the case of large banks, medium-sized banks and foreign bank branches. As regards liabilities-side interbank transactions, the non-resident component attains more than one half in the case of medium-sized banks, small banks and foreign bank branches, while in the case of large banks this share is immediately below the limit of 50%.

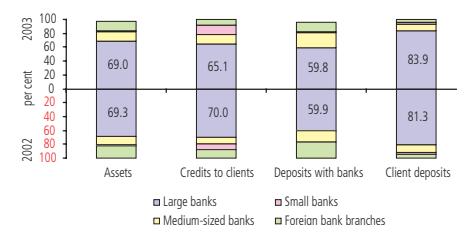
The non-resident shares also attain comparable values within the framework of derivatives transactions, which, except for small banks, fluctuate on a level close to 70% of total receivables from derivatives. Small banks, which are not very active in the area of the derivatives transactions either, had the lowest share of non-resident transactions in total derivatives transactions at the end of 2003. Building societies had been prohibited by operation of law to carry out any derivatives transactions until the end of 2003. Client deposits accepted show one of the lowest shares of business transactions with non-residents in all groups of banks; the volumes of non-resident securities are also very low in the case of small banks and foreign bank branches.

### 3.4.2 ACTIVITIES VIS-À-VIS INDIVIDUAL REGIONS AND COUNTRIES

(for banks with licences as of 31 December 2003)

The ability to distinguish the level of exposure by specific country is very important, for non-residents represent a very incongruous group of business partners from the point of view of their soundness. For a bank, therefore, it is much better to differentiate its international exposure in greater detail, either by regions sharing the same characteristics or, as the case may

**CHART 40**  
MARKET SHARES OF BANK GROUPS IN ASSETS AND SELECTED PRODUCTS VIS-À-VIS NON-RESIDENTS IN PER CENT  
for banks with licences as of 31 December 2003

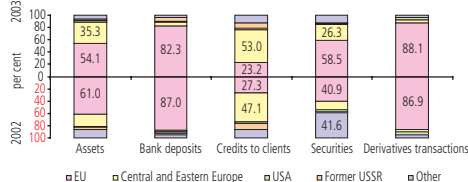


**TABLE 10**  
SHARES OF NON-RESIDENTS IN TOTAL ASSETS, LIABILITIES AND SELECTED TYPES OF BANKING PRODUCTS AS OF 31 DECEMBER 2003  
for banks with licences as of 31 December 2003; percentages

	Large banks	Medium-sized banks	Small banks	Foreign bank branches	Banks total
Assets	19.3	14.0	22.1	24.9	17.5
Liabilities	8.2	19.4	14.1	49.6	13.2
Credits provided	7.1	4.3	38.5	6.8	6.6
Deposits and credits with banks	76.0	57.2	30.3	50.5	57.3
Securities	34.2	19.1	2.3	1.7	25.0
Deposits accepted	4.9	3.4	6.5	4.2	4.0
Deposits and credits from banks	49.6	67.1	56.5	65.0	59.5
Derivatives	70.4	73.3	43.3	64.5	69.8



**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 2003



be, by countries, if the countries concerned have specific features or trends of development, or if the bank's exposure towards such countries is significant in absolute or relative terms.

Banks with licences of the Czech National Bank directed their foreign transactions, both in 2002 and in 2003, mainly towards the fifteen countries of the original European Union and to the ten new countries of the European Union. In 2003, however, partial changes occurred in the structure of the individual balance-sheet items. From among the business transactions with foreign partners that are reflected on the assets side of the balance-sheet of the banks constituting the Czech banking sector, the most decisive ones are above all the interbank market, derivatives transactions and purchases of securities implemented with the countries of the original EU. Credits, on the contrary, are to a decisive extent provided to clients from the countries of Central and Eastern Europe, most of which are new members of the EU.

At the end of 2003 assets vis-à-vis partners from the fifteen countries of the original European Union accounted for over 54% of the total international exposure of the Czech banking sector on the assets side (more than CZK 292 billion). In comparison with the end of 2002, therefore, there was a repeated decrease both in the absolute value of the exposure towards partners from the countries of the original European Union and in the respective share, specifically by 6 points. The international activities of Czech banks were thus, just as in 2002, shifting above all to the countries of Central and Eastern Europe. As of 31 December 2003 total assets vis-à-vis these countries accounted for 35.3% of all assets vis-à-vis abroad, which equals 65% of receivables from partners in the countries of the original European Union. In year-on-year terms, the share vis-à-vis partners from the countries of Central and Eastern Europe increased by more than four fifths. Analogously as in 2002, also in the course of 2003 there was intensive year-on-year growth within the framework of the countries of Central and Eastern Europe in the case of Hungary, Poland, Slovakia and Slovenia. Also the volumes of the assets-side business transactions with partners in Croatia increased. The total exposure of the Czech Republic vis-à-vis the European Union, owing to the decrease vis-à-vis the original countries of the EU and the current, somewhat higher, growth vis-à-vis the new members of the EU, attained a higher level in comparison with the end of 2002. The international exposure of the Czech banking sector vis-à-vis the group of countries of the former Soviet Union (which are not the new members of the EU) increased in 2003; its exposure vis-à-vis the United States of America moderately decreased.

Among the individual countries those which are most significantly represented with respect to the specific products monitored on the asset side of the balance sheet, are Slovakia in the area of credits and securities and further Germany and France on the interbank market. In the case of derivatives transactions, Czech banks attain the greatest exposure vis-à-vis the United Kingdom, Germany, Austria and France.

**TABLE 11**  
**MARKET SHARES IN LIABILITIES AND SELECTED**  
**LIABILITY-SIDE ITEMS INTERNATIONALLY IN PER CENT**  
for banks with licences as of 31 December 2003

	2003		2002	
	Liabilities	Deposits from banks	Liabilities	Client deposits
European Union	63.6	86.3	78.7	24.3
Central and Eastern Europe	30.4	10.1	14.8	53.4
USA	1.9	1.9	2.2	4.6
Former USSR	1.5	0.8	2.0	8.8
Other	2.6	0.9	2.3	8.9

Also liabilities vis-à-vis non-residents arise predominantly on the basis of relations with partners having their registered office or residence in one of the original countries of the European Union, or in the new member countries. Among the countries with the greatest exposures are, just as in the case of assets items, those in which the parent banks and head offices of foreign bank branches are based.

At the end of 2003 the exposure vis-à-vis the European Union on the side of total liabilities was smaller than on the asset side of the balance sheet. At the end of 2003 the liabilities items vis-à-vis the original fifteen members of the European Union amounted to CZK 264.8 billion. As regards the share in the total, however, the share of the fifteen EU countries in total non-resident liabilities amounted to over 60%, which is more than the corresponding share in assets. In year-on-year comparison, the share of the existing EU countries fell by more than 15 points,

which is at the same time also the value by which the share vis-à-vis partners from the countries of Central and Eastern Europe increased.

Banks with licences of the Czech National Bank accepted the greatest volumes of deposits from banks having their registered offices in Belgium, the Netherlands and Austria. The deposits made into the accounts of Czech banks were most frequently those of clients coming from Slovakia and Germany.

The values of the Herfindahl index and their development in relation to selected products and countries enable to evaluate above all the degree of concentration on the market of these products within the framework of the individual countries of the common EU area. The values and trends of the index conceived like this at the same time indicate to what extent the Czech banks are endangered in the selected products by the country risks connected with the individual economies. The concentration of banking exposure toward the countries of the European Union decreased in the course of 2003 in the area of securities and liabilities towards banks; on the contrary, it increased in the case of client business transactions and receivables from banks.

The Herfindahl index evaluating the concentration of specific products attained the highest values in the case of client deposits and receivables from clients from the twenty-five countries of the European Union, specifically 0.51 and 0.37, respectively, and in both cases its value increased, year-on-year. In comparison with end of the previous year there was also a moderate increase of the value of the Herfindahl index with respect to receivables from other banks, which as of 31 December 2003 attained the same level as liabilities to banks. The values of the index signal very good distribution of the exposure towards the individual countries of the EU in the area of the interbank market. The result attained is satisfactory, especially when we realize that the exposure of banks with licences of the CNB on the European interbank market is very high (over 80% of all deposits with foreign banks). The least degree of concentration expressed by the Herfindahl index is on the securities market, where in comparison with the end of 2002, a decrease by 0.05 to the resulting 0.12 occurred in the course of the following twelve months.

#### 4. CAPITAL ADEQUACY

*(for banks with licences as of 31 December 2003)*

Capital adequacy, which measures the ratio of banking capital to the capital required to cover unforeseen losses from banking operations, belongs among the most important instruments for monitoring banking prudence. If capital adequacy is sufficiently high, the capital will cover any potential losses of the bank and thus protect the deposited external funds, as are, for example, client deposits. When determining capital adequacy, various financial risks are measured. This increases further the security of the assets administered by banks. Apart from banks, capital adequacy is monitored, in a somewhat different form, also in other types of financial institutions that administer external funds.

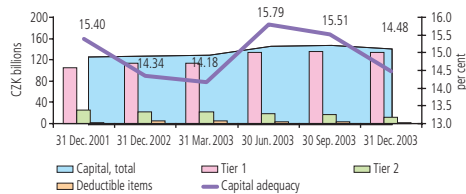
As of 31 December 2003 the average capital adequacy attained 14.48%, which represents year-on-year growth by 0.14 point. Following a moderate decrease in the first quarter of 2003 and subsequent growth to the yearly maximum of 15.79% recorded in the second quarter of 2003, the development of capital adequacy continued first by a moderate and later by a more marked decline. While the growth attained at the end of the first half-year was due to an increase of total capital in connection with the dates of holding annual general meetings, whose decisions on the distribution of profit have a bearing on the potential incorporation of a part of profit from the previous accounting period into the bank's capital, the decrease in the last quarter was caused by a fall in total capital.

**CHART 42**  
HERFINDAHL INDEX OF CONCENTRATION OF BANKING EXPOSURE TO PRESENT AND FUTURE EU MEMBER STATES for banks with licences as of 31 December 2003



**CHART 43**  
**CAPITAL STRUCTURE**

for banks with licences as of 31 December 2003



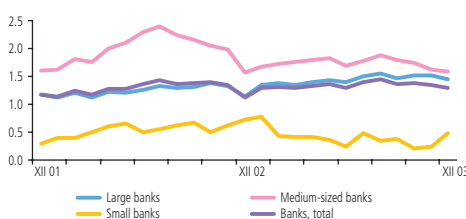
At the end of 2003 banks administered total capital amounting to CZK 143.7 billion, which was 10.5% more than at the end of 2002. After the growth of total capital during the first three quarters of the year, a decrease occurred at the end of the year. The major component of total capital is Tier 1 capital, which consists above all of equity capital, reserve funds and retained profit from previous accounting periods. Newly included in this component of capital are the majority of deductible items that decrease the level of banking capital. Tier 1 grew, year-on-year, by more than 18%, to CZK 133.9 billion. The less important Tier 2 capital, which comprises in particular subordinate debt and general provisions for covering risks, fell in year-on-year terms by almost 45%, to CZK 12.0 billion, as a result of repayment of subordinate debts of two banks. Banks do not use as yet Tier 3 capital, which can also serve to strengthen capital equipment of banks.

The structure of the capital requirement is directly dependent on the structure and volume of banking activities. While the banking portfolio includes traditional financial instruments that the bank intends to hold to maturity (above all the credit portfolio), the trading portfolio is represented by financial instruments held for the purpose of trading and gaining profit from price differences within a short-term horizon. Czech banking, in particular its small banks and building societies, is still characterised by high concentration on the area of traditional banking activities; the predominance of the banking portfolio over the trading one has been maintained in the long term on a stable level.

More than 90% of the total capital requirement (which reflects the need for capital coverage of unforeseen losses arising from overall banking activities) consists of the capital requirement for the credit risk of the banking portfolio, because the predominating part of the balance sheet of the Czech banking sector are assets of the banking portfolio, which are at the same time the most risky component of assets. The total capital requirement increased in year-on-year terms by 9.4%, to CZK 79.4 billion, while the capital requirement for covering the risks ensuing from the banking portfolio grew by 9.6%, to CZK 73.8 billion, and the capital requirement of the trading portfolio by 7.4%, to CZK 5.6 billion.

**CHART 44**  
**RATIO BETWEEN TRADING PORTFOLIO AND BANKING PORTFOLIO ASSETS INCLUDING OFF-BALANCE SHEET**

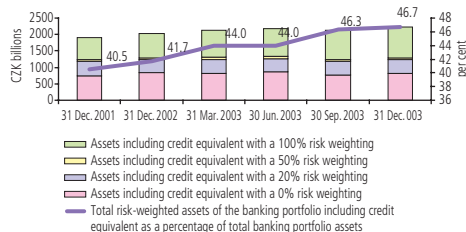
for banks with licences as of 31 December 2003



With regard to the mighty development of derivatives transactions during the few recent years the Czech banking sector saw enormous growth of the trading portfolio monitored in the off-balance sheet accounts. At the end of 2003 the off-balance-sheet items of the trading portfolio amounted to more than a quadruple of the off-balance-sheet items of the banking portfolio (which has retained its stable level). This development, recorded on an ongoing basis since 2001, has resulted in an overall moderate predominance of the trading portfolio over the banking portfolio, provided that both the balance sheet and the off-balance sheet accounts are taken into consideration. The ratio monitored may sometimes markedly differ in the individual bank groups; it attains the highest values in the group of middle-sized banks.

**CHART 45**  
**RISK-WEIGHTED ASSETS**

for banks with licences as of 31 December 2003



In the structure of risk-weighted assets, assets with 100% risk weight reinforced already for the second time their position in year-on-year terms, thus newly placing themselves in the first position, the second being occupied by risk-weighted assets with 0% risk weight.

At the end of 2003 the volume of total risk-weighted assets of the banking portfolio attained CZK 1,040 billion, which means year-on-year growth of 23.7%. With regard to the increasing level of risk attaching to the assets of the banking portfolio, this increase was higher than the growth of their accounting value. At the end of 2003 the ratio of risk-weighted assets in the banking portfolio to their overall book value amounted to 46.7%, which represented a rise by 5.0 point as against the end of 2002.

The year-on-year stagnation of the average capital adequacy was reflected also in the distribution of capital adequacy of the individual banks. The number of banks falling within

the individual ranges of capital adequacy values changed above all in favour of banks attaining capital adequacy within the range of 15% to 20%. At the end of 2003 also a part of banks with originally lower capital adequacy values, as well as a part of banks, which originally recorded a higher value of this ratio, placed themselves within this category. All the banks exceeded the 8% limit and the capital adequacy values of the three largest banks were within the range of 10% to 16%.

The distribution of the capital adequacy values of banks indicates the increasing equilibrium of banks in terms of their capital equipment. An exception are the markedly high capital adequacy values of four banks which exceed 50%; this as a rule signals a specific orientation of the respective bank or, in certain cases, also its low level of activity. At the end of 2003, only two banks recorded a relatively low capital adequacy ratio, less than 10%.

## 5. BANKING SECTOR PERFORMANCE

*(for banks with licences as of 31 December 2003)*

In 2003 the banking sector attained repeatedly very good financial results. The creation of profit in 2003 was on a sufficient level and thus enabled banks to reinforce the capital which is needed to cover any contingent risks connected with the banking business.

The net profit attained by the banking sector was the result of the effort to maximise creation of profit from financial activities and minimise the costs expended. Of great importance for the overall economic results attained in 2003 was the quality of assets, the improvement of which required lower creation of provisions in comparison with the previous years. The administrative costs expended, which are closely related to the costs expended on the employees and operation of the workplaces, reflect the current state of the overall productivity and efficiency of banking activities.

### 5.1 PROFIT FROM FINANCIAL ACTIVITIES

Profit from financial activities is the decisive component of the overall profit of the banking sector before taxation. The long-term success of banks' financial management is fully dependent on the ongoing creation of profit from financial activities, the resulting level of which is influenced on the one hand by internal factors, which are completely in the hands of the banks' managements (for example allocation of assets to gainful business transactions, diversification of risks or introduction of new technology), on the other by the external economic environment (the year 2003 was marked by of low interest rates and, therefore, also of falling margins). Other transactions, for example sale of assets, release of reserves, et alia, may also become components of net profit. Such transactions, however, are extraordinary income, which may improve the overall picture of the financial management in the short-term horizon only.

In 2003, profit from financial activities recorded in the first place the growth of profit from fees and commissions to the detriment of interest profit and profit from other activities. As regards the structure of profit from financial activities by type, the year 2003 saw the growth of profit from transactions with clients, while profit from interbank transactions showed a repeated decrease. Profit from financial activities in 2003 attained CZK 90.3 billion, which was 1.2% less than in 2002, but 2.2% more than in 2001.

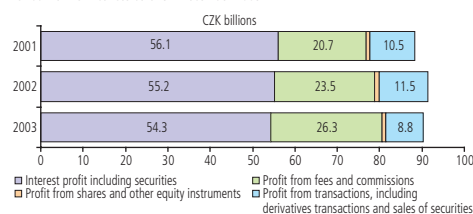
Interest profit in the amount of CZK 54.3 billion was also in 2003 the major component of total profit from financial activities, to which it contributed 60.2%. The share of interest rate profit in the total decreased moderately (by 0.2 point) in year-on-year comparison, for the fall of its absolute level was somewhat faster than the decrease of overall profit from

**TABLE 12**  
BREAKDOWN OF BANKS BY CAPITAL ADEQUACY  
for banks with licences as of 31 December 2003

	31 Dec. 98	31 Dec. 99	31 Dec. 00	31 Dec. 01	31 Dec. 02	31 Dec. 03
under 8 %	1	0	0	0	0	0
8 to 12 %	7	4	6	3	6	6
12 to 15 %	4	9	5	7	8	6
15 to 20 %	4	7	6	8	2	5
20 to 50 %	4	1	4	4	7	5
over 50 %	5	4	4	3	3	4

**CHART 46**  
STRUCTURE OF PROFIT FROM FINANCIAL ACTIVITIES  
BY PROFIT TYPE

for banks with licences as of 31 December 2003



financial activities. The reason for the fall of interest profit in 2003 both in absolute and relative terms was low interest rates on banking credits, which corresponded to the reflection of the rates announced by the central bank in rates prevailing on the interbank market and partly also in client interest rates. The individual components of interest profit, however, did not develop according to the same scenario in the course of 2003. While in relation towards the government and other banks there was a decrease, interest profit from client transactions, after a certain drop in 2002, showed a repeated increase as a result of the growing credit issue above all vis-à-vis households.

Profit from fees and commissions recorded a repeated growth, having increased as at 31 December 2003 in year-on-year terms by more than 12%. Annual creation of this type of profit accounted for 29.2% of the total (year-on-year growth by 3.5 points). The increasing fees charged to the clients of banks were not perceived positively by the public. Nevertheless, the growth of fees is to a considerable extent related to the growth of non-cash payments (for example salaries sent to employees' current accounts instead of salaries paid out in cash or direct debiting current accounts replacing thus payments through the post office) and to the introduction of new products and services that are not connected with interest profit and expenses, but with fees. In 2003 fees for services connected with payments formed the decisive part of total profit from fees and commissions, specifically 66%. Profits derived from other financial activities, i.e. from foreign exchange transactions, derivatives transactions and from the holding and sale of securities accounted only for about 11% of profit from financial activities.

From the point of view of the breakdown of profit by type of financial activity, profit derived from fees and commissions contributed the highest share in 2003, being closely followed by profit from client transactions. These components represent about 29% and 25%, respectively, of profit from financial activities. The share of securities transactions is below the level of 20% of total profit from financial activities and profit gained by banks from their transactions with other banking institutions generated less than 15% of the total. Foreign exchange, derivative and other transactions are less important from the point of view of creation of profit and their aggregate share in total profit from financial activities was only moderately above the level of 7% in 2003.

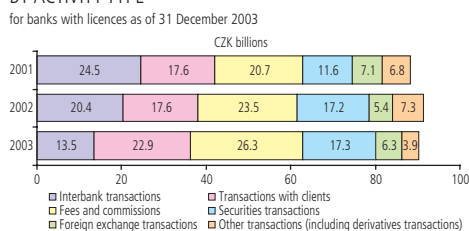
In year-on-year comparison, client transactions showed growth of their share in the total by 6.1 points and profit from fees and commissions by 3.5 points. On the contrary, profit attained through transactions on the interbank market fell by almost one third in comparison with 2002, as a result of which its share in the total decreased by 7.4 points. Securities transactions have retained, in both the absolute and relative evaluations, their position from the year 2002.

The repeated year-on-year fall of the indicator expressing the share of profit from financial activities in average net total assets, which as at 31 December 2003 attained 3.62% (a decrease by 0.09 point), reflects the moderate year-on-year decrease in total profit from financial activities in 2003 and the simultaneous growth of total assets.

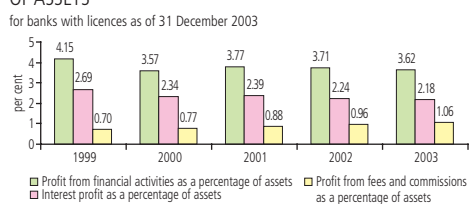
The slowly changing structure of profit from financial activities is reflected in the development of the ratios of its individual components to average assets. Interest profit attained in 2003 amounted to 2.18% of total average assets; this value is lower by 0.06 point than in 2002 and by 0.21 point lower than it was in 2001. In parallel with the decrease of the share of interest profit in assets occurs the growth of the indicator expressing profit from fees and commissions related to total average assets. The value of this ratio has been growing constantly since 1999. At the end of 2003 this indicator attained 1.06%, which is 0.1 point more than in 2002; in comparison with 1999 the difference amounts to 0.36 point.

The year 2003 was a period when all financial institutions were carrying out their transactions in the environment of low interest rates. There was a further fall in the base

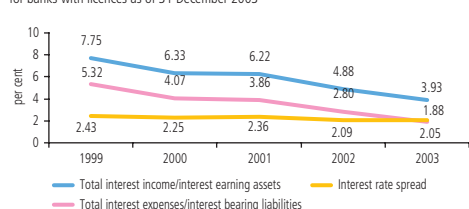
**CHART 47**  
STRUCTURE OF PROFIT FROM FINANCIAL ACTIVITIES  
BY ACTIVITY TYPE



**CHART 48**  
PROFIT FROM FINANCIAL ACTIVITIES AS A PERCENTAGE  
OF ASSETS



**CHART 49**  
SELECTED PROFITABILITY INDICATORS



interest rates announced by the Czech National Bank. The decrease of the rates announced by the central bank found response in the reaction of commercial banks, which gradually repeatedly decreased their interest rates on both the credits granted and the deposits accepted. A change of the trend occurred only at the very end of the year. Simultaneously with the decrease of commercial interest rates there was, in 2003, also a further decrease of the interest rate margin (by 0.04 point, to 2.05). Interest rate margin recorded the lowest value for the past five years. This had a negative impact on interest profit and, therefore, also on total profit from financial activities.

## 5.2 NET PROFIT

In 2003, the net profit of the banking sector of the Czech Republic amounted to CZK 30.2 billion, which represents a moderate decrease, by 0.7 %, year-on-year. The banking sector thus succeeded in maintaining the high level of profit it had attained for the first time in 2002. The banking sector recorded profit for the fourth consecutive year. Two banks, out of the total number of thirty-five, recorded a loss at the end of 2003.

The resulting value of net profit is dependent above all on profit from financial activities, on administrative expenses and on net creation of provisions and reserves. The amount of net profit created is also influenced by other operating and extraordinary costs and by income tax.

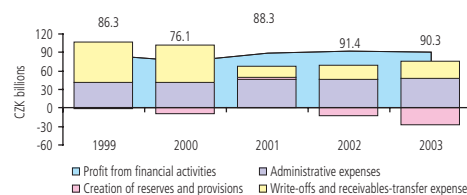
During the past three years banks operating in the territory of the Czech Republic created profit from financial activities on a level which exceeded considerably their cost items created on a regular basis. In 2003 profit before taxation and other and extraordinary income/costs amounted to more than CZK 41 billion, which is a double of the level attained in 2001 and CZK 1,3 billion more than in 2002. In 2003, in relative terms, profit from financial activities exceeded the most significant cost items (administrative costs, creation of provisions, write-offs and costs of transfers of receivables) by 87%, i.e. year-on-year increase of 22 points. In 2003, the growth of surplus profit from financial activities over regularly expended cost items was caused on the one hand by a decrease in cost items (altogether by almost 13%), on the other by maintaining the attained level of profit.

In 2003 (just as in 2002), the main reason for the year-on-year fall in total regular costs related to the bank's operation, covering of its risks and its costs arising as a result of sale of low-quality assets was the release of reserves and provisions. The overall level of released reserves and provisions in 2003 amounted to CZK 27.8 billion, which was roughly a double of the value attained in 2002. Administrative costs recorded again, after a moderate decrease in 2002, slight growth, by 1.1%, and their total level in 2003 amounted to CZK 47.5 billion. Write-offs and costs of transfer of receivables attained CZK 28.5 billion, with year-on-year growth by almost one third, and thus became one of the most rapidly increasing cost items.

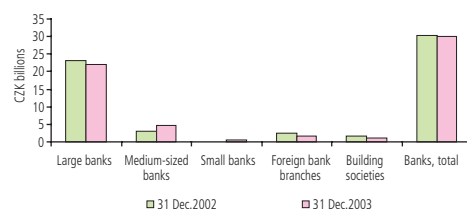
Other operating and extraordinary costs amounted to CZK 0.7 billion in 2003, while in 2002 the results of other operating and extraordinary activities of the banking sector increased its total profit by revenues amounting to CZK 7.5 billion. The income tax paid by the banking sector in 2003 was CZK 11.1 billion, which was CZK 0.1 billion less than in 2002.

In 2003, the three most profitable banks generated more than 64% of net profit, the five banks that were the most successful as regards the creation of net profit, attained almost 79%, and the ten major banks approached 90% of the total net profit of the banking sector in the Czech Republic. These values, in all cases slightly lower than in 2002, attest to the increasing competition on the domestic market. All the individual bank groups monitored were profitable both in 2003 and in 2002.

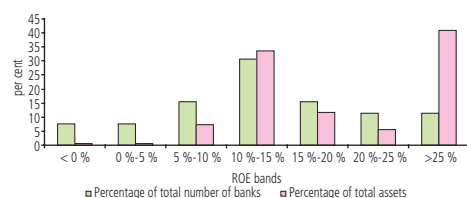
**CHART 50**  
SUFFICIENCY OF PROFIT FROM FINANCIAL ACTIVITIES  
for banks with licences as of 31 December 2003



**CHART 51**  
COMPARISON OF NET PROFIT  
for banks with licences as of 31 December 2003



**CHART 52**  
**DISTRIBUTION OF RETURN ON TIER 1 IN PER CENT**  
**AS OF 31 DECEMBER 2003**  
 for banks with licences as of 31 December 2003



In 2003, the banking sector attained return on assets on the level of 1.21%, which represents a moderate decrease by 0.03 basic point in comparison with 2002. In 2003, just as in 2002, the large banks recorded the highest values as regards return on assets, specifically 1.37% (with a slight year-on-year decrease by less than 0.1 point). Large banks were followed by small banks with 1.29%, which, on the contrary, recorded a marked improvement in year-on-year comparison, for the return on their assets rose by more than 1 point. Medium-sized banks also exceeded the level of 1% in 2003, attaining 1.13%. They, too, increased their return on assets in the course of 2003. Foreign bank branches, just as building societies, recorded a moderate decrease of return on their assets in year-on-year terms, the results of both these groups being below the level of 1%.

Return on equity capital Tier 1 for the entire banking sector attained the value of 23.8% in 2003. This represents a decrease by 3.6 points, in year-on-year comparison. As against the results of 2001, however, the value of the return on Tier 1 is 7.1 points higher. The resulting value of the indicator is influenced above all by the very good financial results attained in the group of large banks. The return on Tier 1 in 2003 in the case of large banks amounted to 25.8% (which was 5.1 points less than in 2002).

The distribution of the values of return on Tier 1 capital shows their marked concentration within the range of 10% to 15%. The values attained by eight banks are within this range. The banks with return on equity within this range account for one third of total assets. Banks that attained a higher value of return on Tier 1 capital than 25% recorded an even more marked share in total assets at the end of 2003. This very high value was attained by three banks, which accounted for more than 40% of total assets. Only two banks recorded a negative value of this indicator. In both cases the banks concerned are institutions handling a small amount of total assets. The share of banks falling within this range in total assets was, therefore, almost negligible (0.5%).

### 5.3 EFFICIENCY AND PRODUCTIVITY

The year-on-year growth of administrative expenses by 1.1%, to CZK 47.5 billion, in 2003 was affected above all by the growth in personnel expenses. Similarly as in the past years, the contradictory trends as regards the development of the number of branches and employees of large banks on the one hand and the majority of other bank groups on the other continued. While in the case of large banks the number of employees and contact places moderately decreased in year-on-year terms, in the case of other groups, except for foreign bank branches, these figures went up. The in the long term almost stagnating administrative expenses, the continuing rationalisation of work at the head offices of large banks and the introduction of new technology into the internal organization and distribution of banking services will probably contribute towards increasing the efficiency of the administration of banks and the extent and quality of banking products also in the future.

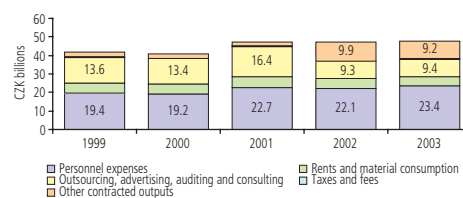
The decrease in the administrative expenses of the large banks was outweighed by the growth of administrative expenses in other bank groups in 2003. The most important component of administrative expenses are personnel expenses, which following their 6% growth in the course of 2003 amounted to CZK 23.4 billion at the end of this year. Personnel expenses accounted for 49.2% of the overall administrative expenses and this share rose by 2.2 points in comparison with 2002. The outsourcing, advertising, audit and consultancy expenses became the second most significant item of administrative expenses in the past year; these amounted to CZK 9.4 billion and exceeded the expenses on other contracted outputs (CZK 9.2 billion). Expenses on rent and material consumption dropped by 5.6%, to CZK 5.2 billion.

The proportion between administrative expenses and total assets attained 1.9% at the end of 2003 and practically did not change as against the preceding year. Owing to the fact that the decrease in profit from financial activities was greater than the decrease in administrative expenses, the share of administrative expenses in profit from financial activities (the cost-income ratio) grew in the case of large banks in 2003. The value of this indicator also increased in the case of foreign bank branches and building societies, where, on the contrary, in both cases the growth rate of administrative expenses outpaced the growth rate of profit from financial activities. Medium-sized and small banks also succeeded in decreasing the value of the ratio between administrative expenses and profit from financial activities, for the growth dynamics of profit from financial activities markedly outstripped that of administrative expenses. The administrative expenses/profit from financial activities ratio for the entire banking sector increased from 51.4% to 52.6 % in 2003.

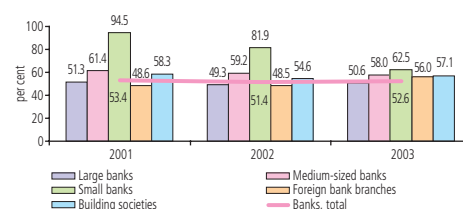
The ratio between administrative expenses and profit from financial activities is one of the basic indicators evaluating the efficiency of work of banking institutions. High values of this indicator point to less efficient utilisation of resources by some banks. With regard to different business orientation of the individual banks, however, a more objective evaluation could be attained by comparing banks within individual groups, for example on the basis of the differences between the efficiency values attained by banks in the same group, i.e. by banks with comparable conditions of operation and business orientation. The most balanced efficiency values are constantly attained by banks included in the group of large banks and in the group of building societies. In 2003 the difference between the lowest value of the administrative expenses/profit from financial activities indicator and the average value in these groups was 7 and 9 points, respectively. On the contrary, the lowest efficiency, according to this criterion, was recorded by small and medium-sized banks, where in 2003 the above-mentioned difference attained 43 and 30 points, respectively. The high values in the groups of small and medium-sized banks are, however, partly influenced by the greater differences in the orientation of the individual banks in these groups. The value of the indicator is also influenced by the time which has elapsed from the launching of a bank's activities, for newly-established institutions are able to attain the corresponding values of profit only after the lapse of a certain period.

As a result of a decrease in the number of employees and the parallel growth of administrative expenses, the amount of these expenses per employee increased by 2.8%, to CZK 1.22 million in 2003. Profit from financial activities per employee grew, year on year, by 0.2% to CZK 2.31 million. Similarly, the development of net profit per employee almost stagnated in 2003, and, therefore, there was net profit in the amount of CZK 0.77 million per each employee of the Czech banking sector. Owing to the decrease in the number of employees and the growth of total assets of the banking sector the overall assets administered by one employee increased by 3.2%, to CZK 64.8 million in this particular year.

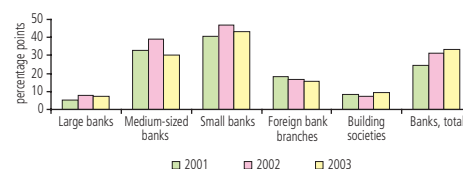
**CHART 53**  
STRUCTURE OF ADMINISTRATIVE EXPENSES  
for banks with licences as of 31 December 2003



**CHART 54**  
COST-INCOME RATIO  
for banks with licences as of 31 December 2003

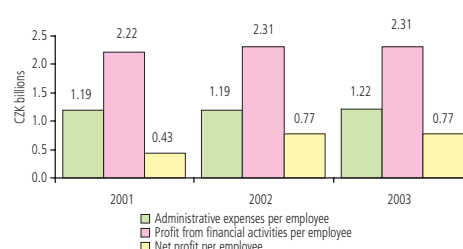


**CHART 55**  
COST-EFFECTIVENESS  
for banks with licences as of 31 December 2003



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 2003







## C. APPENDICES

### Survey of banks and foreign bank branches as of 31 December 2003

#### I. Banks

Bank	Start of operation	Equity capital in CZK millions (registered)	Number of banking outlets		Number of employees
			in Czech Rep.	abroad	
Citibank a.s.	24 Jun. 1991	2,925	4		649
CREDIT LYONNAIS BANK PRAHA, a.s.	12 Nov. 1992	600	1		84
Česká exportní banka, a.s.	1 Jul. 1995	1,650	0		125
Česká spořitelna, a.s.	1 Jan. 1969	15,200	666		11,276
Českomoravská hypoteční banka, a.s.	10 Jan. 1991	1,319	36		344
Českomoravská stavební spořitelna, a.s.	8 Sep. 1993	1,500	5		610
Českomoravská záruční a rozvojová banka, a.s.	1 Mar. 1992	2,132	6		262
Československá obchodní banka, a.s.	1 Jan. 1965	5,105	216	77	8,599
Dresdner Bank CZ a.s.	12 May 1992	1,000	3		138
eBanka, a.s.	1 Jan. 1991	1,042	64		816
GE Capital Bank, a.s.	22 Jun. 1998	510	184		2,038
HVB Bank Czech Republic a.s.	1 Jul. 1992	5,125	24		1,219
HYPO stavební spořitelna a.s.	1 Oct. 1994	500	10		110
IC Banka, a.s.	6 Apr. 1994	500	1		38
Interbanka, akciová společnost	1 Feb. 1991	1,709	0		110
J&T BANKA, a.s.	18 Dec. 1992	501	0		90
Komerční banka, a.s.	1 Jan. 1990	19,005	341		8,207
První městská banka, a.s.	1 Sep. 1993	500	2		87
Raiffeisenbank a.s.	1 Jul. 1993	2,500	43		1,044
Raiffeisen stavební spořitelna a.s.	7 Sep. 1993	650	0		192
Stavební spořitelna České spořitelny, a.s.	1 Jul. 1994	750	0		304
Volksbank CZ, a.s.	1 Jan. 1994	750	18	1	422
Všeobecná stavební spořitelna Komerční banky, a.s.	16 Dec. 1993	500	0		366
Wüstenrot hypoteční banka a.s.	23 Dec. 2002	600	0		41
Wüstenrot - stavební spořitelna a.s.	11 Nov. 1993	550	0		173
Živnostenská banka, a.s.	1868	1,360	27		803

#### 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		123
COMMERZBANK Aktiengesellschaft, pobočka Praha	1 Dec. 1992	Germany	2		172
Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka	1 Dec. 1993	Germany	0		70
HSBC Bank plc - pobočka Praha	1 May 1997	United Kingdom	0		43
ING Bank N.V.	1 Sep. 1993	Netherlands	0		170
Raiffeisenbank im Stiftland eG pobočka Cheb, odštěpný závod	2 Jan. 1995	Germany	1		29
Sparkasse Mühlviertel - West banka a.s. pobočka České Budějovice	20 Mar. 1995	Austria	6		55
Všeobecná úverová banka a.s., pobočka Praha	14 Jan. 1993	Slovakia	2		76
Waldviertler Sparkasse von 1842	1 May 1994	Austria	7		119

### III. Banks in liquidation or in bankruptcy proceedings

Bank	Start of operation	Revocation of licence
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
Plzeňská banka, a.s.	1 Oct. 1993	4 Jul. 2003
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
Union banka, a.s. "in liquidation"	15 Nov. 1991	2 May 2003
UNIVERSAL BANKA, a.s.	15 Feb. 1993	10 Feb. 1999
Velkomoravská banka, akciová společnost.	3 Nov. 1992	10 Jul. 1998

### IV. Banks dissolved without liquidation

Bank	Start of operation	Termination of licence	Reason
Bank Austria (ČR) 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., in liquidation	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

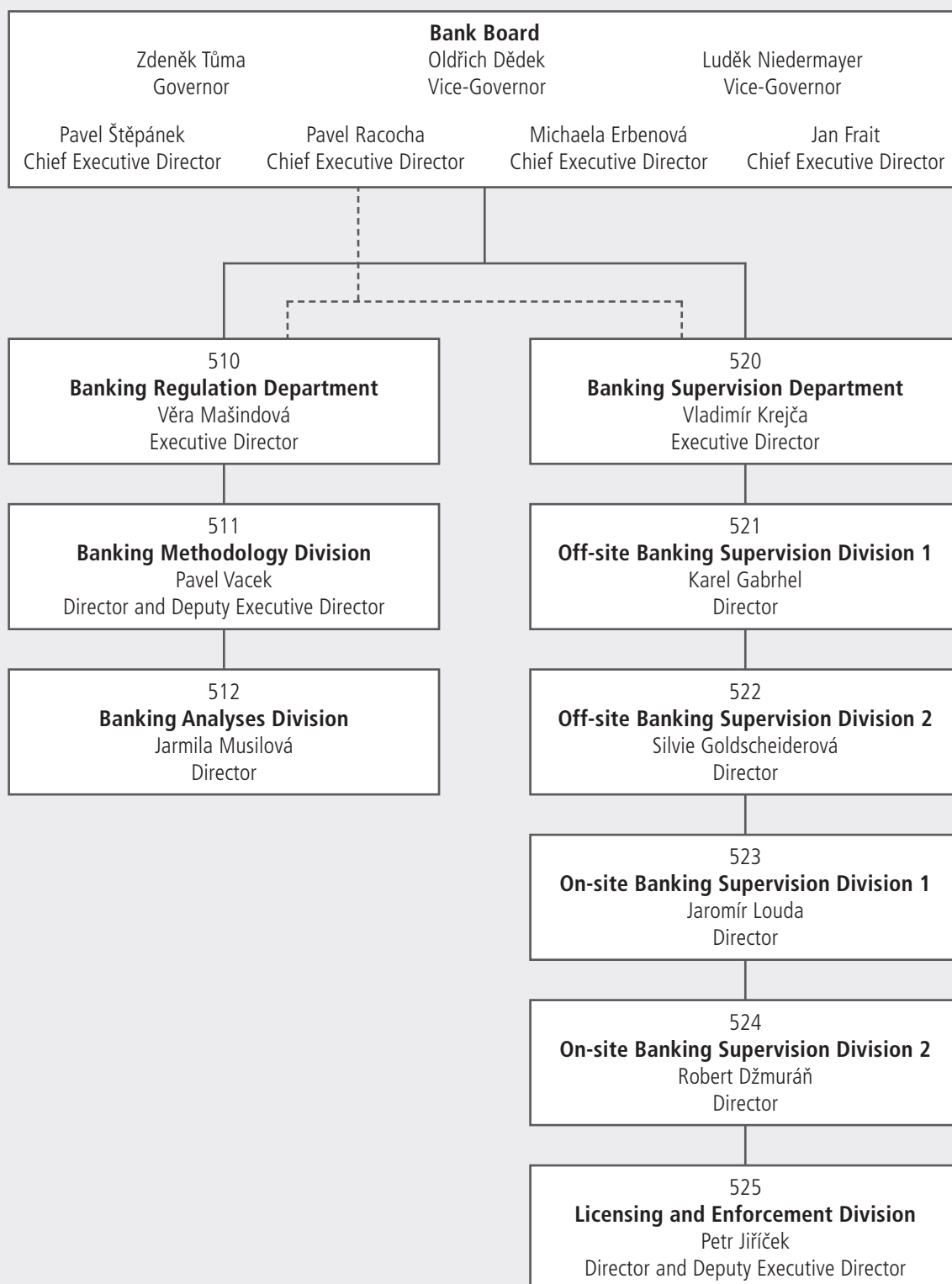
### VIII. Former state financial institution

(transformed into a non-banking institution)

Bank	Start of operation	Termination of licence
Konsolidační banka Praha, s.p.ú.	23 Feb. 1993	31 Aug. 2001

# Organisational structure of CNB Banking Supervision

as of 31 December 2003



## **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 hypoteční banka, a.s.
5. Českomoravská záruční a rozvojová banka, a.s.
6. Dresdner Bank CZ a.s.
7. GE Capital Bank, a.s.
8. Raiffeisenbank a.s.
9. Volksbank CZ, a.s.
10. Živnostenská banka, a.s.

### ***III. SMALL BANKS***

1. eBanka, a.s.
2. IC Banka, a.s.
3. Interbanka, akciová společnost
4. J&T BANKA, a.s.
5. První městská banka, a.s.
6. Wüstenrot hypoteční banka a.s.

### ***IV. FOREIGN BANK BRANCHES***

1. ABN AMRO Bank N.V.
2. COMMERZBANK Aktiengesellschaft, 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

### ***V. BUILDING SOCIETIES***

1. Českomoravská stavební spořitelna, a.s.
2. HYPO stavební spořitelna a.s.
3. Raiffeisen stavební spořitelna a.s.
4. Stavební spořitelna České spořitelny, 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

		1999	2000	2001	2002	2003
Gross domestic product <sup>1), 2)</sup>	Volume (in CZK billions)	1,421.0	1,467.3	1,512.6	1,542.2	1,587.2
	Increase (in per cent)	0.5	3.3	3.1	2.0	2.9
Output - percentage increase <sup>2)</sup>	Industry	-3.1	5.4	6.5	4.8	5.8
	Construction	-6.5	5.3	9.6	2.5	8.9
Prices <sup>3)</sup>	Inflation rate (in per cent)	2.1	3.9	4.7	1.8	0.1
Unemployment <sup>4)</sup>	Unemployment rate (in per cent)	9.4	8.8	8.9	9.8	10.3
Foreign trade	Exports (in CZK billions)	908.8	1,121.1	1,269.6	1,254.4	1,371.4
	Imports (in CZK billions)	973.2	1,241.9	1,386.3	1,325.7	1,442.6
	Balance (in CZK billions)	-64.4	-120.8	-116.7	-71.3	-71.2
Average wage <sup>2)</sup>	Nominal (in per cent)	8.4	6.5	8.7	7.2	6.8
	Real (in per cent)	6.3	2.5	3.8	6.6	6.7
Balance of payments	Current account (in CZK billions)	-50.6	-104.9	-124.5	-136.4	-157.2
	Financial account (in CZK billions)	106.6	148.0	172.9	347.8	163.9
Exchange rate <sup>5)</sup>	CZK/USD	34.59	38.59	38.04	32.74	28.23
	CZK/EUR	36.88	35.61	34.08	30.81	31.84
Average interbank deposit rate (PRIBOR) in per cent <sup>5)</sup>	7-day	6.85	5.29	5.15	3.61	2.30
	3-month	6.85	5.36	5.18	3.55	2.30
	6-month	6.89	5.48	5.21	3.56	2.28
Discount rate (in per cent) <sup>4)</sup>		5.00	5.00	3.75	1.75	1.00
Lombard rate (in per cent) <sup>4)</sup>		7.50	7.50	5.75	3.75	3.00
2W repo rate (in per cent) <sup>4)</sup>		5.25	5.25	4.75	2.75	2.00
PX50 capital market index <sup>5)</sup>		455.2	551.9	411.5	437.5	549.9

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 2003)

	31 Dec. 2001	31 Dec. 2002	2003			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
	in CZK millions					
Cash and deposits with central banks	79,215	69,884	58,105	60,701	67,867	65,677
of which: cash	37,613	35,442	28,631	28,646	28,149	35,278
deposits with central banks	41,602	34,442	29,473	32,055	39,718	30,398
Government and central bank bonds accepted for refinancing	142,070	214,048	220,682	249,935	268,813	304,476
Receivables from banks	833,861	860,247	880,131	838,958	814,137	756,953
of which: payable on demand	18,156	38,868	46,118	77,850	57,802	40,260
other receivables from banks	815,705	821,378	834,013	761,108	756,336	716,693
of which: central banks	275,126	464,856	531,504	510,125	502,608	457,493
others	540,579	356,522	302,508	250,983	253,727	259,200
Receivables from clients	907,072	890,758	892,647	930,316	967,509	996,200
of which: payable on demand	46,954	16,737	18,989	20,737	19,265	18,916
other receivables from clients	860,118	874,021	873,658	909,578	948,244	977,284
Debt securities	266,890	182,060	201,180	206,763	227,209	210,733
of which: issued by government institutions	361	45,521	58,980	66,985	79,713	53,239
issued by other entities	266,529	136,540	142,199	139,777	147,496	157,494
Shares, units and other interests	51,030	47,085	45,699	50,707	7,961	7,673
Substantial interests	4,108	4,258	995	881	1,326	1,326
Controlling interests	10,046	11,329	11,317	9,591	9,136	10,820
Intangible assets	6,307	9,858	9,489	9,168	8,910	11,473
Tangible assets	50,278	45,377	44,535	44,213	43,441	43,560
Other assets	104,789	140,934	116,411	91,446	78,614	112,659
Receivables from shareholders	364	660	14	272	0	0
Deferred revenues and accrued expenses	17,944	4,619	5,579	5,251	6,514	6,150
Total assets	2,473,974	2,481,118	2,486,785	2,498,200	2,501,436	2,527,701
	in per cent					
Cash and deposits with central banks	3.20	2.82	2.34	2.43	2.71	2.60
of which: cash	1.52	1.43	1.15	1.15	1.13	1.40
deposits with central banks	1.68	1.39	1.19	1.28	1.59	1.20
Government and central bank bonds accepted for refinancing	5.74	8.63	8.87	10.00	10.75	12.05
Receivables from banks	33.71	34.67	35.39	33.58	32.55	29.95
of which: payable on demand	0.73	1.57	1.85	3.12	2.31	1.59
other receivables from banks	32.97	33.11	33.54	30.47	30.24	28.35
of which: central banks	11.12	18.74	21.37	20.42	20.09	18.10
others	21.85	14.37	12.16	10.05	10.14	10.25
Receivables from clients	36.66	35.90	35.90	37.24	38.68	39.41
of which: payable on demand	1.90	0.67	0.76	0.83	0.77	0.75
other receivables from clients	34.77	35.23	35.13	36.41	37.91	38.66
Debt securities	10.79	7.34	8.09	8.28	9.08	8.34
of which: issued by government institutions	0.01	1.83	2.37	2.68	3.19	2.11
issued by other entities	10.77	5.50	5.72	5.60	5.90	6.23
Shares, units and other interests	2.06	1.90	1.84	2.03	0.32	0.30
Substantial interests	0.17	0.17	0.04	0.04	0.05	0.05
Controlling interests	0.41	0.46	0.46	0.38	0.37	0.43
Intangible assets	0.25	0.40	0.38	0.37	0.36	0.45
Tangible assets	2.03	1.83	1.79	1.77	1.74	1.72
Other assets	4.24	5.68	4.68	3.66	3.14	4.46
Receivables from shareholders	0.01	0.03	0.00	0.01	0.00	0.00
Deferred revenues and accrued expenses	0.73	0.19	0.22	0.21	0.26	0.24
Total assets	100.00	100.00	100.00	100.00	100.00	100.00

## Liabilities

(for banks with licences as of 31 December 2003)

	31 Dec. 2001	31 Dec. 2002	2003			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
	in CZK millions					
Liabilities to banks	371,406	304,705	304,028	271,891	283,246	285,320
of which: liabilities to banks payable on demand	18,901	29,560	61,968	66,183	76,653	45,943
central banks	-	2,659	34	19	22	28
other banks	14,817	26,901	61,934	66,165	76,632	45,915
other liabilities to banks	352,505	275,145	242,060	205,707	206,593	239,377
central banks	634	114	103	104	93	106
other banks	351,871	275,031	241,957	205,603	206,500	239,271
Liabilities to clients	1,493,198	1,608,747	1,621,983	1,637,646	1,666,466	1,665,587
of which: payable on demand	551,018	661,729	675,566	705,333	762,365	792,201
other liabilities	942,181	947,018	946,417	932,313	904,101	873,386
Liabilities from debt securities	268,884	167,457	174,434	177,361	196,006	201,980
of which: issued debt securities	207,640	160,746	163,594	163,143	187,761	196,310
short-term	127,683	92,123	91,647	89,140	107,954	107,554
long-term	79,956	68,623	71,947	74,002	79,807	88,756
other payables	61,245	6,711	10,840	14,218	8,245	5,670
Other liabilities	121,935	171,010	147,730	187,805	129,405	152,493
Deferred revenues and accrued expenses	13,502	5,558	7,973	7,372	8,731	12,580
Reserves	44,911	37,624	38,098	38,324	33,231	23,654
Subordinated liabilities	26,193	25,334	25,669	13,397	13,765	7,829
Equity capital	68,325	69,461	69,131	67,324	67,854	68,272
Own shares	-	560	928	677	879	617
Share premium	7,533	8,036	8,033	7,995	8,321	8,609
Reserve funds and other funds created from profit	28,703	28,805	29,051	30,672	30,783	30,456
Reserve fund for new valuation	-	0	0	0	0	0
Capital funds	854	1,039	1,039	762	749	524
Valuation differences	63	1,636	2,468	2,580	2,100	1,273
Retained profits (accumulated losses) from previous periods	11,349	21,309	50,235	41,072	39,629	38,948
Profit (loss) for the accounting period	17,118	30,396	6,912	14,001	21,150	30,176
<b>Total liabilities</b>	<b>2,473,974</b>	<b>2,481,118</b>	<b>2,486,785</b>	<b>2,498,200</b>	<b>2,501,436</b>	<b>2,527,701</b>
	in per cent					
Liabilities to banks	15.01	12.28	12.23	10.88	11.32	11.29
of which: liabilities to banks payable on demand	0.76	1.19	2.49	2.65	3.06	1.82
central banks	-	0.11	0.00	0.00	0.00	0.00
other banks	0.60	1.08	2.49	2.65	3.06	1.82
other liabilities to banks	14.25	11.09	9.73	8.23	8.26	9.47
central banks	0.03	0.00	0.00	0.00	0.00	0.00
other banks	14.22	11.08	9.73	8.23	8.26	9.47
Liabilities to clients	60.36	64.84	65.22	65.55	66.62	65.89
of which: payable on demand	22.27	26.67	27.17	28.23	30.48	31.34
other liabilities	38.08	38.17	38.06	37.32	36.14	34.55
Liabilities from debt securities	10.87	6.75	7.01	7.10	7.84	7.99
of which: issued debt securities	8.39	6.48	6.58	6.53	7.51	7.77
short-term	5.16	3.71	3.69	3.57	4.32	4.26
long-term	3.23	2.77	2.89	2.96	3.19	3.51
other payables	2.48	0.27	0.44	0.57	0.33	0.22
Other liabilities	4.93	6.89	5.94	7.52	5.17	6.03
Deferred revenues and accrued expenses	0.55	0.22	0.32	0.30	0.35	0.50
Reserves	1.82	1.52	1.53	1.53	1.33	0.94
Subordinated liabilities	1.06	1.02	1.03	0.54	0.55	0.31
Equity capital	2.76	2.80	2.78	2.69	2.71	2.70
Own shares	0.00	0.02	0.04	0.03	0.04	0.02
Share premium	0.30	0.32	0.32	0.32	0.33	0.34
Reserve funds and other funds created from profit	1.16	1.16	1.17	1.23	1.23	1.20
Reserve fund for new valuation	0.00	0.00	0.00	0.00	0.00	0.00
Capital funds	0.03	0.04	0.04	0.03	0.03	0.02
Valuation differences	0.00	0.07	0.10	0.10	0.08	0.05
Retained profits (accumulated losses) from previous periods	0.46	0.86	2.02	1.64	1.58	1.54
Profit (loss) for the accounting period	0.69	1.23	0.28	0.56	0.85	1.19
<b>Total liabilities</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>



## Off-balance-sheet assets

(for banks with licences as of 31 December 2003)

	31 Dec. 2001	31 Dec. 2002	2003			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
	in CZK millions					
Credit commitments provided	212,697	385,552	378,941	380,662	389,616	397,907
Receivables from guarantees	87,403	102,119	100,933	92,923	96,636	98,929
Receivables from letters of credit and bills of exchange	7,756	6,567	5,653	5,674	4,847	6,498
Receivables from spot transactions	73,312	91,876	108,381	138,860	139,874	85,674
Receivables from derivatives transactions, total	3,489,272	3,047,083	3,162,667	3,229,284	3,342,682	3,314,140
of which: forwards	1,395,874	1,141,255	1,171,666	1,229,335	1,265,795	1,346,389
futures	229	0	219	1,610	923	1,069
swaps	1,946,372	1,813,791	1,869,045	1,846,370	1,908,130	1,841,004
options	146,796	92,037	121,737	151,969	167,834	125,677
of which: interest rate and credit instruments	1,723,200	2,023,780	2,098,574	2,233,454	2,373,788	2,340,394
currency instruments	1,756,702	1,021,091	1,061,973	994,605	967,873	971,366
equity instruments	3,528	1,126	106	107	115	2,379
commodity instruments	5,842	1,086	2,014	1,117	906	0
Total off-balance-sheet assets	3,870,441	3,633,197	3,756,575	3,847,404	3,973,655	3,903,147
	in per cent					
Credit commitments provided	5.50	10.61	10.09	9.89	9.80	10.19
Receivables from guarantees	2.26	2.81	2.69	2.42	2.43	2.53
Receivables from letters of credit and bills of exchange	0.20	0.18	0.15	0.15	0.12	0.17
Receivables from spot transactions	1.89	2.53	2.89	3.61	3.52	2.20
Receivables from derivatives transactions, total	90.15	83.87	84.19	83.93	84.12	84.91
of which: forwards	36.06	31.41	31.19	31.95	31.85	34.49
futures	0.01	0.00	0.01	0.04	0.02	0.03
swaps	50.29	49.92	49.75	47.99	48.02	47.17
options	3.79	2.53	3.24	3.95	4.22	3.22
of which: interest rate and credit instruments	44.52	55.70	55.86	58.05	59.74	59.96
currency instruments	45.39	28.10	28.27	25.85	24.36	24.89
equity instruments	0.09	0.03	0.00	0.00	0.00	0.06
commodity instruments	0.15	0.03	0.05	0.03	0.02	0.00
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 2003)

	31 Dec. 2001	31 Dec. 2002	2003			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
	in CZK millions					
Credit commitments accepted	24,681	27,333	21,675	20,422	20,613	22,503
Payables from guarantees	305,722	360,970	314,587	308,335	340,675	338,824
Payables from letters of credit and bills of exchange	11,283	8,082	7,507	8,147	8,878	9,188
Payables from spot transactions	73,538	90,980	116,982	133,748	137,382	87,551
Payables from derivatives transactions, total	3,485,574	3,043,319	3,159,264	3,223,678	3,337,820	3,303,589
of which: forwards	1,397,740	1,145,997	1,176,752	1,223,218	1,266,116	1,341,152
futures	206	0	224	1,610	923	1,069
swaps	1,943,555	1,805,595	1,860,906	1,847,547	1,903,742	1,836,375
options	144,073	91,726	121,382	151,302	167,039	124,993
of which: interest rate and credit instruments	1,726,259	2,025,620	2,100,773	2,233,743	2,374,210	2,334,415
currency instruments	1,749,909	1,015,487	1,056,370	988,712	962,590	966,797
equity instruments	3,563	1,126	106	107	115	2,377
commodity instruments	5,842	1,086	2,014	1,116	905	0
Total off-balance-sheet liabilities	3,900,798	3,530,683	3,620,014	3,694,330	3,845,369	3,761,656
	in per cent					
Credit commitments accepted	0.63	0.77	0.60	0.55	0.54	0.60
Payables from guarantees	7.84	10.22	8.69	8.35	8.86	9.01
Payables from letters of credit and bills of exchange	0.29	0.23	0.21	0.22	0.23	0.24
Payables from spot transactions	1.89	2.58	3.23	3.62	3.57	2.33
Payables from derivatives transactions, total	89.36	86.20	87.27	87.26	86.80	87.82
of which: forwards	35.83	32.46	32.51	33.11	32.93	35.65
futures	0.01	0.00	0.01	0.04	0.02	0.03
swaps	49.82	51.14	51.41	50.01	49.51	48.82
options	3.69	2.60	3.35	4.10	4.34	3.32
of which: interest rate and credit instruments	44.25	57.37	58.03	60.46	61.74	62.06
currency instruments	44.86	28.76	29.18	26.76	25.03	25.70
equity instruments	0.09	0.03	0.00	0.00	0.00	0.06
commodity instruments	0.15	0.03	0.06	0.03	0.02	0.00
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 2003; in CZK millions)

	31 Dec. 2001	31 Dec. 2002	2003			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Interest income	141,360	121,162	25,764	50,946	75,375	99,773
Interest expenses	85,234	65,962	12,809	24,627	35,219	45,470
Interest profit (including securities)	56,126	55,201	12,956	26,318	40,156	54,303
Income from fees and commissions	25,488	29,647	7,660	15,834	24,318	35,657
Expenses from fees and commissions	4,755	6,133	1,743	3,193	4,886	9,314
Profit from fees and commissions	20,733	23,514	5,916	12,642	19,433	26,343
Interest profit (including fees and commissions)	76,859	78,715	18,872	38,960	59,588	80,645
Profit from shares and other equity instruments	907	1,122	0	461	562	824
Profit from foreign exchange transactions	7,059	5,441	1,410	2,624	4,251	6,347
Profit from other transactions (including derivatives transactions and sales of securities)	3,477	6,088	1,369	2,995	3,073	2,436
Profit from financial activities	88,301	91,367	21,651	45,040	67,474	90,252
Administrative expenses	47,115	46,975	10,599	22,243	33,767	47,513
Creation of reserves and provisions, write-offs and receivables transfer losses (net)	20,169	8,537	4,020	7,231	3,599	744
Other operating income (+) / expenses (-)	1,310	5,763	2,183	3,394	-1,353	-744
Gross operating profit	20,590	39,914	9,205	18,965	28,740	41,240
Extraordinary income (+) / expenses (-)	1,736	1,705	10	-5	14	11
Pre-tax gross profit	22,327	41,619	9,215	18,960	28,754	41,251
Taxes	5,172	11,223	2,303	4,959	7,605	11,074
Net profit	17,154	30,396	6,912	14,001	21,150	30,176

## Profitability and efficiency

(for banks with licences as of 31 December 2003)

	31 Dec. 2001	31 Dec. 2002	2003			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Profit from banking activities/assets in per cent	3.77	3.71	3.48	3.63	3.62	3.62
Gross profit/assets in per cent	0.95	1.69	1.48	1.53	1.54	1.65
Net profit/assets in per cent	0.73	1.24	1.11	1.13	1.14	1.21
Net profit/Tier 1 in per cent	16.64	27.41	24.35	23.48	22.71	23.78
Total interest income/interest earning credits in per cent	6.22	4.88	4.06	4.05	3.98	3.93
Total interest expenses/interest bearing deposits in per cent	3.86	2.80	2.11	2.02	1.93	1.88
Interest rate spread in per cent	2.36	2.09	1.95	2.03	2.06	2.05
Net interest margin in per cent	2.46	2.34	2.17	2.23	2.25	2.27
Number of employees in banking sector	39,720	39,493	39,596	39,717	39,349	39,004
Per employee in CZK thousands:						
total assets	62,285	62,824	62,804	62,900	63,571	64,806
profit from financial activities	2,223	2,313	2,187	2,268	2,286	2,314
net profit	432	770	698	705	717	774
administrative expenses	1,186	1,189	1,071	1,120	1,144	1,218
personnel expenses	571	559	525	551	572	600
Administrative expenses/assets in per cent	2.01	1.91	1.70	1.79	1.81	1.90

## Credits

(for banks with licences as of 31 December 2003; gross credits granted in the Czech Republic; in CZK millions; since March 2002 change in methodology from time perspective)

	31 Dec. 2001	31 Dec. 2002	2003			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Total credits	927,732	875,315	874,434	903,817	919,496	950,685
of which: short-term	316,362	255,227	231,841	238,184	246,780	251,185
medium-term	183,616	245,217	255,027	272,612	271,842	286,104
long-term	427,754	374,871	387,566	393,021	400,874	413,396
Total credits	927,732	875,315	874,434	903,817	919,496	950,685
of which: non-financial sector	515,028	420,495	424,874	424,927	424,438	427,572
financial sector	59,643	66,694	62,348	73,319	74,588	83,016
government sector	162,474	167,585	159,207	165,377	165,376	158,731
small businesses	22,354	20,949	21,740	22,729	20,858	24,677
households	115,887	156,568	164,709	176,120	191,245	210,810
other	52,346	43,024	41,556	41,345	42,991	45,879
Total credits	927,732	875,315	874,434	903,817	919,496	950,685
of which: agriculture and forestry	18,003	18,402	18,266	19,427	19,830	20,399
manufacturing	178,829	147,669	150,950	149,047	149,622	148,962
construction	13,271	12,588	14,641	15,098	14,732	13,368
financial intermediation and insurance	153,418	156,560	158,660	162,660	156,771	159,330
transport	25,282	24,667	24,622	23,501	23,822	23,001
wholesale and retail trade; hotels and restaurants	127,879	108,353	112,166	115,436	115,742	110,327
other	411,050	407,076	395,129	418,648	438,977	475,298

## Deposits

(for banks with licences as of 31 December 2003; gross credits granted in the Czech Republic; in CZK millions; since September 2002 change in methodology from time perspective)

	31 Dec. 2001	31 Dec. 2002	2003			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Total deposits	1,391,064	1,549,601	1,567,973	1,577,054	1,607,972	1,596,381
of which: demand	519,849	652,951	666,869	695,876	752,303	780,503
time	871,215	896,650	901,104	881,178	855,669	815,878
of which: short-term	655,994	664,302	660,225	631,235	601,512	550,640
medium-term	74,850	217,008	224,563	239,782	244,001	260,356
long-term	140,371	15,340	16,316	10,161	10,156	4,882
Total deposits	1,391,064	1,549,601	1,567,973	1,577,054	1,607,972	1,596,381
of which: non-financial sector	286,230	329,720	288,256	294,162	316,103	362,076
financial sector	67,105	87,112	77,631	83,568	75,839	93,986
government sector	74,595	160,493	213,810	190,373	199,079	117,426
small businesses	48,432	54,200	60,625	64,327	69,346	60,502
households	853,765	849,017	859,422	878,687	882,533	897,288
other	60,937	69,059	68,229	65,937	65,072	65,103
Total deposits	1,391,064	1,549,601	1,567,973	1,577,054	1,607,972	1,596,381
of which: agriculture and forestry	13,352	11,562	10,515	11,214	10,790	11,822
manufacturing	75,440	87,087	79,655	77,768	85,412	92,370
construction	21,720	29,020	20,482	21,059	24,347	34,437
financial intermediation and insurance	99,328	153,656	134,406	107,361	96,225	104,891
transport	15,582	17,921	18,312	20,058	25,058	23,586
wholesale and retail trade; hotels and restaurants	83,084	94,062	81,639	82,136	85,361	99,293
other	1,082,558	1,156,293	1,222,964	1,257,458	1,280,779	1,229,982

## Capital, capital requirements and capital adequacy

(for banks with licences as of 31 December 2003; in CZK millions)

	31 Dec. 2001	31 Dec. 2002	2003			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Tier 1	105,582	113,323	113,537	133,466	136,116	133,910
Tier 2	25,651	21,702	22,437	18,756	17,338	11,993
Deductible items	1,701	4,976	4,531	2,654	2,699	2,227
Total capital	129,533	130,049	131,443	149,567	150,755	143,676
Total capital requirement	67,309	72,544	74,179	75,783	77,774	79,392
Capital requirement A - banking portfolio	61,897	67,338	68,177	69,473	71,325	73,776
Capital requirement B - trading portfolio	5,412	5,207	6,002	6,310	6,448	5,617
Capital adequacy in per cent	15.40	14.34	14.18	15.79	15.51	14.48

## Quick assets

(for banks with licences as of 31 December 2003; in CZK millions)

	31 Dec. 2001	31 Dec. 2002	2003			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Cash	40,488	37,247	29,666	30,036	29,570	37,503
Deposits and credits with CNB	316,728	496,592	560,246	541,393	542,245	484,836
of which: required reserves	29,873	27,950	25,156	28,087	36,063	21,215
Current accounts with banks and 24 hour time deposits	6,435	35,593	42,631	71,217	49,878	37,772
Treasury bills	142,431	238,043	262,006	297,876	321,433	334,417
CNB bills	7,999	3,213	2,580	5,775	17,189	13,161
Total quick assets	514,081	810,687	897,129	946,297	960,314	907,689
Trading securities	51,079	17,081	15,482	26,032	24,577	25,435
of which: bonds	48,904	16,107	14,801	25,150	23,776	23,944
equity securities	658	395	382	519	778	1,491
bills of exchange	1,517	580	299	363	24	0
Total liquid assets	565,160	827,768	912,612	972,329	984,891	933,124
Percentage share in total assets:						
quick assets	20.78	32.67	36.08	37.89	38.39	35.91
liquid assets	22.84	33.36	36.70	38.92	39.37	36.92

## Classified and non-performing credits

(for banks with licences as of 31 December 2003)

	31 Dec. 2001	31 Dec. 2002	2003			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Classified credits in CZK millions	199,285	147,102	137,712	128,504	121,534	114,014
as a percentage of total credit volume	20.79	15.78	14.96	13.44	12.34	11.15
of which: watch credits	71,091	71,332	67,764	67,994	69,107	64,404
substandard credits	31,859	27,515	29,268	22,822	21,486	19,299
doubtful credits	29,447	11,689	9,311	8,692	9,222	6,913
loss credits	66,889	36,566	31,370	28,995	21,719	23,398
Non-performing credits, in CZK millions	128,194	75,770	69,948	60,509	52,426	49,610
as a percentage of total credit volume	13.37	8.13	7.60	6.33	5.32	4.85
Classified credits taking into account collateral, in CZK millions	113,928	97,074	91,507	90,779	84,983	81,998
as a percentage of total credit volume	11.89	10.41	9.94	9.49	8.63	8.02
Weighted classification in CZK millions	91,538	51,480	43,497	39,576	32,198	32,299
as a percentage of total credit volume	9.55	5.52	4.72	4.14	3.27	3.16
Weighted classification taking into account collateral, in CZK millions	53,561	41,964	35,953	33,730	25,847	26,957
as a percentage of total credit volume	5.59	4.50	3.91	3.53	2.62	2.64
Reserves and provisions in CZK millions	77,283	58,689	56,062	54,210	43,735	38,265
Surplus(+)/shortfall(-) of reserves, provisions and collateral, in CZK millions	23,721	16,725	20,109	20,480	17,888	11,309
as a percentage of total credit volume	2.47	1.79	2.18	2.14	1.82	1.11

**Assets and liabilities by residual maturity  
as of 31 December 2002**

(for banks with licences as of 31 December 2003; 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	2,481,116	476,444	375,791	176,029	138,481	170,684	175,312	349,093	278,762	340,520
Total liabilities	2,481,116	1,212,319	272,715	155,923	86,124	98,864	139,443	135,593	78,597	301,539
Net balance sheet position	x	(735,875)	103,076	20,106	52,357	71,819	35,870	213,500	200,166	38,981
Cumulative net balance sheet position as a percentage of total assets	x	(735,875) (29.66)	(632,799) (25.50)	(612,693) (24.69)	(560,336) (22.58)	(488,517) (19.69)	(452,647) (18.24)	(239,147) (9.64)	(38,981) (1.57)	0 0.00
Liabilities taking into account demand deposit liquidity	2,481,116	523,688	341,578	224,786	223,850	202,159	242,737	238,887	181,891	301,539
Net balance sheet position	x	(47,244)	34,213	(48,757)	(85,369)	(31,475)	(67,425)	110,206	96,871	38,981
Cumulative net balance sheet position as a percentage of total assets	x	(47,244) (1.90)	(13,031) (0.53)	(61,788) (2.49)	(147,158) (5.93)	(178,633) (7.20)	(246,058) (9.92)	(135,852) (5.48)	(38,981) (1.57)	0 0.00

**Assets and liabilities by residual maturity  
as of 31 December 2003**

(for banks with licences as of 31 December 2003; 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	2,527,701	431,593	375,826	165,169	167,824	234,823	176,265	376,065	352,648	247,488
Total liabilities	2,527,701	1,332,676	228,171	131,273	99,944	91,910	124,749	164,580	70,748	283,649
Net balance sheet position	x	(901,083)	147,655	33,896	67,879	142,913	51,515	211,485	281,900	(36,161)
Cumulative net balance sheet position as a percentage of total assets	x	(901,083) (35.65)	(753,428) (29.81)	(719,532) (28.47)	(651,653) (25.78)	(508,740) (20.13)	(457,225) (18.09)	(245,740) (9.72)	36,161 1.43	0 0.00
Liabilities taking into account demand deposit liquidity	2,527,701	494,560	311,982	215,085	267,567	217,627	250,467	290,297	196,465	283,649
Net balance sheet position	x	(62,968)	63,844	(49,916)	(99,744)	17,195	(74,202)	85,768	156,183	(36,161)
Cumulative net balance sheet position as a percentage of total assets	x	(62,968) (2.49)	876 0.03	(49,040) (1.94)	(148,784) (5.89)	(131,588) (5.21)	(205,790) (8.14)	(120,022) (4.75)	36,161 1.43	0 0.00

## Foreign exchange activities

(for banks with licences as of 31 December 2003)

	31 Dec. 2001	31 Dec. 2002	2003			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Assets in CZK millions						
Credits granted (gross)	189,324	160,526	152,813	150,415	151,458	158,115
Securities (gross)	53,964	64,896	74,208	82,326	103,360	99,111
Deposits and credits with banks (gross)	285,985	164,846	129,364	120,186	115,902	105,114
Other (gross)	51,807	52,680	43,904		38,248	63,668
Total assets (gross)	581,080	442,948	400,289	388,298	408,968	426,008
as a percentage of foreign exchange assets						
Credits granted (gross)	32.58	36.24	38.18	38.74	37.03	37.12
Securities (gross)	9.29	14.65	18.54	21.20	25.27	23.27
Deposits and credits with banks (gross)	49.22	37.22	32.32	30.95	28.34	24.67
Other (gross)	8.92	11.89	10.97	9.11	9.35	14.95
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)	19.75	17.22	16.41	15.55	15.19	15.43
Securities (gross)	11.23	14.04	15.37	15.80	19.98	18.41
Deposits and credits with banks (gross)	51.18	41.68	37.10	36.52	37.17	35.01
Other (gross)	4.56	4.47	3.78	3.22	3.57	6.07
Total assets (gross)	22.56	17.21	15.53	15.00	15.82	16.31
Liabilities in CZK millions						
Deposits received	239,746	200,240	195,280	206,874	203,138	203,138
Deposits and credits from banks	159,348	117,262	116,754	111,569	129,994	133,434
Bond issues	33,721	26,993	27,239	24,623	27,325	34,735
Other	45,852	64,805	42,243	37,517	35,830	67,616
Total liabilities	478,667	409,301	381,516	380,583	396,287	438,922
as a percentage of foreign exchange liabilities						
Deposits received	50.09	48.92	51.19	54.36	51.26	46.28
Deposits and credits from banks	33.29	28.65	30.60	29.32	32.80	30.40
Bond issues	7.04	6.59	7.14	6.47	6.90	7.91
Other	9.58	15.83	11.07	9.86	9.04	15.40
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	16.06	12.45	12.04	12.63	12.19	12.20
Deposits and credits from banks	43.46	38.84	38.42	41.05	45.91	46.79
Bond issues	16.24	16.79	16.65	15.09	14.55	17.69
Other	11.28	15.82	10.63	8.81	9.84	17.76
Total liabilities	19.35	16.50	15.34	15.23	15.84	17.36
Off-balance-sheet assets in CZK millions						
Derivatives transactions	1,052,626	761,466	844,029	911,472	949,553	1,049,812
Other off-balance-sheet transactions	138,645	140,883	152,196	156,308	170,146	119,148
Total off-balance-sheet assets	1,191,271	902,350	996,225	1,067,780	1,119,699	1,168,960
as a percentage of foreign exchange off-balance-sheet assets						
Derivatives transactions	88.36	84.39	84.72	85.36	84.80	89.81
Other off-balance-sheet transactions	11.64	15.61	15.28	14.64	15.20	10.19
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	30.17	24.99	26.69	28.23	28.41	31.68
Other off-balance-sheet transactions	36.37	24.04	25.63	25.29	26.97	20.23
Total off-balance-sheet assets	30.78	24.84	26.52	27.75	28.18	29.95
Off-balance-sheet liabilities in CZK millions						
Derivatives transactions	1,144,061	785,754	863,118	913,793	971,998	1,021,878
Other off-balance-sheet transactions	132,490	215,354	186,470	191,774	185,542	149,679
Total off-balance-sheet liabilities	1,276,552	1,001,109	1,049,588	1,105,567	1,157,539	1,171,557
as a percentage of foreign exchange off-balance-sheet liabilities						
Derivatives transactions	89.62	78.49	82.23	82.65	83.97	87.22
Other off-balance-sheet transactions	10.38	21.51	17.77	17.35	16.03	12.78
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	29.33	22.26	23.84	24.74	25.28	27.17
Other off-balance-sheet transactions	31.91	44.19	40.47	40.75	36.56	32.68
Total off-balance-sheet liabilities	32.73	28.35	28.99	29.93	30.10	31.14

## Activities vis-à-vis non-residents

(for banks with licences as of 31 December 2003)

	31 Dec. 2001	31 Dec. 2002	2003			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Assets in CZK millions						
Credits granted (gross)	56,137	58,273	58,917	60,348	64,383	67,915
Securities (gross)	125,660	137,560	141,477	150,145	132,649	134,591
Deposits and credits with banks (gross)	367,434	230,558	191,271	195,399	191,100	171,881
Other (gross)	55,331	79,458	68,521	59,686	60,457	83,213
Total assets (gross)	604,563	505,849	460,186	465,578	448,588	457,600
as a percentage of assets vis-à-vis non-residents						
Credits granted (gross)	9.29	11.52	12.80	12.96	14.35	14.84
Securities (gross)	20.79	27.19	30.74	32.25	29.57	29.41
Deposits and credits with banks (gross)	60.78	45.58	41.56	41.97	42.60	37.56
Other (gross)	9.15	15.71	14.89	12.82	13.48	18.18
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)	5.86	6.25	6.33	6.24	6.46	6.63
Securities (gross)	26.16	29.76	29.29	28.82	25.64	25.00
Deposits and credits with banks (gross)	65.75	58.30	54.85	59.37	61.29	57.25
Other (gross)	4.87	6.74	5.89	5.43	5.65	7.93
Total assets (gross)	23.47	19.66	17.86	17.99	17.35	17.52
Liabilities in CZK millions						
Deposits received	74,857	64,197	60,757	62,640	62,260	66,710
Deposits and credits from banks	178,263	143,971	154,211	149,622	177,545	169,795
Bond issues	13,286	14,306	13,125	11,164	11,477	15,672
Other	52,988	79,425	57,362	53,701	49,511	81,005
Total liabilities	319,394	301,899	285,454	277,127	300,793	333,182
as a percentage of liabilities vis-à-vis non-residents						
Deposits received	23.44	21.26	21.28	22.60	20.70	20.02
Deposits and credits from banks	55.81	47.69	54.02	53.99	59.03	50.96
Bond issues	4.16	4.74	4.60	4.03	3.82	4.70
Other	16.59	26.31	20.09	19.38	16.46	24.31
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	5.01	3.99	3.75	3.82	3.74	4.01
Deposits and credits from banks	48.61	47.68	50.75	55.05	62.71	59.54
Bond issues	6.40	8.90	8.02	6.84	6.11	7.98
Other	13.04	19.39	14.44	12.62	13.60	21.28
Total liabilities	12.91	12.17	11.48	11.09	12.02	13.18
Off-balance-sheet assets in CZK millions						
Derivatives transactions	2,256,213	2,156,608	2,199,773	2,230,452	2,334,500	2,311,561
Other off-balance-sheet transactions	81,603	109,576	105,625	132,671	133,471	83,630
Total off-balance-sheet assets	2,337,816	2,266,184	2,305,398	2,363,123	2,467,972	2,395,191
as a percentage of off-balance-sheet assets vis-à-vis non-residents						
Derivatives transactions	96.51	95.16	95.42	94.39	94.59	96.51
Other off-balance-sheet transactions	3.49	4.84	4.58	5.61	5.41	3.49
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	64.66	70.78	69.55	69.07	69.84	69.75
Other off-balance-sheet transactions	21.41	18.70	17.78	21.46	21.15	14.20
Total off-balance-sheet assets	60.40	62.37	61.37	61.42	62.11	61.37
Off-balance-sheet liabilities in CZK millions						
Derivatives transactions	2,266,937	2,159,498	2,209,625	2,224,431	2,323,639	2,299,093
Other off-balance-sheet transactions	129,796	199,639	169,018	176,272	177,476	158,170
Total off-balance-sheet liabilities	2,396,734	2,359,138	2,378,644	2,400,704	2,501,114	2,457,263
as a percentage of off-balance-sheet liabilities vis-à-vis non-residents						
Derivatives transactions	94.58	91.54	92.89	92.66	92.90	93.56
Other off-balance-sheet transactions	5.42	8.46	7.11	7.34	7.10	6.44
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	65.04	70.96	69.94	69.00	69.62	69.59
Other off-balance-sheet transactions	31.26	40.96	36.68	37.45	34.97	34.53
Total off-balance-sheet liabilities	61.44	66.82	65.71	64.98	65.04	65.32

## Selected bank group indicators

(for banks with licences as of 31 December 2003)

	31 Dec. 2001	31 Dec. 2002	2003			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Large banks						
Total assets (in CZK millions)	1,614,537	1,556,412	1,588,942	1,627,473	1,614,441	1,569,840
Credits granted (net) (in CZK millions)	616,489	553,614	555,786	575,068	587,806	608,082
Deposits received (in CZK millions)	1,117,284	1,112,761	1,133,683	1,152,957	1,165,617	1,139,463
Total off-balance-sheet assets (in CZK millions)	1,724,642	1,987,690	2,106,280	2,243,527	2,332,169	2,303,095
Receivables from derivatives transactions (in CZK millions)	1,529,857	1,612,764	1,717,920	1,846,300	1,923,389	1,921,196
Profit from financial activities (in CZK millions)	66,925	67,790	15,220	32,127	48,294	64,508
Net profit (in CZK millions)	11,480	23,154	4,616	10,646	15,770	21,934
Non-performing credits / total credits (in per cent)	17.24	10.13	9.35	7.21	5.89	5.15
Capital adequacy (in per cent)	14.82	13.41	13.16	15.32	14.78	13.56
Quick assets / total assets (in per cent)	23.22	33.17	35.23	37.80	39.38	36.51
Medium-sized banks						
Total assets (in CZK millions)	372,483	430,249	427,301	404,960	416,421	400,233
Credits granted (net) (in CZK millions)	151,167	180,584	187,922	196,159	202,107	205,912
Deposits received (in CZK millions)	167,503	227,985	221,538	197,281	204,394	192,132
Total off-balance-sheet assets (in CZK millions)	744,405	839,086	898,684	913,126	899,444	831,876
Receivables from derivatives transactions (in CZK millions)	652,000	711,221	782,324	781,390	771,172	705,734
Profit from financial activities (in CZK millions)	11,854	12,907	3,349	7,242	11,100	14,818
Net profit (in CZK millions)	3,180	3,132	892	1,311	2,811	4,771
Non-performing credits / total credits (in per cent)	6.65	6.44	5.88	6.55	6.14	5.75
Capital adequacy (in per cent)	16.28	15.98	15.84	16.37	16.77	16.29
Quick assets / total assets (in per cent)	24.02	34.66	35.08	33.25	32.15	29.71
Small banks						
Total assets (in CZK millions)	29,258	47,586	40,642	43,327	44,908	50,592
Credits granted (net) (in CZK millions)	8,835	11,940	11,972	16,600	19,425	21,258
Deposits received (in CZK millions)	13,255	31,973	24,588	23,261	26,206	26,807
Total off-balance-sheet assets (in CZK millions)	5,500	7,794	8,867	7,444	14,108	20,089
Receivables from derivatives transactions (in CZK millions)	1,420	2,178	2,445	1,782	8,178	9,277
Profit from financial activities (in CZK millions)	976	1,292	890	1,249	1,630	2,120
Net profit (in CZK millions)	107	61	594	581	550	572
Classified credits / total credits (in per cent)	20.50	16.30	15.39	10.49	8.92	9.50
Capital adequacy (in per cent)	29.18	37.19	40.70	35.26	32.17	29.00
Quick assets / total assets (in per cent)	33.78	49.27	46.49	48.67	44.24	39.13
Foreign bank branches						
Total assets (in CZK millions)	301,332	241,556	210,630	196,230	192,831	241,357
Credits granted (net) (in CZK millions)	91,869	93,036	82,787	82,086	88,297	85,319
Deposits received (in CZK millions)	52,197	48,010	47,249	55,339	53,464	58,451
Total off-balance-sheet assets (in CZK millions)	1,391,747	789,572	727,828	668,977	715,654	739,051
Receivables from derivatives transactions (in CZK millions)	1,305,994	720,920	659,978	599,812	639,944	677,932
Profit from financial activities (in CZK millions)	4,447	4,722	996	2,048	2,911	3,958
Net profit (in CZK millions)	1,171	2,473	419	745	1,018	1,769
Non-performing credits / total credits (in per cent)	1.48	1.34	1.64	1.76	1.63	1.84
Capital adequacy (in per cent)	0.00	0.00	0.00	0.00	0.00	0.00
Quick assets / total assets (in per cent)	8.85	17.91	35.96	35.40	32.44	33.19
Building societies						
Total assets (in CZK millions)	156,365	205,314	219,270	226,211	232,835	265,678
Credits granted (net) (in CZK millions)	38,713	51,583	54,180	60,403	69,874	75,629
Deposits received (in CZK millions)	142,959	188,017	194,925	208,808	216,785	248,734
Total off-balance-sheet assets (in CZK millions)	4,147	9,055	14,916	14,329	12,280	9,036
Receivables from derivatives transactions (in CZK millions)	0	0	0	0	0	0
Profit from financial activities (in CZK millions)	4,100	4,656	1,196	2,375	3,539	4,849
Net profit (in CZK millions)	1,216	1,576	392	718	1,002	1,129
Non-performing credits / total credits (in per cent)	1.54	1.77	1.89	1.92	1.76	1.92
Capital adequacy (in per cent)	16.20	13.59	13.79	13.91	13.99	13.28
Quick assets / total assets (in per cent)	8.39	38.31	42.32	46.92	46.50	43.58



## Concentration

(for banks with licences as of the given date)

	31 Dec. 2001	31 Dec. 2002	2003			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
	Percentage share in banking sector					
	3 largest banks					
Total assets (net)	58.77	57.18	58.42	59.59	59.32	56.88
Credits granted to clients (net)	59.27	53.51	53.87	53.54	52.66	52.88
Deposits and credits with banks (net)	43.34	47.07	50.06	46.98	48.93	43.87
Securities excluding Treasury bills and CNB bills (net)	73.98	81.60	80.12	80.85	74.43	77.97
Tangible and intangible assets	79.78	80.06	80.08	81.49	81.42	81.86
Deposits received from clients	69.14	64.24	65.07	65.67	65.52	64.16
Issues of short-term and long-term bonds	48.91	53.81	54.47	52.99	49.00	49.27
Total off-balance-sheet assets	45.93	48.71	49.59	51.83	51.62	51.12
Receivables from derivatives transactions	49.67	51.64	52.69	55.27	53.46	51.12
Profit from financial activities	68.78	68.21	64.99	66.49	66.99	66.87
Administrative expenses	65.86	65.81	64.42	65.68	65.48	64.32
Net profit (profitable banks only)	57.24	70.17	60.62	68.72	67.56	64.32
Classified credits	78.82	67.96	66.25	69.37	64.68	65.67
Quick assets	64.86	59.25	57.93	60.24	62.77	59.39
Tier 1	59.01	57.50	58.00	60.85	59.71	59.41
Total capital	60.12	57.04	57.43	59.51	58.38	56.34
Foreign exchange assets	55.09	56.32	59.02	56.61	58.85	54.57
Assets vis-à-vis non-residents	58.28	66.36	74.95	70.92	69.82	65.24
	5 largest banks					
Total assets (net)	68.38	65.75	66.89	68.43	67.89	65.77
Credits granted to clients (net)	70.66	65.47	64.98	65.40	64.05	64.45
Deposits and credits with banks (net)	59.04	58.08	60.54	57.54	59.89	55.23
Securities excluding Treasury bills and CNB bills (net)	84.48	89.82	89.59	90.24	87.12	87.79
Tangible and intangible assets	84.97	85.06	85.05	86.47	86.35	86.55
Deposits received from clients	76.86	72.29	73.23	74.92	74.53	73.57
Issues of short-term and long-term bonds	63.95	70.08	70.09	68.86	65.76	65.91
Total off-balance-sheet assets	67.36	74.35	72.54	74.33	72.81	74.53
Receivables from derivatives transactions	70.24	75.60	73.65	74.69	73.46	75.41
Profit from financial activities	78.01	77.40	74.79	76.88	77.47	77.74
Administrative expenses	75.54	74.82	74.19	75.37	75.22	74.77
Net profit (profitable banks only)	70.28	79.62	74.55	79.42	77.64	78.88
Classified credits	87.16	80.80	80.46	81.65	78.19	77.40
Quick assets	77.02	69.50	66.80	68.46	69.80	66.99
Tier 1	73.48	71.48	72.17	74.17	73.52	73.40
Total capital	73.55	70.60	71.05	72.84	71.90	70.38
Foreign exchange assets (gross)	67.64	70.66	72.43	70.76	74.40	73.08
Assets vis-à-vis non-residents (gross)	74.73	79.29	81.27	77.65	78.05	77.02
	10 largest banks					
Total assets (net)	80.60	79.78	79.37	80.43	80.24	79.38
Credits granted to clients (net)	82.99	79.96	79.81	80.18	79.12	79.50
Deposits and credits with banks (net)	76.31	77.91	78.05	77.51	79.89	78.18
Securities excluding Treasury bills and CNB bills (net)	94.94	95.88	96.66	97.54	97.02	97.83
Tangible and intangible assets	92.80	92.33	92.26	92.48	92.45	92.60
Deposits received from clients	87.96	85.41	85.96	87.34	87.10	86.99
Issues of short-term and long-term bonds	89.19	94.27	91.44	91.19	92.47	89.93
Total off-balance-sheet assets	92.38	94.43	93.97	94.62	94.35	94.45
Receivables from derivatives transactions	95.38	96.22	96.06	96.41	96.18	96.16
Profit from financial activities	87.14	86.81	85.80	86.98	87.47	87.65
Administrative expenses	85.61	85.94	85.56	86.58	86.55	86.72
Net profit (profitable banks only)	86.71	91.06	88.25	89.68	89.60	89.68
Classified credits	95.05	91.90	91.83	91.38	89.52	89.66
Quick assets	88.33	83.78	79.99	81.29	82.27	81.09
Tier 1	86.29	85.83	86.77	88.05	87.18	87.02
Total capital	86.91	86.01	86.48	87.54	86.81	86.21
Foreign exchange assets (gross)	86.81	88.44	89.06	87.36	89.91	89.66
Assets vis-à-vis non-residents (gross)	90.82	91.70	91.69	90.90	90.49	88.99



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