



BANKING SUPERVISION IN THE CZECH REPUBLIC

1997

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Note on method

All data used in this publication are from banks with valid banking licences as of December 31, 1997 unless stated otherwise in the chapter heading or relevant passage. Data are always taken for the bank as a whole, i.e. including its foreign branches, with the exception of structure of credits and deposits by sector and industry which include only bank transactions in the Czech Republic.

The data for 1997 partly reflect the results of external audits, therefore the data given here may differ from data previously published by the CNB. There may be additional partial changes to data given in this publication; however, they should not significantly affect the trends indicated.

A.

BANKING SUPERVISION IN 1997

The fundamental direction of banking supervision in 1997 was continuing pressure to increase the prudence of bank operations in order to further stabilise the Czech Republic's banking sector.

The main activities of banking supervision concentrated on improving the regulatory base with the aim of covering those parts of the individual risk areas in banking which have not yet been dealt with. Therefore, in addition to improving the Czech National Bank's existing regulations, preparation of completely new regulations has begun aimed primarily at comprehensive regulation of market risks and implementation of consolidated banking supervision. Implementation of these new regulations is expected at the turn of the millennium.

One significant element strengthening banking sector stability is the amendments to the Act on Banks which were prepared during 1997. The changes made by these amendments arose from the need to handle problematic areas in banking sector activities, particularly with regard to the connection of banks with the business sector, creating opportunities for banking supervision to influence the structure of bank shareholders in order to prevent them from negatively influencing a bank's development, increasing the level of information provided to the public about a bank's position and stability, increasing depositor protection in the deposit insurance system, etc. Since the amendments to the Act on Banks were passed during 1998, they did not have any effect on the banking sector's results for 1997. The positive effects of these amendments will show up in the coming period.

Banking supervision places great emphasis on co-operation with professional organisations in the banking industry, particularly with the Banking Association which includes practically all banks doing business in the Czech Republic and with the Chamber of Auditors. Active co-operation with these institutions significantly improves banking supervision's effectiveness, whether in preparation of new regulatory measures or in the performance of banking supervision. This co-operation also makes it possible to limit and resolve problems which arise in relation to external auditors when evaluating a bank's actual position.

The year 1997 was a very complicated period for the banking sector. It had to deal with banking supervision's pressure to increase the prudence of its operations, and at the same time, with unfavourable economic developments related to a certain stagnation of economic growth, exchange rate turbulence in the middle of the year and extensive flooding over a large part of the Czech Republic. In addition, some small banks were still undergoing consolidation processes begun in 1996 which were aimed at stabilising this banking subsector. A significant element in this process is the implementation of the stabilisation programme passed by the Czech government in October 1996 which creates space for these banks to increase the efficiency of their activities on a prudential basis. Preparations for completing privatisation of the large banks were an important aspect of the banking sector's development; however, the main part of these activities will be implemented in the coming period.

International co-operation is an important component of banking supervision, and the significance of this co-operation is increasing due to talks about the future entry of the Czech Republic into the European Union. Banking supervision arranges its activities in order to fully conform to international standards in the area of banking and to be compatible with the regulations and practices of European Union countries. The main prerequisite is compliance with the Core Principles for Effective Banking Supervision as set forth in the document prepared by the Basle Committee for Banking Supervision at the Bank for International Settlements (BIS).

Banking supervision places ever greater emphasis on the comprehensive and effective performance of banking supervision in individual banks. The basic aims, development priorities and methods were set forth in Banking Supervision's Plan for Development which was approved by the CNB Board. At the same time, changes took place in the organisation of banking supervision which should make the actual performance of bank inspection more efficient. Method manuals were completed for both forms of banking supervision, i.e. off-site and on-site examinations with the aim of increasing the thoroughness, standardisation and efficiency of work in this area. Bank inspection is based on close contact with the inspected bank which is an important prerequisite for positive solutions to all discovered problems affecting the stability of the banking sector as a whole.

1. PRUDENTIAL RULES

One of the main goals of banking supervision in the Czech Republic is to create a comprehensive regulatory base which fully respects the rules applied in European Union countries. A basic set of regulations concerning the prudential operation of banks was created in 1992 after the Act on Banks was passed. It was then improved and supplemented by further regulations in connection with the rapid development of banking in the Czech Republic. The need to respond to new banking products and operations is reflected in further expansion and improvement of all CNB regulations. Harmonisation with European Union regulations is necessary in connection with the talks on the Czech Republic's entry into the European Union. The need to improve the rules of prudential bank operation and to make them more precise is also necessitated by the attempts of some banks to circumvent these rules. Through this process, banking supervision also responds to new knowledge acquired from regular inspection activities on possible ways of influencing and limiting bank risks.

CNB regulations concerning the prudential operation of banks doing business on the Czech bank market are based on international regulatory standards which are contained in the recommendations of the Basle Committee for Banking Supervision at the Bank for International Settlements (BIS) or which are directly incorporated in European Union directives. As in European Union countries, these standards are accepted as binding minimum norms. The country version is then aimed at making certain regulations more strict as required by the banking sector's current stage of development, the legislative environment and other specifics of an emerging market economy.

1.1 Survey of prudential rules in effect in 1997

Regulation of bank operation governed by the rules of prudential bank operation is set by the Act on Banks, No. 21/1992 Coll., in the wording of later regulations. Its aim is the identification and maximum limitation of banking risks in the interests of protecting small depositors who entrusted their funds to banking institutions.

In 1997, a total of eight CNB prudential operation regulations were in effect. Most of them are aimed at covering credit risk which, in the current conditions, represents one of the basic risks in the Czech banking sector in view of the fact that credit transactions are a predominant activity in most banks.

The following regulations are aimed at **credit risk**:

CNB Regulation No. 3 of October 5, 1995 on Capital Adequacy of Banks, in the wording of later regulations

The purpose of this regulation is to ensure that a bank has adequate capital in relation to the risk levels of its transactions. The first version of the regulation, based on international standards, went into effect in 1993. In subsequent years, it was amended for greater compatibility with these standards. The regulation defines a bank's composition of capital and division of assets and off-balance sheet items according to various risk weights. The binding minimum ratio of capital to risk-weighted assets is 8% which was set in 1993. Since the end of 1996, there have been no exceptions to this requirement.

CNB Regulation No. 4 of October 5, 1995 on Credit Exposure of Banks, in the wording of later regulations

The purpose of this regulation is to limit the risk of losses arising from debtor insolvency or unwillingness to meet commitments vis-a-vis a bank and to prevent the excessive concentration of assets in a small number of clients. This regulation also came into effect in 1993. The regulation sets limits for credit exposure defined as the total of all assets including off-balance sheet items vis-a-vis an individual debtor or group of connected debtors to the amount of the bank's capital. Until 1995, banks could exceed the stated limits, but they were not allowed to further increase existing credit exposure which exceeded the regulation limits. This was necessary in order to give banks which had operated during the time when these limits did not exist a certain amount space for settling client relations.

CNB Regulation No. 6 of September 17, 1997, which stipulates the basic principles of credit claim classification and creation of provisions for these claims, in the wording of later regulations

The purpose of this regulation is the uniform assessment of credit transaction risk from the standpoint of the debtors' ability to pay their commitments vis-a-vis a bank and setting a necessary level for creating provisions to cover potential losses from a credit portfolio corresponding to the risk level of individual credit transactions. Regulation in this area has been in effect since the end of 1994. New regulations merely expand on the existing basic principles. No international standard exists yet in this area, but the problem of assessing the quality of credit claims is one of the decisive aspects of prudential bank operation in the Czech economic environment. The classification of credit claims is based on the evaluation of the client's creditworthiness from the viewpoint of his ability to pay the credit issued, on delay in payment of principal or interest, or based on delay in submitting financial information about the debtor's performance, and applies to all the debtor's commitments towards a bank. On the basis of this assessment, credit transactions are divided into five categories according to their risk level, i.e. standard (zero risk), watch (5% risk), sub-standard (20% risk), doubtful (50% risk) and loss (100% risk). Banks are required to create provisions for each classified credit in the amount stated by the above coefficients; however, for purposes of creating provisions, the bank may subtract the amount of quality collateral from a classified credit claim.

In 1997, this regulation was amended. This amendment involved more precise categorisation of some specific credit transactions into risk categories as a result of knowledge acquired in the course of inspections conducted by banking supervision and more precise specification of taking into account collateral on credit claims in calculating provisions.

This specifically required that a credit provided for repayment of a classified credit claim be classified into at least the same risk category into which the repaid credit was classified. An analogous procedure is applied even in the case of claim assignment. Banks are no longer allowed to classify claims that are not secured against exchange rate risk as standard credits. Instead, these credits must be classified as at least watch credits. This amendment is related to easing the exchange rate of the Czech koruna which took place in 1997. The third and probably most important amendment requires the bank to create a system for the evaluation of the quality of collateral including categorisation of the collateral, a method of monitoring, assessment and the frequency of collateral re-assessment. This evaluation must be submitted to the CNB by the end of 1997. Based on the regulation requirements, banks should re-evaluate and re-assess the method of securing their credit portfolios. They should also find a way of

dealing with problems connected with enforcing liens in a relatively short period of time. However, banks cannot fully influence all these problems. Significant improvement is possible only if there is adequate legislative and procedural transparency for enforcing liens and settling the still unbalanced debtor-creditor relationships.

Liquidity risk is regulated by:

CNB Regulation No. 11 of December 20, 1996 on Bank Liquidity Rules

The purpose of this regulation is not to set binding limits, but to set a bank's responsibilities with regard to the organisation and methods of liquidity management. Regulation in this area first came into effect in 1993 as well. In subsequent years it was then gradually improved.

The regulation requires banks to develop an information system which would give a quality overview of the inflow and outflow of funds into and out of the bank on the basis of the residual maturity of assets and liabilities, the conditions of a bank's method of financing its activities, a breakdown of resources by maturity, banking instruments and clientele, the need for a liquidity cushion to handle unexpected liquidity crises, etc. Another area covered is the bank's obligation to set personal responsibility for managing liquidity and to develop plans for handling liquidity crises differently according to the potential extent of a crisis. A new element which was added in 1996 is the CNB's ability to give individual banks limits for various liquidity indicators and to require that the banks adhere to them.

Market risk is another significant risk to which a bank is exposed. In the Czech Republic, this area is so far only partially regulated, but full inclusion of market risk into the system of rules for prudential bank operation is currently undergoing intensive preparation. The level of market risk regulation in the Czech banking sector is somewhat lower, because the development of products containing market risk has so far been lower, and because even in European Union countries basic international standards which comprehensively treat the problem of market risk have only recently come into effect.

Currently, regulations pertaining to market risk include:

CNB Regulation No. 6 of December 8, 1995 which stipulates the restrictions and terms for unsecured foreign exchange positions of banks and foreign bank branches

This regulation limits the potential losses arising from open foreign exchange positions in foreign currencies, from the koruna position and from a general open foreign exchange position, in connection to their size in relation to the bank's capital. This area has also been regulated since 1993. In 1995, a fundamental change was made in which the system of limiting open foreign exchange positions toward groups of similar currencies was replaced with a system that limits individual currencies. Under this regulation, banks are required to observe the set limits after ending daily foreign exchange trading.

CNB Regulation No. 3 of July 9, 1997 on the Principles for Creating Securities and Ownership Interest Portfolios and Covering the Risk of Securities and Ownership Interest Depreciation through Provisions

The purpose of this regulation which has been in effect since the beginning of 1997, is to limit the risk of loss from securities and ownership interest depreciation to which a bank or foreign bank branch is exposed through acquiring securities and ownership interests on its own account. This regulation is particularly important for the incompletely developed capital market in the Czech Republic, and to a large extent modifies the current system of securities accounting which does not yet allow a bank's accounting to reflect market value.

The basic principles of this regulation are

- requirements for classifying acquired securities into a bank's trading or investment portfolios according to the purpose for which the bank buys them,
- the precise specification of the market value principles for individual securities and ownership interests with regard to their classification in the types of portfolios
- requirements for the creation of provisions to cover the devaluation of securities and ownership interests separately for each portfolio

Banks classify in their trading portfolio those securities which they acquire for purposes of earning profits from short-term price movement without regard to the proportion of the securities to the issuer's initial capital. The investment portfolio includes the other securities, i.e. those securities and ownership interests which a bank acquires with the intent to hold them long-term in accordance with a long-term strategy for investing in securities, approved by the bank's statutory body. The bank must carefully consider its decision to divide its securities portfolio into two parts, because transfers between the two portfolios are limited. If a bank wishes to transfer a security from its trading portfolio to its investment portfolio, there are basically no limitations. The only requirement is that the transfer must be in accordance with the bank's investment strategy. When there is a transfer from the investment portfolio to the trading portfolio, the CNB must be informed.

The market value of securities is precisely defined for individual types of securities, i.e. for bonds, shares, share certificates, and ownership interests. The division into a trading and investment portfolio is also important. The procedure for valuing securities included in a trading portfolio is relatively strict and is based on the current market risk associated with holding them, namely the daily price fluctuations on the public stock markets or in over the counter (OTC) trades, the liquidity of a security in the capital markets related to its volume in the bank's trading portfolio, and the issuer's creditworthiness. With regard to these factors, the market value of a security may be significantly lower than its purchase price, and may even be zero. A more liberal approach applies to securities in the investment portfolio. This is based on preferring a company's long-term profitability to monitoring daily price fluctuations on the capital market; therefore, shares not traded on capital markets may be valued according to the owner's equity per share.

The requirement to create provisions for covering the difference between the purchase price and market value of securities in the trading portfolio is specified on a daily basis and applies to the individual securities in a portfolio. In the investment portfolio, provisions can be created for the total volume of the portfolio on a one-time basis at the end of the current year.

This regulation, which came into effect on January 1, 1997, allowed banks six months to reach the required volume of provisions for securities and ownership interests. During this period, banks had to develop their investment strategies in writing as well as to decide how their securities and ownership interests would be divided among the different types of portfolios.

In addition to the above regulations which correspond fairly precisely to the individual types of risks in bank operations, two other regulations are in effect in the Czech Republic which address the need to regulate other areas of bank business in view of the specific conditions in the Czech banking sector. They are the following:

CNB Regulation No. 8 of September 22, 1997, which stipulates the restrictions and terms for banks for some kinds of credits and investment in ownership interests

This regulation sets restrictions and terms for bank procedures in transactions with entities closely related to the bank with the aim of preventing the close interconnection of property and credit which results in the weakening of the bank. This regulation has not been changed since it came into effect in 1994. It was therefore necessary to update some definitions (e.g. the definition of inspection), to make some

other concepts more precise, but particularly to better specify the group of legal entities whose securities a bank shall not acquire for its portfolio, whether directly (direct purchase), or indirectly (through enforcement of a lien).

Substantial improvement of this regulation is based on some new knowledge acquired through conducting bank inspections. Some banks in a number of cases provided advances for the purchase of securities, or paid in advance out of their own assets for securities not yet delivered, and negotiated the deferral of the purchase price with the client, with an inadequately long period between delivery of the security and payment. The funds committed in these transactions did not take the form of credit, even though they actually were credits, and thus were not subject to the same regulations as other credits provided by the bank. For this reason, the regulation stipulates that the time period between transfer of a security and payment shall not be longer than six days. If the time period is longer, the claims thus created are considered to be credit claims with all due consequences.

CNB Regulation No. 7 of September 22, 1997, which stipulates requirements for the bank performance report

This regulation determines the extent of co-operation between external auditors and the CNB through a bank's compulsory annual report, the accuracy of which must be verified by the relevant external auditor. The regulation specifies the content of the report which is focused on identification, monitoring and management of bank risks, and on providing information which is not part of the regular system of statements and reports submitted to the CNB. This regulation has been in effect since 1994 and is updated every year.

Amendments in 1997 substantially changed the concept of these reports. Previously, they provided banking supervision with a wide range of information submitted by a bank and verified by an external auditor. This information was very valuable, particularly in the period when banking supervision did not have a great deal of experience and, for reasons of capacity, managed to visit only a few banks each year. At present, the situation is gradually changing, and therefore the requirements for reports on bank performance are changing in nature.

The requirements are now oriented toward description of a bank's internal risk management system and its evaluation by the auditor in terms of adequacy for the bank's range of activities. In connection with the amendment to the regulation on credit classification, special emphasis is laid on auditing the credit collateral system. The regulation now includes a requirement to describe the bank's involvement in trading in derivatives and the system of accounting and assessment used for them.

The above risks are not, of course, a complete list of risks to which banks are exposed. Other risks include commercial and operating risks. Commercial risks include subcategories such as legal risk, tax risk and reputation risk. Operating risks include the risk of losses suffered as a result of errors in performing transactions, mistakes arising from the complicated nature of products, mistakes caused by bad bookkeeping and settlement of trades, etc. It is difficult to regulate these risks centrally, and they must be dealt with by the banks themselves relying on their own internal regulations, the quality of their internal control system, etc.

1.2 Preparation of new CNB regulations

In 1997, banking supervision concentrated on preparing regulations for other areas which are not yet covered by the rules for prudential bank operation in the Czech Republic and which are important in view of the expected entry of the Czech Republic into the European Union.

Basic areas where further regulation is necessary include market risk and banking supervision on a consolidated basis. Therefore, banking supervision in 1997 began preparing regulations based on Basle Committee recommendations and European Union directives.

In the area of market risk this involves the implementation of European Union Directive No. 93/6/EEC which includes market risk in the concept of calculating a bank's capital adequacy. A new regulation, which is fully based on international standards, will come into effect towards the beginning of the year 2000. Banks will also be given a certain time period for meeting all of the new requirements.

The basis of this regulation involves the implementation of an appropriate system for measuring and quantifying the exposure of banks to market risks. As in the case of credit risk, banks are required to maintain a minimum level of capital as protection against this risk, at least eight percent of the calculated value.

Consolidated banking supervision generally means that banking supervision inspects and evaluates a bank not only as an independent entity, but also as an integral part of the whole (a financial group). In the Czech Republic, most financial groups are headed by banks. The intended regulation sets forth practical principles for consolidation, namely, determining the consolidated whole, methods of consolidation, exceptions to consolidation, etc. At the same time it states that limits for capital adequacy and credit exposure do not only apply to the bank itself, but to the entire consolidated whole, i.e. the group of entities consisting of the bank and financial institutions in which the bank is a shareholder. This regulation should also come into effect towards the beginning of the year 2000.

2. CHANGES IN LEGISLATION

The legislative environment in the Czech Republic is constantly developing in response to economic development and the need to harmonise legal regulations with European Union requirements. The fundamental change of economic orientation from a planned to a market economy as well as political changes required comprehensive modification of the entire legislative system. However, it was not always possible to fulfil this task, both in terms of content and time, and thus in a number of cases legislative changes lagged behind economic development. At the same time, only practical application of laws revealed certain inadequacies in laws and the need to constantly improve them. This was reflected in the significant number of amendments to the laws.

Some changes in legislation carried out in 1997 and, in most cases, approved at the beginning of 1998 were a response to government measures for support of economic development in mid 1997.

2.1 Banking legislation

The Act on Banks, which is the basic legal norm governing the position of banks, conditions for bank activities, and their regulation has changed nine times since its implementation in 1992. The last amendment to the Act on Banks, which came into effect as of February 1998, was prepared during 1997, and its purpose was to respond to facts related to the interconnection of the banking and business sector, the separation of commercial and investment banking, and other problems in banking.

New regulations cover the following areas

interconnection of banks with the corporate sector

- a bank is not allowed to exercise control over another legal entity that is not a bank pursuant to this act, a financial institution, or an enterprise providing auxiliary banking services. Control over a bank or other legal entity means having a more than 50% direct or indirect share of the legal entity's initial capital or voting rights in a legal entity, or the right to appoint or recall most of the members of the statutory body, the supervisory board and the management of a legal entity, or the possibility of exercising decisive influence over the management of a legal entity, in which an entity is a partner, shareholder or member on the basis of an agreement with a legal entity, a provision in the articles of a legal entity, an agreement with other partners, shareholders or members of a legal entity, or the possibility of exercising decisive influence in another manner.
- the qualified interest of a bank in a legal entity, which is not a bank pursuant to this act, a financial institution or an enterprise providing auxiliary banking services must not exceed
 - a) in a single legal entity, 15% of the bank's capital
 - b) in a sum of all legal entities, 60% of the bank's capital.

These restrictions do not apply to a bank's qualified interest in a legal entity resulting from a claim against such a legal entity, providing the bank holds the qualified interest for a maximum of one year from its acquisition, or for a bank's qualified interest on the basis of participation in issuing securities and providing related services, if the bank holds the qualified interest for a maximum of six months from its acquisition. A qualified interest is defined in accordance with European Union directives as a direct or indirect share of more than 10% in a legal entity's initial capital or in the voting rights in a legal entity or the exercising of significant influence on the legal entity's management. An indirect share means a share held by an intermediary, through a legal entity which is controlled,

- in terms of personnel connections between a bank and other entities, where a member of a statutory body, member of a bank's supervisory board or a bank employee shall not simultaneously be a member of a statutory body or supervisory board of another legal entity which is a business. This does not apply to cases where this legal entity is an entity which the bank controls, including foreign legal entities, nor to cases where this legal entity is an enterprise providing auxiliary banking services or the Stock Exchange. This does not apply to members of the statutory body or supervisory board of a bank, even in cases where the other legal entity is one which exercises control over the bank, including foreign legal entities.
- a bank may conduct securities trading and trading in rights connected with securities, or derived from securities pursuant to a special law, on its own account or using its own assets only on the most advantageous terms for the bank, namely for the best price achievable under professional guidance.

separation of investment and commercial banking

- a bank is obliged to prevent
 - a) in executing investment transactions, the use of information acquired in connection with its credit transactions, and vice versa,
 - b) in executing investment transactions on its own account, the use of information acquired in connection with its investment transactions on a client's account, and vice versa, unless such information is publicly available,
- in fulfilling these duties, a bank is obliged to implement measures in its organisational, management and inspection systems to ensure the separation of credit and investment transactions.

other areas

- the so-called test of economic need, which could be applied in issuing licences to operate as a bank or branch of a foreign bank, was eliminated from the law
- the maximum amount for compensation of deposits within the deposit insurance system was raised from CZK 100,000 to CZK 300,000; the 80% relative limit for insured deposits was not changed.

During 1997, another amendment to the Act on Banks was prepared, aimed primarily at

- tightening terms for issuing a banking licence
- expanding a bank's obligation to provide information to the public
- the amendment of rules for acquiring a stake in a bank with regard to the amount of the acquired stake; at the same time, the same procedure is stipulated for domestic and foreign investors,
- the possibility of suspending the voting rights of shareholders who negatively affect a bank,
- tightening remedial measures for banks, particularly with regard to compulsory CNB procedures in cases of non-compliance with the capital adequacy limits
- further improvement of the deposit insurance system by expanding it to legal entities and by specifying those persons who do not have a right to payment, i.e. persons with special relations to a bank, and others.

This amendment was discussed in the Lower House of the CR Parliament and in the Senate at the beginning of 1998. At the same time, intensive work has started on the preparation of a completely new Act on Banks which would correspond to European Union requirements. The reason for preparation of a new Act on Banks is to increase its transparency in view of the many amendments which were passed to make this Act more precise.

2.2 Other laws applicable to banking activities

Another area which significantly affects the business dealings of banking institutions, particularly from the standpoint of their function as securities traders, is the **capital market**. The need for greater control over the capital market led to the preparation and, at the beginning of 1998, to the approval of the Act on the Securities Commission which is to be the main regulator of investment services. This Act, which came into effect on April 1, 1998, not only created a new state supervisory body over the capital market, but also stipulated the missing fundamental prudential rules for the activities of securities traders. Under this Act, for example, by April 1, 2000 at the latest, securities traders will be obliged to bring the level of their initial capital up to the law's requirement, i.e. a minimum of CZK 10 mil. The Ministry of Finance is required to issue a regulation on capital adequacy for securities traders by July 1, 1998, i.e. within three months after introducing the Act. This binding regulation, whose observance the Securities Commission will monitor, will bring requirements for the safety of the securities trading business significantly closer to the requirements imposed on banks.

The Act also addresses issues of co-operation between the Securities Commission and other regulators and stipulates that the CNB, together with other regulators in the area of financial services, develop by July 1, 1998 a system for this co-operation, which should in particular define the exchange of information between individual financial market regulators and delineate other areas of co-operation.

An amendment to the Act on Bankruptcy and Settlement, No. 328/1991 Coll., in the wording of later regulations, was prepared in 1997 and came into effect as of April 1, 1998. Its main goal was to speed up the process of bankruptcy and settlement as well as to make it more flexible.

The amendment to the Act on Bankruptcy and Settlement involved the following changes:

- the requirement that the debtor's inability to meet payment obligations must last for a longer period was removed from the legal definition of bankruptcy. This change is significant for debtors with regard to their duty to file bankruptcy.
- the range of cases when special procedures, rather than the civil procedure code, apply to a bankruptcy was widened (e.g. the proceedings interruption is not allowed, excusing a party's default on deadline is not allowed, a court may arrange a preliminary order without being requested),

- the obligation of the debtor (legal entity or natural entity - entrepreneur) to file bankruptcy, not only for bankruptcy through excessive indebtedness, but also bankruptcy for insolvency. Not meeting these obligations exposes a debtor to the risk of criminal prosecution or sanctions in the form of a duty to pay damages to creditors,
- raising the number of bankruptcy creditors from 15 to 50 in cases where there exists the obligation to establish a creditors' committee which should significantly speed up bankruptcy proceedings,
- a requirement that the bankruptcy trustee submit a final report to the court within 18 months of the bankruptcy filing, unless the court sets another reasonable deadline,
- a requirement that the court, in meeting legally required conditions, issue a decision on the bankruptcy filing without unnecessary delay; at the same time, the group of persons who can appeal this decision is reduced.

The Criminal Code is another legal regulation which had to be amended due to problems with prosecution of individuals and entities whose irresponsible actions led to the bankruptcy of a company. The amendment, which came into effect as of January 1, 1998, attempts to correct, to a certain extent, a debtor's advantageous position over a creditor. The amendment respects the principle that the state does not interfere in economic relationships which do not violate the law, but it ensures the possibility of criminal prosecution for violation of important duties imposed by the law.

The amendment to the Criminal Code, with regard to banking, was aimed at expanding the existing acts constituting the criminal offence, in particular

- in the area of distorting business and economic data, expansion to include distortion of data about economic performance and capital. A significant step in this direction is the elimination of the need to prove the offender's intent to gain unjustified advantages for himself or another person.
- a precise definition of credit fraud, which should make it easier to prove fraudulent actions in cases when false statements are made in applying for credit and when credit is used for purposes other than those agreed upon in the credit agreement, etc.

Supplementing the Criminal Code with a provision which removes doubts about the possibility of prosecuting persons who act on behalf of a legal entity is of major significance for the entire area.

3. BANKING SUPERVISION IN PRACTICE

Banking supervision in the Czech Republic makes full use of off-site and on-site examinations of banks in the Czech banking sector. The gradual acquisition of practical experience in the course of conducting supervision, together with increasing personnel and improving the qualifications of individual inspectors makes it possible to improve bank inspection.

3.1 Off-site examination

The basis of off-site supervision is detailed monitoring of the situation in banks through regularly obtained information through statements and reports, which individual banks submit to the CNB. The range and extent of these reports is gradually expanding as a result of more detailed regulation of the individual areas of bank activities. For example, in 1997 the range of information obtained up to that point (balance sheets, profit and loss account, report on capital adequacy, residual maturity of assets and liabilities, credit exposure, open foreign exchange positions, classification of claims, and overdue

claims) was expanded to include the monitoring of securities by market value, increases and decreases in standard and classified credits, and the structure of deposits by size.

Banking supervision's information base currently contains a significant amount of data, which is the basis for detailed monitoring of the situation in individual banks and in the banking sector as a whole. In 1997, the need to ensure flexible processing of the data required the preparation of a uniform banking supervision information system which would include not only the organisation and processing of numerical data, but also provide further information, like, for instance, basic data about on-site inspections conducted, measures applied, the shareholder structure of banks, the ownership interests of banks, members of bank statutory bodies, etc.

In 1997, the basic manual for off-site examination was finalised, which precisely delineates an inspector's duties in conducting off-site examination and also gives a survey of supporting programs which assist in a quality analysis of the situation in a bank and the identification of possible corrective measures if needed. This manual is updated on an on-going basis with new sources of information related to the expansion and changes in the banking supervision information system.

Basic off-site supervision outputs are:

- a *uniform system of evaluating banks*, which provides a basic overview of the development and structure of assets and liabilities, profitability, asset quality, liquidity, capital adequacy, and other areas of activity, including comparison with a group of similar banks,
- an *early warning system*, which, on the basis of monthly changes in basic indicators, warns against negative tendencies in the development of individual banks,
- *bank ratings* aimed at evaluating a bank's present and future position in the banking sector based on evaluating basic indicators of capital, liquidity, asset quality, profitability and management.

In addition to these basic elements, there are a number of other products aimed at monitoring compliance with fixed limits (for example, in open foreign exchange positions and credit exposure), observance of special stabilisation programmes, production of regular monthly analyses of a bank's activities for banking supervision management, for analyses of the banking sector as a whole, etc.

3.2 On-site examination

On-site examination is a significant element in banking supervision which allows the evaluation of those areas which cannot be monitored in off-site examination directly on a bank's premises. In particular, these are assessment of the overall level of management procedures in the bank, the system of identifying, monitoring and managing risks, the internal control system, etc. In addition, on-site inspections are a significant source of improving the quality of data used in off-site surveillance, for an inseparable part of on-site supervision is the evaluation of the bank's basic information system and monitoring of the correctness of compiling statements and reports submitted to the CNB.

On-site inspections are carried out on the basis of an on-site inspection plan which is developed for each year. Planning supervision activities is based on the principle that each bank is given an on-site inspection at least once every 2 years, and problematic banks more frequently. The results of off-site inspections, which identify banks with problematic development, are also used.

The inspection activities include in-depth and partial on-site inspections and informative visits to banks. In-depth inspections are aimed at all of a bank's basic activities and provide an overall view of the bank's position and management methods. In-depth inspection also includes detailed inspection of part of the bank's credit portfolio. These inspections are time consuming and usually last 4 to 6 weeks depending

on the bank's size and extent of activity. Partial inspections are aimed at selected bank activities which were identified as problematic during off-site monitoring, or are used for inspection of compliance with measures assigned after in-depth inspection. Partial inspections usually last 1 to 2 weeks. The results of in-depth and partial on-site inspections are processed in a report which is then reviewed with the bank, and on the basis of the inspection results, appropriate measures are applied or correction procedures are recommended. A basic manual was developed for on-site inspections which specifies the preparation of a bank's own internal inspection, determines the basic extent of the inspection of individual areas, lays out the basic structure of the report, etc. This manual is also updated on an on-going basis.

Informative visits in banks represent a specific form of on-site examinations, the main purpose of which is maintaining contact with banks between regular in-depth inspections. They consist in meetings with bank managers, generally over 1 to 2 days. Informative visits are aimed at a bank's strategy, review of minor problems in a bank's performance, or identification of risk areas.

In 1997, banking supervision conducted 12 in-depth and partial on-site inspections and 18 informative visits in banks.

3.3 The stabilisation programme

In 1997, a significant portion of banking supervision capacity was concentrated on finishing the process of stabilising the small bank subsector which had commenced in 1996. Consolidation of the small bank subsector, which had significant problems in 1995 and 1996, led to a fundamental change in its structure. Banks which were insolvent, based on an auditor's evaluation and banking supervision analysis, were eliminated from the banking sector. However, the consolidation process could not avoid a decline in public confidence in the banking sector or the threat to many small banks of a gradual outflow of deposits, which banks with weak capital structure were not able to combat. To limit the risks of a liquidity crisis in the small bank subsector and the possibility of overall destabilisation in the banking sector, the Czech government, with its resolution of October 16, 1996, implemented a systematic solution, the Programme for Strengthening Banking Sector Stability, which was specifically intended for the then-existing 13 small banks.

The foundation of this programme is the purchase of poor-quality claims from banks at face value by a special organisation established for this purpose – Česká finanční, s.r.o. – up to the precisely determined level of their initial capital on the basis of recoverability. Banks are obliged to give Česká finanční a bank guarantee for the recoverability of these claims, and at the end of the seven-year stabilisation programme, reimburse Česká finanční for that part of the claims which it was not able to collect during the stabilisation programme. For this purpose, banks will create annual reserves in the amount of at least 1/7 of the value of the sold claims. The expected extent of the programme was based on the value of 110% of the initial capital of 13 small banks as of August 31, 1996. On this basis, the allowance for Česká finanční's purchases of claims was set at CZK 13.7 bn. This amount was raised by another CZK 5 bn in January 1998.

One condition for participation in the stabilisation programme was the acceptance of increased banking activity inspection. A stabilisation programme was developed individually for each bank containing a number of criteria with a detailed schedule. These individual programmes were discussed with each bank. Compliance with the programmes is evaluated quarterly.

Six banks expressed interest in participating in the stabilisation programme. They subsequently presented their own stabilisation programme proposals and during 1997, gradually entered the programme, which included beginning to sell off their poor quality claims to Česká finanční. At the same time, the majority of banks, even before the programme was implemented, raised their initial capital to meet the parameters of the stabilisation programme, particularly in the area of capital adequacy and adequate profitability. As a

result of this step, they were allowed to raise in the same ratio the amount of claims bought by Česká finanční.

4. PREPARATION FOR ENTRY INTO THE EUROPEAN UNION

With respect to banking, the major tasks related to the Czech Republic's entry into the European Union are not only focused on legislation, but also on gradual adjustment of procedures and methods of banking supervision's regulation of the banking sector, so that they correspond to the general standards used in European Union countries. Quality, effective banking supervision is a significant prerequisite for the successful development of the banking sector, and even more in the expanding European market where greater competition, will allow only stabilised banks, well-equipped with capital and with an effective system of management and control of all risks, to survive.

Core Principles for Effective Banking Supervision

The way to ensure comprehensive and standard procedures in banking supervision is harmonisation with the core principles of banking supervision, as defined in the document *Core Principles for Effective Banking Supervision*, prepared in 1997 by a group of banking supervision experts from developed countries as well as some emerging market economies, under the leadership of the Basle Committee for Banking Supervision.

CNB banking supervision, drawing on these principles, conducted a detailed revision of the regulatory base for banking supervision. At present, the degree of compliance with these principles during actual performance of banking supervision is being evaluated. Although most of these principles have already been met, certain inadequacies still appear in the following areas:

- systems which precisely measure, monitor, and appropriately control market risks,
- supervision on a consolidated basis,
- thorough verification of the existence of a complex risk management process in banks
- thorough development of a chart of accounts and accounting principles which ensure that accounting records will present a realistic picture of a bank's financial situation and its profitability,
- establishing regular contacts with banking supervision bodies in other countries, including the appropriate exchange of information.

CNB banking supervision will continue to incorporate the remaining principles or their elements into banking legislation. The CNB's actual participation in the preparations of the Core Principles for Banking Supervision is undoubtedly a moral commitment. Regular inspection of the development of the principles and the subsequent publication of the results will support rapid progress in this area. This fact also gains importance in view of the commencement of talks about the Czech Republic's entry into the European Union, whose representatives will assess the level of banking supervision performance as one of the important elements of the country's readiness for entry negotiations.

Harmonisation with European Union laws

An analogous situation exists in compliance with European Union directives which apply to the banking sector, because the above-mentioned Core Principles for Banking Supervision are based on these directives. The degree of harmonisation in banking legislation is relatively high. Differences remain

primarily in the above-mentioned areas, i.e. in applying consolidated banking supervision and regulation of market risks. Some differences, particularly regarding individual licences, mutual recognition of banking supervision, etc. cannot be eliminated until the Czech Republic actually enters the European Union.

The year 2000 issue

CNB banking supervision has also taken on the role of a co-ordinator in preparing the banking sector for the year 2000 when the date change can significantly affect the functioning of a number of information and payment systems. On the basis of a recommendation from the Basle Committee for Banking Supervision, set forth in a special questionnaire on this issue, banking supervision has begun to map out the situation in individual banks and to work with other bodies in the Czech Republic.

Activities in the group of banking supervision bodies in Central and Eastern European countries

CNB banking supervision is also active in the group of Central and Eastern European countries. This group co-operates very closely with the aim of rapidly solving problems in the banking sector given the difficult conditions of the transformation of economies and political systems. In addition to participating in regular annual conferences (held in Bratislava in 1997), meetings on specific issues in banking supervision and the banking sector are held with banking supervision experts from various countries. The exchange of experience in solving issues in the individual countries contributes significantly to improving the quality of procedures and methods in banking supervision in the Czech Republic. In 1997, meetings were organised on accounting standards, derivatives regulation and risk management, as well as a seminar for beginning banking inspectors.

Assistance from banking supervision in developed countries and international institutions, for example, from the World Bank, the International Monetary Fund, etc. has also significantly improved the quality of banking supervision. With the help of the PHARE programme, banking supervision experts can receive education abroad or in the Czech Republic with foreign instructors, including internships on specific issues in the central banks, etc.

5. ORGANISATIONAL STRUCTURE OF BANKING SUPERVISION

The development of banking supervision until now, and particularly the development in the last two years, has been a learning experience. This experience has helped banking supervision recognise the need to improve the quality of banking supervision, to create legislation for the so far unregulated or inappropriately regulated supervision areas (primarily corrective measures and bank exiting from the sector), and also to standardise all procedures in the areas of supervisory activity, strengthen banking supervision departments in terms of personnel, re-evaluate the relationship to external auditors, and to concentrate inspection activity more on evaluating the dynamic aspects of bank financial positions, i.e. on systematic inspection and analysis of systems for managing bank risk areas. The same recommendation resulted from a special visit by a World Bank expert whose task was to evaluate the organisational structure and instruments of CNB banking supervision.

These circumstances led to reorganisation of CNB banking supervision as of December 1, 1997, which included increasing banking supervision's personnel. The reorganisation was based on the following principles:

- division of the existing department, which carried out off-site and on-site examinations and basic analysis, into two banking supervision departments with similar organisational structures and roughly the same number of supervised banks and foreign bank branches, while activities involving analysis were moved out of these departments,
- creation of equivalent groups of banks which will be inspected by these departments with regard to their size, share of foreign capital, specialisation, etc. This division allowed equal work loads on the departments, expanded knowledge about individual types of banks, and the possibility of applying acquired experience to surveillance of other banks,
- division of off-site and on-site examinations within the bank inspection departments by creating independent inspection teams, which on the one hand resulted in stronger capacity for necessary inspections in banks, and on the other, allowed problem-free performance of the routine agenda regarding bank activities,
- elimination of the licensing department and concentration of all banking supervision activities connected with the activities of an already licensed bank into the bank supervision departments, i.e. transfer of all responsibilities for a bank, from the granting of licences onward, to an assigned bank inspector. These departments will also handle application proceedings for new banking licences,
- concentration of all methodological activities into one department, with the intention of creating a regulatory basis of prudential operation for banks as well as creating methodological procedures for conducting off-site and on-site examinations,
- removing banks whose banking licences had been revoked from the routine agendas of inspectors who conduct bank supervision and transferring them into an independent department for non-standard activities,
- increasing the number of banking supervision employees by 15, i.e. to 104 employees.

Banking supervision (a detailed chart can be found in the appendix) consists of 3 departments:

- the banking supervision policy department, consisting of two sections, is focused on the methods of banking supervision (prudential rules, internal procedures for all banking supervision activities), foreign relations, analysis of the banking sector and information support for bank inspections,
- two organisationally identical banking supervision departments, further divided into two sections, focusing on conducting off-site and on-site bank inspections, including conducting relevant administrative proceedings in the area of licences, corrective measures and prior consent granted to banks by the CNB pursuant to the Act on Banks no. 21/1992 Coll., in the wording of later regulations. On-site inspection is performed by independent inspection teams, one belonging to each bank inspection section,
- an independent section for sub-standard activities is focused on banks whose licences have been revoked and on commencing the investigation of unusual operations in banks and methodological co-operation with law enforcement authorities.

As of June 1, 1998, a complete reorganisation of the CNB took place, which was also reflected in the structure of the banking supervision division (see the chart in the appendix).

Banking supervision planning

The plans for banking supervision development in the coming period, which were approved by the CNB Bank Board in January 1998, set out the basic goals and how these plans will be achieved. A medium-term strategic goal for banking supervision is to contribute to the creation of a stable and competitive banking sector, which will be the result of a dynamic balance between the regulation and supervision of banks, market discipline, and high quality management of the banks. A prerequisite for attaining this goal is ensuring a high degree of harmonisation of the regulatory framework, methods and procedures with the prudential principles of the European Union, or the best European practices, which are set out

in European Union banking directives and principles for effective performance of banking supervision (the “Core Principles”), a comprehensive, standardised and balanced system for the regulation and supervision of banks, including application of strict criteria for entry and exit of banks from the sector, appropriate interconnection of off-site and on-site inspection with the use of external auditors as an important source of information, effective communication between banking supervision and the banking sector through the Banking Association and also directly with individual banks, a system of co-operation for the regulation and supervision of “financial banking groups,” etc.

B.

BASIC TRENDS IN THE BANKING SECTOR

1. THE ECONOMIC ENVIRONMENT IN 1997

The growing imbalance in the Czech economy in past years became apparent as domestic demand outpaced supply, causing the current account deficit to deepen, economic growth to slow, etc. These circumstances led foreign investors to change their assessment of the Czech economy and the adequacy of the koruna exchange rate. The Czech government reacted to the situation with measures to reduce state budget expenses, which, however, proved to be inadequate. The lack of confidence among foreign investors, domestic banks, companies and the public in the sustainability of the koruna in the existing fluctuation band peaked in May 1997. The CNB, in the interests of preventing greater depreciation of the currency which would not correspond to the development of macroeconomic fundamentals, turned to direct intervention on the foreign exchange market and passed further monetary measures, which meant limiting the financing of commercial banks and limiting the access of foreign entities to the Czech money market. Effective May 27, 1997, the existing fluctuation band and the koruna's link to the two-currency basket (USD/DEM) were repealed, and a floating exchange rate for the koruna with the DEM as a reference currency was implemented. The koruna exchange rate subsequently stabilised at a level roughly 10% lower than original central parity. Interest rates had increased sharply in the period of exchange rate turbulence. A calmer situation on the foreign exchange and money markets, though, made it possible to gradually lower interest rates to roughly their original level.

In the interest of supporting stable development, the Czech government in June 1997 passed another set of measures which consisted of further restriction of government expenditures, limiting wage growth in the public sector, the start of legislative improvements, improving capital market oversight, etc. These measures, together with renewed demand in Western Europe, helped restore the macroeconomic balance, which became evident in, for example, the gradual decline in the share of the current account deficit in GDP, and a gradual convergence of growth rates of labour productivity and average real wage.

This development also significantly affected the banking sector. The exchange rate turbulence in May 1997 created a non-standard situation, and the banking sector had to overcome temporary liquidity problems connected with the change in structure of koruna and foreign currency deposits, with insufficient liquid resources on the interbank market, etc. At the same time, worsened economic conditions in the corporate sector led to expectations that the payment discipline of clients would worsen. This situation was, to a certain extent, also deteriorated by the extensive flooding in a large part of the Czech Republic in July 1997.

2. STRUCTURE OF THE CZECH BANKING SECTOR

2.1 Number of banks in the banking sector

As of December 31, 1997, there were 50 banks operating in the Czech Republic, which is down by three from the previous year end. In 1997, Bankovní dům Skala, a.s., Ekoagrobanka, a.s. and Evrobanka, a.s., had their licences revoked and were partially integrated into Union banka, a.s. Realitbanka, a.s. also had its licence revoked after filing a bankruptcy petition.

*Number of Banks by Group
(banks which started client operation)*

| | 1.1.1990 | 31.12.1990 | 31.12.1991 | 31.12.1992 | 31.12.1993 | 31.12.1994 | 31.12.1995 | 31.12.1996 | 31.12.1997 |
|-------------------------------------|----------|------------|------------|------------|------------|------------|------------|------------|------------|
| Total banks | 5 | 9 | 24 | 37 | 52 | 55 | 55 | 53 | 50 |
| of which: | | | | | | | | | |
| large banks | 5 | 5 | 6 | 6 | 6 | 6 | 6 | 5 | 5 |
| small banks | x | 4 | 14 | 19 | 22 | 21 | 18 | 12 | 9 |
| foreign banks | x | x | 4 | 8 | 11 | 12 | 12 | 13 | 14 |
| foreign bank branches | x | x | x | 3 | 7 | 8 | 10 | 9 | 9 |
| specialised banks | x | x | x | 1 | 5 | 7 | 9 | 9 | 9 |
| banks under conservatorship | x | x | x | x | 1 | 1 | 0 | 5 | 4 |
| Additionally, banks without licence | x | x | x | x | x | 1 | 4 | 6 | 10 |

Active foreign bank branches included Midland Bank plc - Prague branch, which acquired its licence in 1996. Another bank which received a licence in 1996, West Deutsche Landesbank, did not begin active operations within the allotted legal period, so its banking licence was revoked in January 1998. Oesterreichische Volksbanken AG, Brno branch was converted into a subsidiary bank under the name Volksbank, a.s. In 1997, no new banking licences were issued.

2.2 Breakdown of banks into groups

The division of banks into individual groups is based on the size of total assets managed, the origin of capital and any specialisation a bank may have (a detailed overview of groups by individual banks is found in the appendix).

The group of **large banks** includes banks which were in operation before 1989, either independently, or separated from the original State Bank of Czechoslovakia (SBCS), which filled the role of both a central and a commercial bank before 1989. This group is characterised by total assets of over CZK 100 bn and with a partial or full state stake in the initial capital. The total assets of banks in this group form over 65% of the total assets in the sector. The services offered by each bank differ significantly, depending on the traditional orientation of the banks. Česká spořitelna is oriented primarily toward small clients, while ČSOB focuses more intensively on products related to foreign business. The primary business of Komerční banka and Investiční a Poštovní banka is the financing of larger businesses. Konsolidační banka has a quite different profile; it was established as the only state financial institution for the management of poor quality credits provided by the banking sector before 1989.

The **small bank** group typically has a large share of Czech private capital and relatively low total assets. Some of these banks are gradually forming a network of branches throughout the country. Others are of a more regional character. In the past, small banks were focused not only on services to the public, but also on providing credits to the domestic business sector. However, these credits had a high level of risk.

Proportion of Individual Bank Groups in Total Assets

| | 31.12.95 | 31.12.96 | 31.12.97 |
|-----------------------------|----------|----------|----------|
| Banking sector, total | 100.00 | 100.00 | 100.00 |
| of which: | | | |
| large banks | 71.72 | 68.87 | 65.64 |
| small banks | 4.92 | 5.21 | 4.68 |
| foreign banks | 11.44 | 12.42 | 14.59 |
| foreign bank branches | 5.02 | 6.41 | 7.72 |
| specialised banks | 2.11 | 3.09 | 4.31 |
| banks under conservatorship | 4.78 | 4.00 | 3.06 |

Therefore, in 1997 six small banks accepted an offer from the CNB which enabled them to sell off poor quality assets in the framework of a stabilisation programme, and thus to continue in other activities which would have been endangered by the poor returns on the credits.

Foreign banks are mostly subsidiaries of major foreign banks. Their clientele consists mainly of companies with foreign capital coming from the country of origin of the given bank. Foreign banks are not yet significantly oriented toward services for small clients. This corresponds to their higher share of financing from the interbank market and a relatively low level of primary deposits. Foreign banks are a significant competitive element in the Czech banking sector, not only because of their gradually increasing activities on the bank market, but especially because of the extent and quality of the services provided.

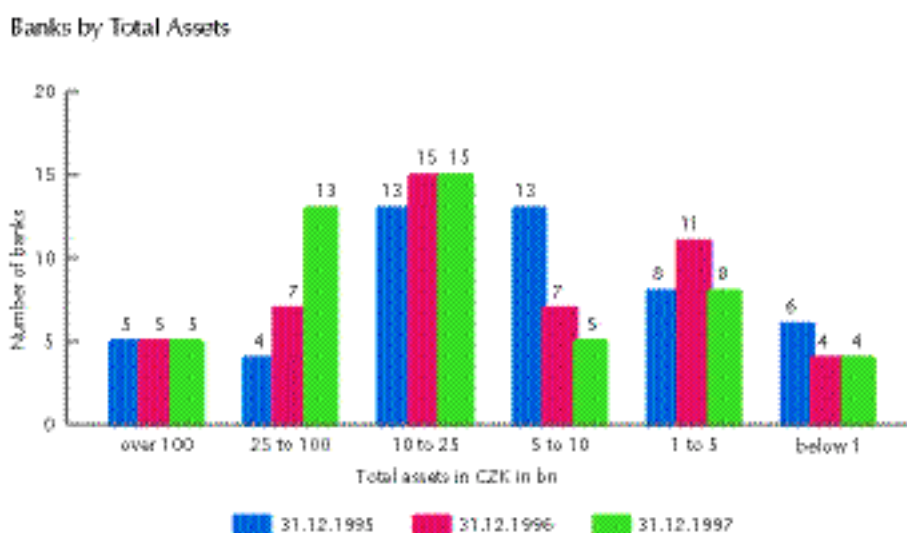
Foreign bank branches are similar to foreign banks, but are not independent legal entities. As of December 31, 1997, nine foreign bank branches were operating in the Czech Republic; of these, Midland Bank only began operations in May, 1997. This group is distinctly non-homogeneous. On the one hand, there are four large branches with total assets over CZK 20 bn, which manage 93% of the total assets in the foreign bank branch group. In addition to these, in the border regions there are four branches of regional Austrian or German banks whose activity is insignificant in terms of the entire banking sector.

Two thirds of the total number of **specialised banks** are **building societies** which focus on savings for construction with state support and on providing credit for housing needs. The group of specialised banks also includes banks with state ownership oriented toward the support of export, small businesses and municipal finance, and so far, only one specialised mortgage bank.

2.3 Banking sector structure by size of total assets and initial capital

The decisive indicator of size of banking institutions is the level of their total assets. In the last two years, the most dynamic development was among banks with foreign capital participation and foreign bank branches.

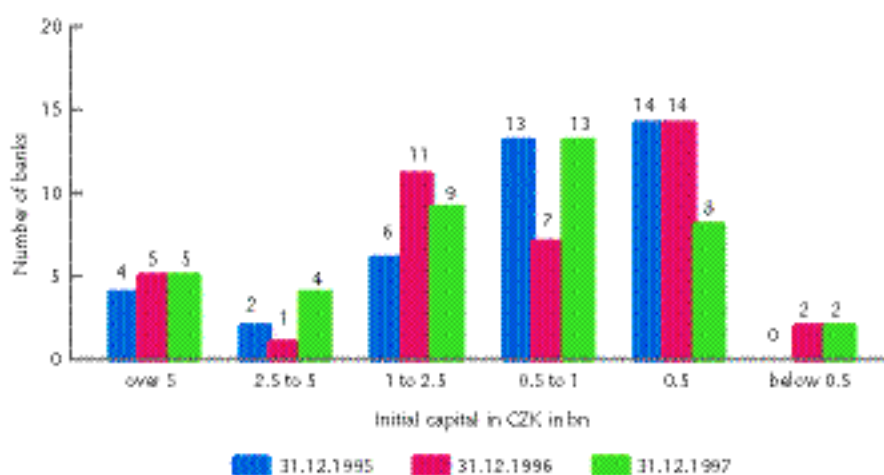
The growth of total assets among foreign banks and foreign bank branches is reflected in the average asset volume per bank, which as of December 31, 1997, was CZK 46.7 bn, i.e. roughly 6.5 bn more than in the previous year and 10.4 bn more than in 1995. This average volume is significantly affected by the large bank group. All other groups have a categorically lower level of managed assets.



The group of large banks still makes up a decisive share of the structure of the banking sector. In other bank groups of different sizes, there is significant fluctuation. The number of banks with total assets from CZK 25 to 100 bn increased against the end of 1995 by nine banks, to 13 banks, these banks being largely from the group of foreign banks and foreign bank branches. While in 1995, 27 banks had total assets below CZK 10 bn, in 1997, there were 10 banks less.

Further concentration of assets can be expected as a result of the foreign bank mergers in the Czech banking sector in connection with the mergers of their parent banks, as for instance the merger of the Austrian banks Bank Austria and Creditanstalt. This gradually results in the emergence of a group of medium-sized banks which create a competitive environment for large banks.

Banks by Initial Capital

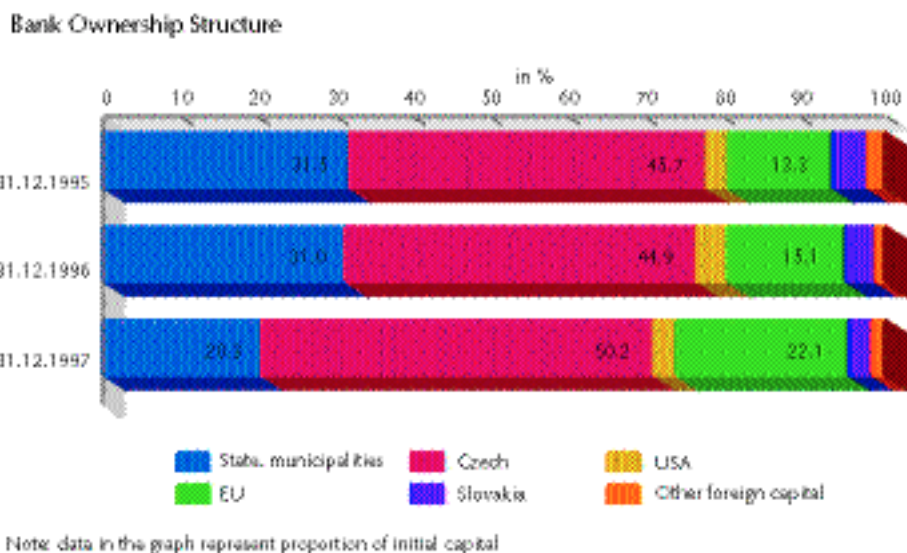


As far as the size of initial capital is concerned, the growth tendency is not so significant. In 1997, the increase in initial capital above the legally set minimum of CZK 500 mil. was noticeable. The number of banks with the minimum required capital decreased by 6 banks against the end of 1996 to 8 banks.

Increases in initial capital occurred particularly in the groups of foreign banks and small banks, but for different reasons. With foreign banks, the increase in initial capital is related to substantial expansion of activity on the bank market, leading to the ongoing growth of their total assets, which requires that capital be supplemented. In banks with predominantly Czech capital, strengthening the initial capital is a necessary prerequisite of compensation for the results of the previous loss-making operation, and thus also for a bank's further existence. Some specialised banks also strengthened their initial capital in 1997. Banks which do not maintain the minimum limit of initial capital are in conservatorship, and their initial capital was reduced as a result of the need to cover losses from their prior activities.

2.4 Banking sector structure by ownership

Changes in the ownership structure of the banking sector are the result of increasing initial capital in private banks with largely Czech capital and in foreign banks. The most significant decrease occurred in the state's share of initial capital in the banking sector, by 10.7 points, to 20.3%. The cause of this decrease is stagnation in the amounts of initial capital in the large bank group where the state has a decisive ownership interest. In 1997, the process of completing privatisation of large banks had been started. This should gradually result in a massive decrease in state ownership in the banking sector. A certain percentage of state ownership will be preserved in some specialised banks, supporting selected government programmes for export promotion, small businesses, etc.



In terms of individual countries represented in the initial capital composition of the banking sector, European Union countries still predominate. In 1997, their share increased even further by 7 points to 22.1%. Private Czech entities increased their share of overall initial capital in the sector by over 5 points, to 50.2%. The decline in Slovak ownership, originating at the time when the country was divided, continued (by 0.8 points to 3%).

2.5 Employees and banking units^{1/}

The structure of banking units and an adequate number of employees in the banking sector is a significant condition for the public's access to banking services. At the same time, it is also one of the factors which significantly affect the productivity and costs of the banking system. Last year, the requirement of harmonising the need for state-wide retail banking services with the demand for increased efficiency in individual workplaces became apparent. The actual application of this trend was reflected not only in changes in the number of employees, but also in changes in the number of banking units.

The recorded number of banking sector employees as of December 31, 1997 was 57,082, i.e. 4.4% fewer than at the end of the previous year. The decisive decrease took place in large banks where during the same period the number of employees declined by 6%. Foreign banks, foreign bank branches and specialised banks in 1997 confirmed the continuing trend of growth in the number of employees in relation to the dynamic growth of their activity.

Number of Employees and Banking Units in the Banking Sector

| | 31.12.95 | 31.12.96 | 31.12.97 |
|---------------------------------------|----------|----------|----------|
| Number of employees | 57 769 | 59 739 | 57 082 |
| Number of banking units | 3 153 | 3 151 | 2 467 |
| Number of employees per banking unit | 18.3 | 19.0 | 23.1 |
| Number of population per banking unit | 3 273 | 3 272 | 4 175 |
| Number of population per employee | 179 | 173 | 180 |

^{1/} Banking units mean branches and agencies

There was similar development in the number of banking units, the number of which declined in 1997 by 684, to 2,467 banking units. Large as well as small Czech banks contributed most to the decline, while subsectors with 100% or majority foreign ownership expanded.

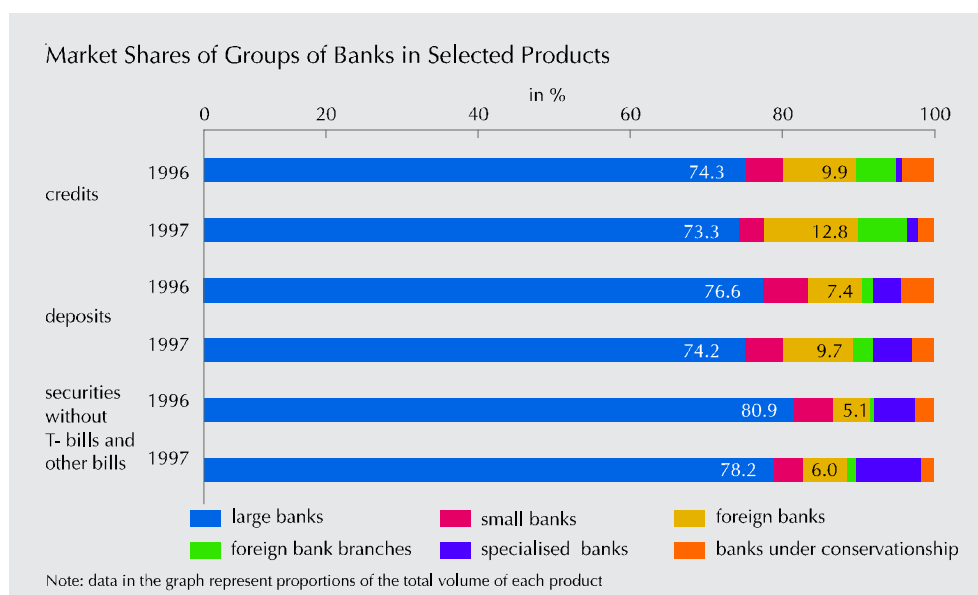
This trend resulted in larger individual banking units, in terms of the managed total assets, and also a larger number of persons per each banking unit and per each employee in the banking industry. However, automated services are gradually being developed to serve bank clients, including automatic teller machines, home banking, etc. To a large extent, these replace classic counter service banking and increase the public's access to banking services.

In individual banks, the number of employees and banking units depends on the type of services provided with regard to retail and wholesale banking services. Banks oriented toward serving small clients, i.e. Česká spořitelna and some small banks, have the most extensive branch network and the highest number of employees. In contrast, foreign banks and foreign bank branches, which are oriented mainly toward wholesale banking, provide their services from a minimal number of banking units and with a significantly smaller number of employees.

As of yet, banks licensed in the Czech Republic are not significantly oriented toward development of their services abroad. As of December 31, 1997, only four banks had a total of 23 banking units outside the Czech Republic, primarily in the Slovak Republic. Banks with predominantly Czech capital are gradually opening representative offices in Western and Eastern European countries, in the USA and in Asia. Czech financial groups are beginning to gradually expand to foreign countries, including through direct capital participation in foreign banks. The weight of the foreign network, expressed as the percentage of the number of employees at foreign banking units in the total number of employees, is still relatively low, around 2%. A significant share of these is found in large banks.

2.6 Market shares of individual groups of banks

The market shares of individual groups of banks are related to their size, concentration on certain market segments, and to the terms which banks offer their clients for certain products.

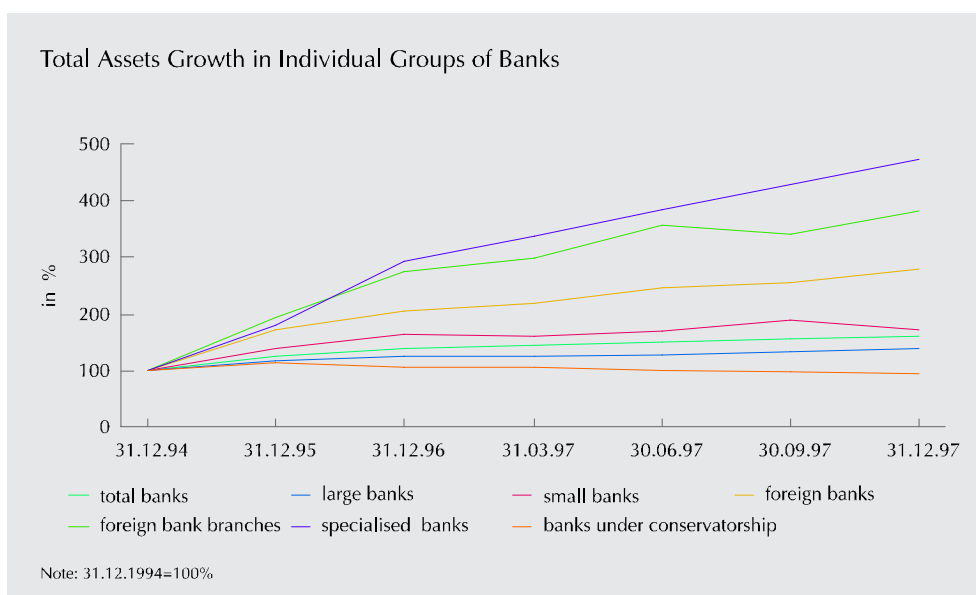


Given its size, the large bank group has the dominant share for all the main products, but it has difficulties holding up under the competitive pressure of the other groups. The large banks' share of credits in the total volume of credits in the banking sector in 1997 fell by 1 point, their share of deposits by 2.4 points, and their share of securities transactions by 2.7 points.

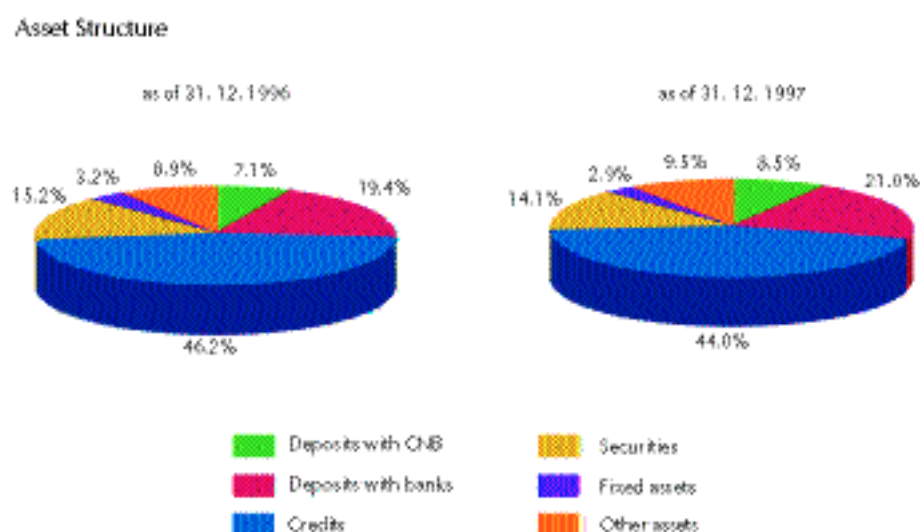
In the last two years, foreign banks have been in second place in the Czech bank market in all the selected products. Unlike the group of large banks, however, their representation in all the monitored areas strengthened, most visibly in the credit area, where their proportion rose by 2.9 points. Development in foreign bank branches literally copies foreign bank development, except that the market share and rate of growth are lower.

3. BANK ASSETS

As of December 31, 1997, banking sector total assets were CZK 2,335.0 bn, which is 16.2% more than at the end of 1996. The growth dynamics of total assets are different among the groups of banks. Since 1995, the greatest growth spurt has been in the groups of foreign banks, foreign bank branches and specialised banks, which began to function in the banking sector later (approx. from 1995).



The differing development of total assets in the individual groups of banks is reflected in these groups' changing shares of the total assets. While the large banks' share is gradually decreasing (for 1997, it declined from 68.9% to 65.6% as of December 31, 1997), the share of foreign banks and foreign bank branches is constantly growing. While these two groups managed 16.5% of the total assets in the banking sector as of December 31, 1995, at the end of 1997 that had grown to 22.3%. The group of specialised banks, despite significant relative growth, remains a fringe group, with a 4.3% share of total assets.



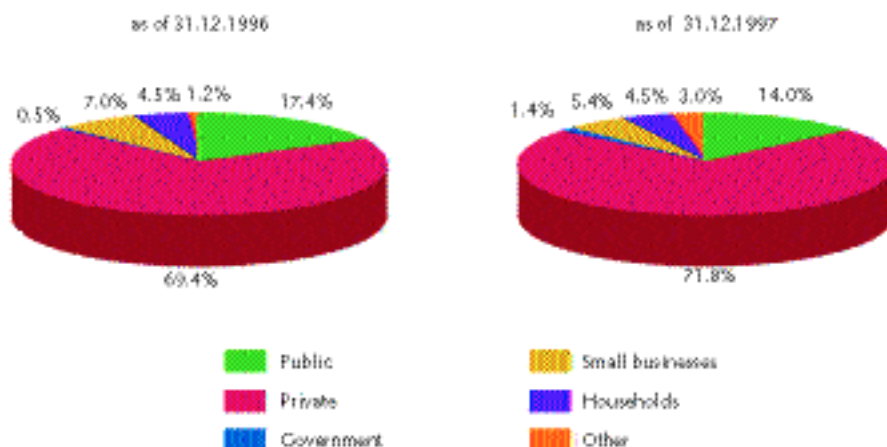
Traditionally, in Czech banks the predominant share of total assets has been held by credits (44.0%), followed by bank deposits (21.0%) and securities (14.1%, including T-bills). Both of the most risky asset groups, i.e. credits and securities, declined as a share of total assets as of December 31, 1997, by 2.2 points and 1.1 points, respectively, although both continued to grow in absolute terms. The lower share of credits in total assets is affected by several factors. These include consistent pressure for the creation of provisions, which lower the total amount of credits, and stagnation of credit activity because of the banks' increased prudence in granting new credit.

3.1 Credit transactions

The lack of capital in the transforming Czech economy was replaced by increased credit activity in banks. The volume of credit provided is around 80% of GDP in constant prices. A large part of the credit was provided to business entities for participation in small and later large-scale privatisation. The banking sector thus created necessary conditions for the initial start-up of the economy, but at the same time it took on high risk, which was reflected in the following years in the low quality of its credit portfolio.

The volume of credits granted as of December 31, 1997 was roughly CZK 1,149.6 bn, i.e. 13.5% more than as of December 31, 1996. In comparison with 1996, this growth was only 0.5 points higher, particularly due to the lower growth rate in the group of large banks and the absolute decline in the volume of credits granted in the group of small banks in connection with sale of part of the credit portfolio to Česká finanční under the stabilisation programme. The most intensive development of credit activity occurred in building societies, which, in accordance with their orientation, are gradually beginning to issue first credits (their volume, however, is still negligible), foreign banks and foreign bank branches. As in 1996, the growth of total credits was lower than that of total assets as a result of the banks' attention to strengthening liquid assets in the structure of their total assets.

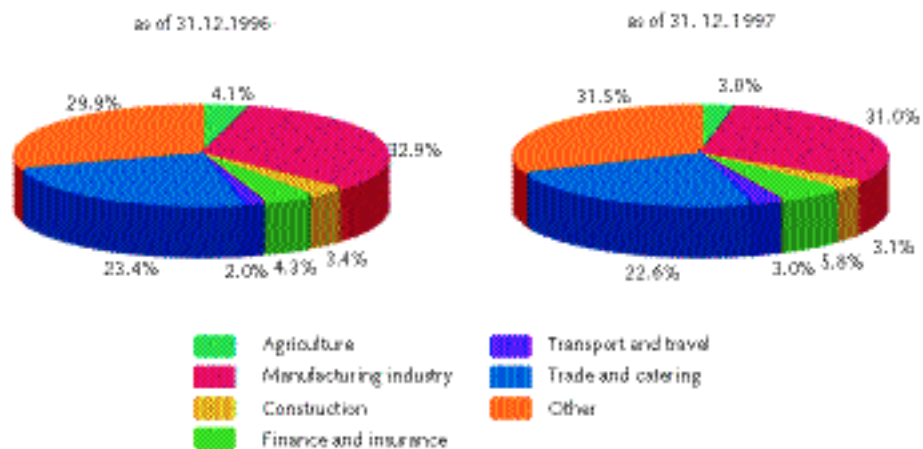
Credit Structure by Sector CZK credits granted in the CR



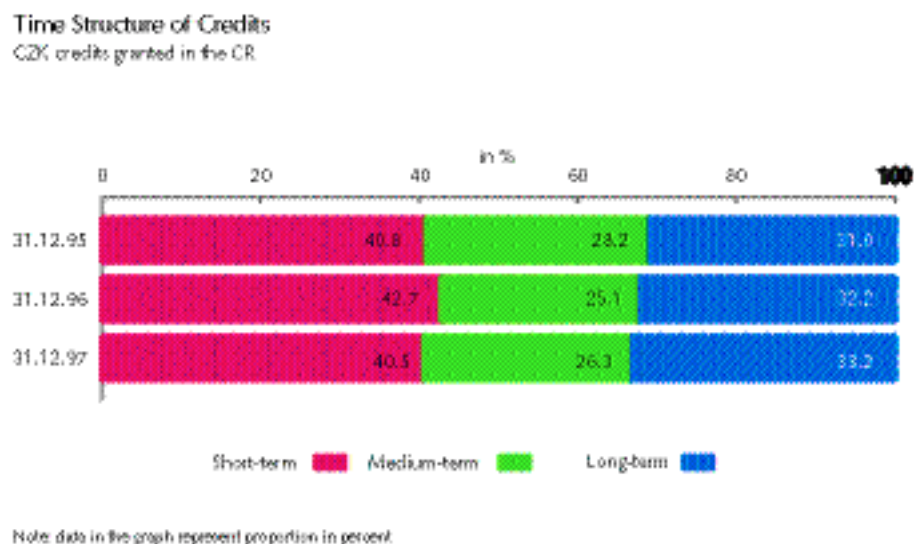
The largest volume of credits is provided to the private sector (71.8% of all koruna credits provided by banks in the Czech Republic), this share increased by 2.4 points against the end of 1996. In 1997, the other main economic sectors' share of the total volume of credits provided in koruna declined. This decline was most prominent in the public sector (by 3.4 points to 14%), as a result of the continuing privatisation of the Czech economy, and with small businesses (by 1.6 points to 5.4%) where this decline largely corresponds to the high risk level of this group of businesses and to banks' declining willingness to assume this risk. The share of credits to households has remained intact over the long term. It was 4.5% of the provided koruna credits as of December 31, 1997, the same as the previous year.

The breakdown of koruna credits by industry corresponds to the structure of the economy. The manufacturing industry held the lead with 31% of koruna credits provided, followed by trade and catering with 22.6%. In 1997, both of their shares in the total volume of credits declined by 1.9 points and 0.8 points respectively. Among other industries significantly represented in the structure of credits issued, the only growth is in the volume of credit granted to the finance and insurance industry, which increased in 1997 by 1.5 points to 5.8% and transport and travel (by 1 point to 3%).

Credit Structure by Industry CZK credits granted in the CR

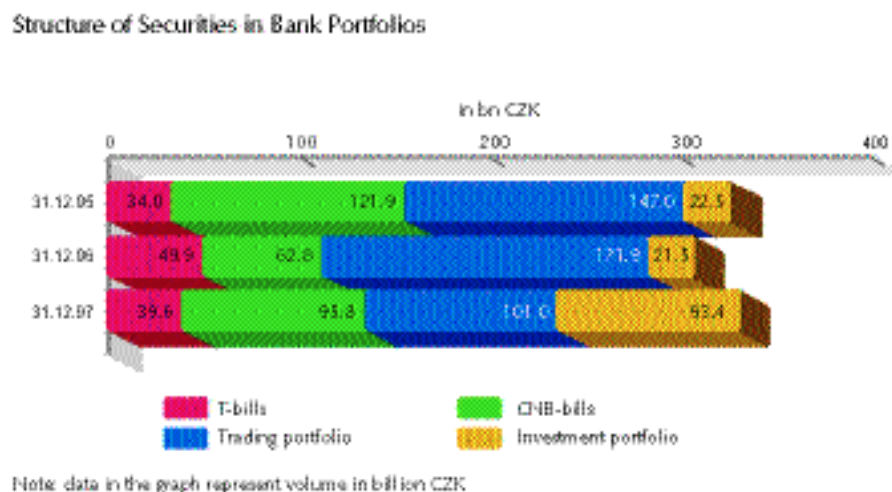


The available structure of funds in the banking sector by original maturity largely predetermines the breakdown of credits by the same criterion. Although businesses prefer medium-term and long-term credit, the structure of funds still does not permit any significant development. The largest part of credits is provided short-term, i.e. up to one year. Their share of total credit volume is around 40%.



3.2 Securities transactions

The total volume of securities, including Treasury and other bills in bank portfolios as of December 31, 1997 had a net value of CZK 329.9 bn, i.e. 14.1% of the sector's total assets. The share of securities in the banking sector's total assets is gradually decreasing (compared to the end of 1996, it declined by 1.1 points), particularly in connection with the decreasing involvement of banks on the capital market. In contrast, the volume of Treasury and other bills, representing significant liquid funds, increased and as of December 31, 1997, reached CZK 135.4 bn, i.e. roughly 40% of the total securities portfolios.

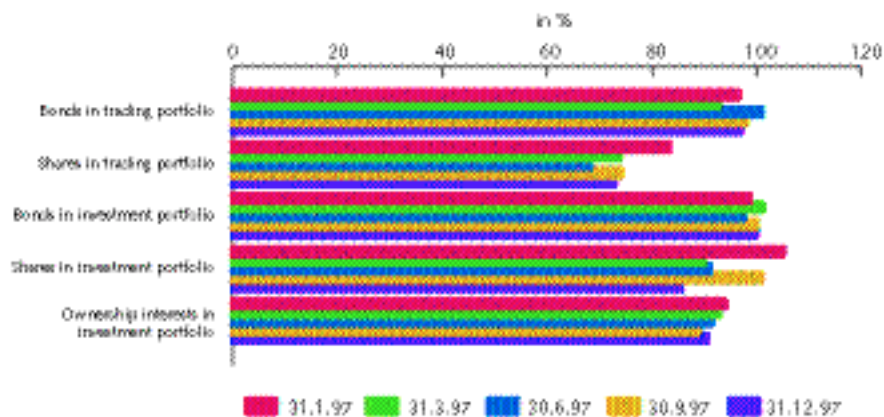


Substantial changes in the breakdown of securities between trading and investment portfolios arise from the change in accounting methods (as of 1997, banks may classify fixed-yield securities in their investment portfolios) and the implementation of a new CNB regulation which newly defines the manner in which banks must create provisions to cover risks arising from holding these assets. While in 1996, the major part of securities was still concentrated in the trading portfolio, at the end of 1997, representation in both portfolios was practically equal.

Increased emphasis on prudential operation also appeared in the structural change in trading and investment portfolios with regard to the type of securities. In trading and investment portfolios, fixed-yield securities, which are less risky than variable-yield securities, predominate. Their share has increased against the end of 1996 by 6.5 points to 73.9%.

Unstable development on the relatively young capital market in the Czech Republic affects the riskiness of securities transactions in view of substantial price fluctuations in the market. For the banking sector as a whole, the total market value of securities held by banks (excluding Treasury and other bills) as of December 31, 1997 represented 95.0% of their purchase price, i.e. 3.1 points less than at the beginning of the year. This ratio differs by the type of security and type of portfolio in which the security is held. The lowest values are for shares in the trading portfolio, where market value fluctuates around the 75% level. The highest quality securities are bonds in the investment portfolio, where market value is based on the assumption that these bonds are generally held until maturity, and current movements in exchange rates on the capital markets are not reflected in their value.

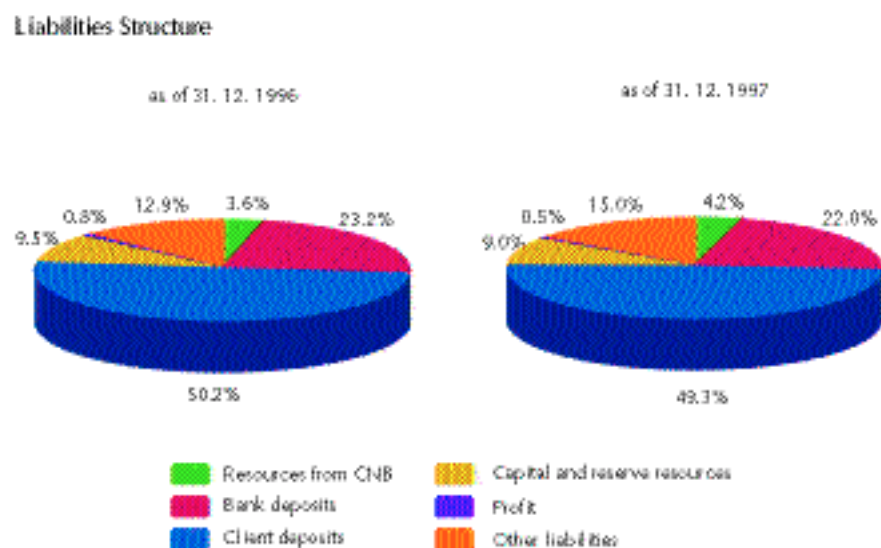
Proportion of Market Value and Purchase Price of Securities and Ownership Interests



Updating the value of securities through provisions led to a significant increase in their volume. Whereas as of December 31, 1996, provisions for securities were CZK 7.9 bn, at the end of 1997, they amounted to CZK 21.2 bn.

4. BANK LIABILITIES

The decisive item in liabilities in the banking sector is client deposits. Their share long-term has been around 50% of total assets. The second most significant item in liabilities is bank deposits, with slightly less than a quarter of the total volume of liabilities. Capital and reserves form 9% of total liabilities. This structure has not changed significantly over time.

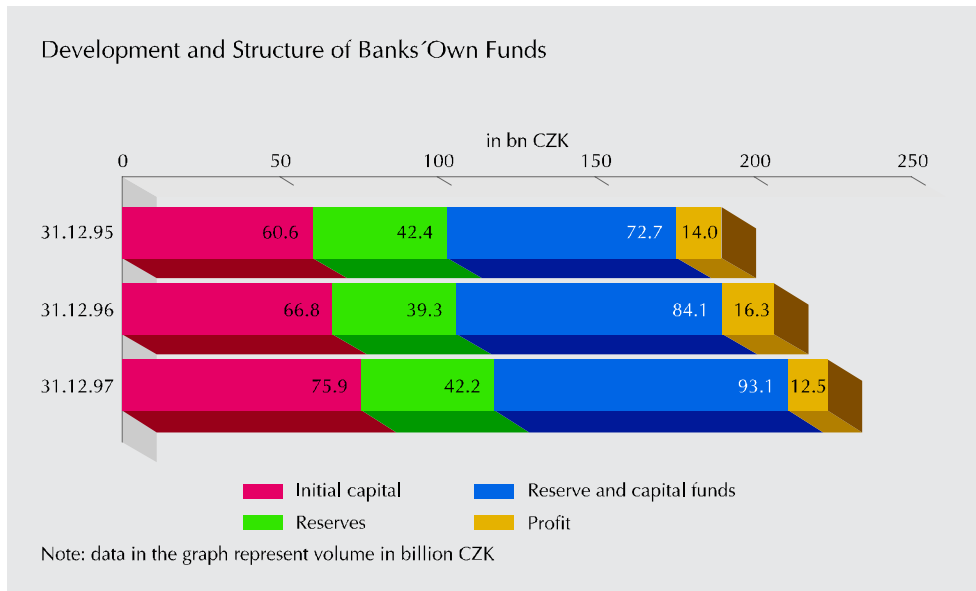


4.1 Own funds

Own funds include predominantly initial capital invested in a business by its shareholders and the cumulative results of business operation, allocated to reserve funds in compliance with relevant laws and bank needs. At the end of 1997, the banking sector's own funds, including profits, were CZK 223.8 bn, which is 8.3% more than in 1996. Initial capital increases and the overall growth of funds contributed most to increasing the volume of these funds.

The sector's initial capital as of December 31, 1997 was CZK 75.9 bn, which represents annual growth of CZK 9.1 bn (13.5%). Initial capital increase in 1997 involved primarily the group of small banks which used this method to cover losses from the previous period, and foreign banks, for which increasing the initial capital is a prerequisite for further expansion of activities while maintaining the necessary level of capital adequacy. Large banks did not increase initial capital in 1997. More significant growth can be expected after the completion of their privatisation which is expected during 1998 and 1999.

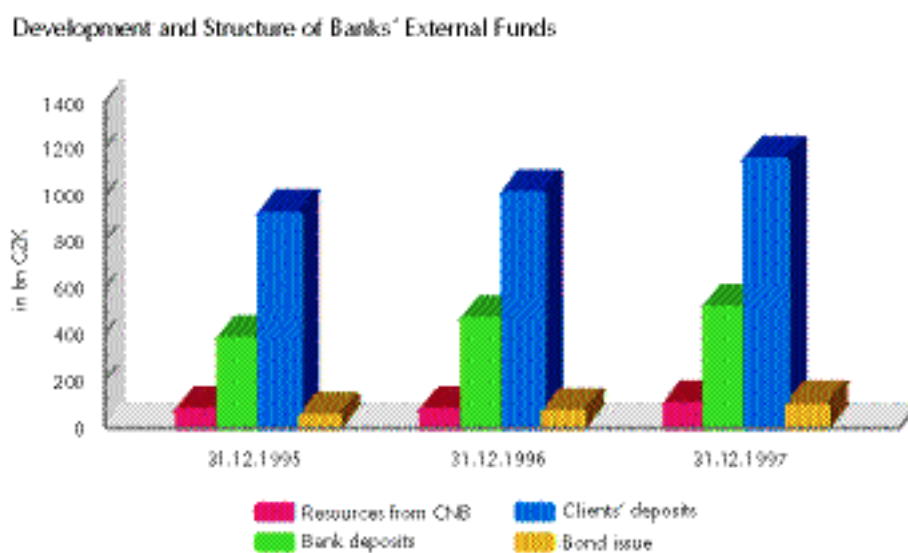
In terms of size, reserve and capital funds are the most important component of bank own funds. At the end of 1997, they were CZK 93.1 bn, and in comparison with 1996, their volume increased by 10.8%. The growth of reserve funds is significantly dependent on the development of profit which is their basic source. Banks with state and predominantly Czech private capital prefer creating reserves to paying dividends. Another reason for lower growth of reserve funds in 1997 compared with 1996 is the lower profit level in 1996 as opposed to 1995. Capital funds consist primarily of agio funds whose growth is related to the frequent practice of issuing new shares with a high agio. This should help cover losses from previous bank activities, particularly in small banks.



Reserves remain stable at a level of around CZK 40 bn, resulting from the pressure of preferring the creation of provisions for specific assets to the creation of general reserves.

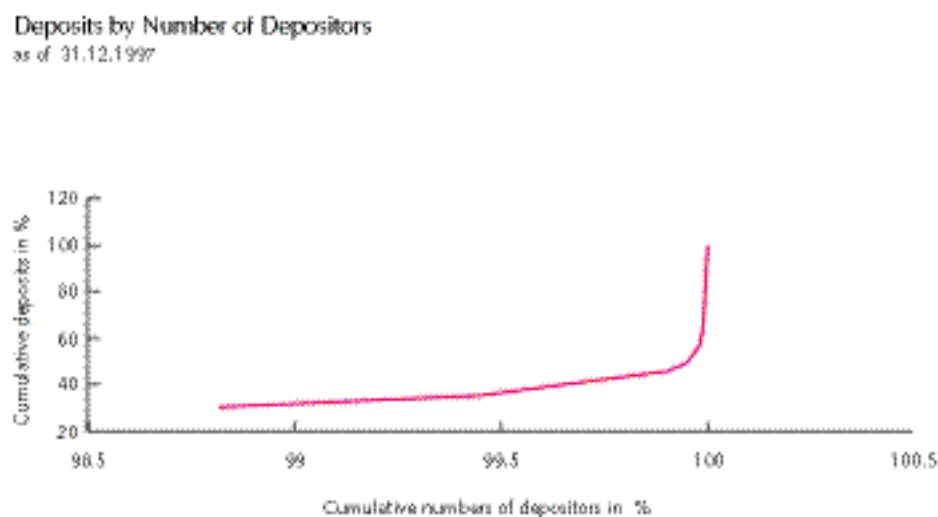
4.2 External funds

The total volume of external funds as of December 31, 1997 was CZK 1,853.1 bn. Deposits from non-bank clients accounted for 62.1% of external funds as of December 31, 1997, deposits and credits from banks, 27.7%. During the same period the share of funds from the central bank was only 5.2% of total external funds. Bank bond issues are gradually gaining greater importance in the funds structure. Their volume as of December 31, 1997 was CZK 92.7 bn, which represents 5% of the total volume of external funds (this share increased by 1.1 points against the end of 1996).



4.2.1 Primary funds

By volume, deposits from non-bank clients are the most important component of bank financing. The largest group of depositors is small depositors having the smallest deposits. As the amount of the deposit grows, the number of depositors declines exponentially. It is obvious from the graph depicting this relationship that the accounts of 98.8% of the depositors contain slightly under one third of the total volume of bank account deposits (30.4%), while 69.6% of all deposits is in the hands of a very small group, representing a mere 1.2% of the depositors.



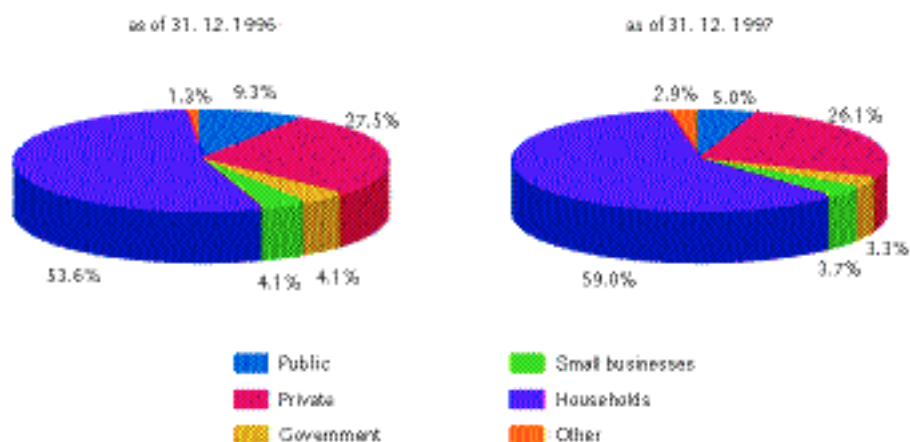
At the end of 1997, natural entities possessed approx. 18 million deposit accounts, of which slightly less than half were insured. As of December 31, 1997, a total of CZK 629.5 bn was deposited in these accounts. Legal entities represent a smaller source of bank financing. As of the end of 1997, they deposited a total of CZK 482.9 bn in 755,000 deposit accounts. The number of demand deposit accounts of legal entities is 17 times greater than that of time deposit accounts, but the division of deposits by volume is roughly equal for time and demand deposits.

The total volume of **client deposits** as of December 31, 1997 was CZK 1,150.7 bn, i.e. 14.2% more than in the previous year. The distinctly higher growth in comparison with 1996 (by 4.3 points) came particularly from foreign banks and foreign bank branches together with building societies. There was an absolute decline in deposits in the group of small banks. Despite significant growth of primary deposits in foreign banks and foreign bank branches, the highest volume of primary deposits (74.2%) is still with the four largest banks; however, this share is 2.4 points lower than in 1996.

Households have the greatest share of deposits, which is reflected not only in the structure of deposits by economic sector, but also in the structure by industry where household deposits represent the largest part of other deposits. Similar to credits, deposits also reflect the current condition of the economy and the significance of individual industries and economic sectors.

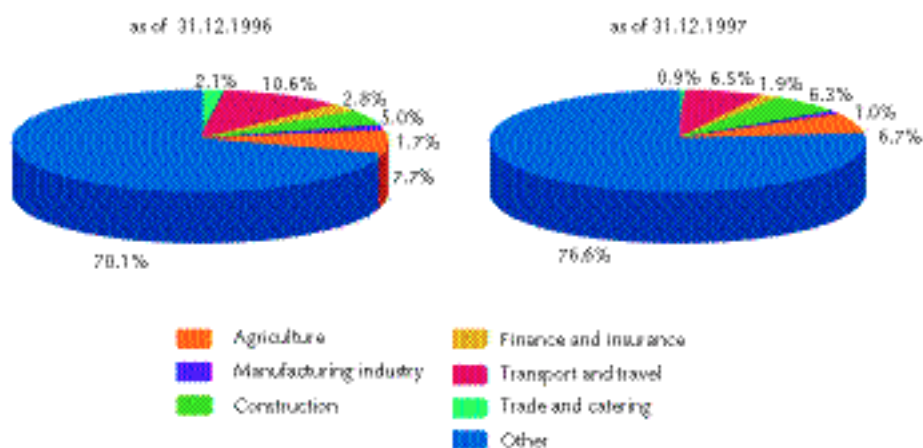
In terms of economic sectors, households whose share last year increased from its original 53.6% to 59% are followed by the private sector which also has a significant position, a 26.1% share of all deposits. The private sector's share declined by 1.5 points against the end of 1996. The public sector's deposits declined by 4.3 points, and as of December 31, 1997, they were 5% of the total volume of koruna deposits.

Deposit Structure by Sector deposits accepted in the CR



From the specific industries, trade and catering have a significant position with 6.7% (decline against the previous period by 1 point). The manufacturing industry reached almost the same level with 6.5% (decline against the previous year by 4.1 points). Besides other industries (which include households), the finance and insurance industry registered substantial growth in deposits. Its share in the total volume of koruna deposits increased by 1.3 points to 6.3%.

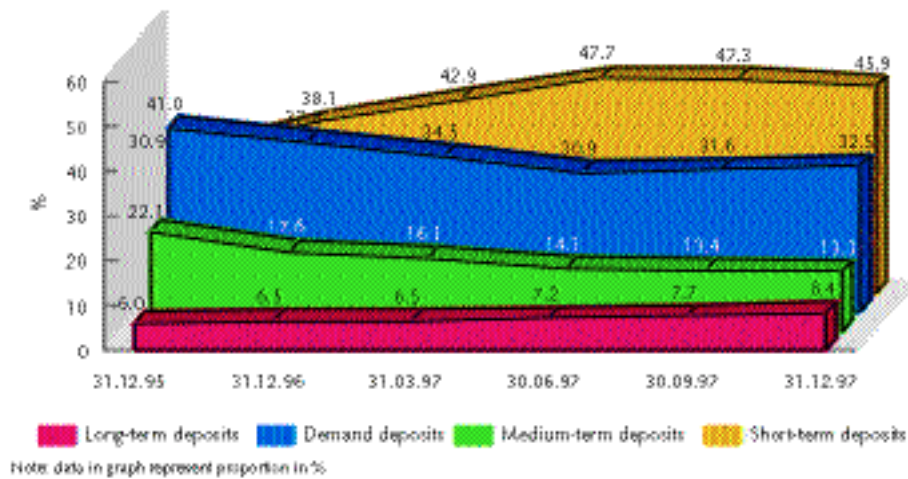
Deposit Structure by Industry CZK deposits accepted in the CR



The distribution of deposits by time shows that the proportion of deposits declines with declining liquidity. In the last two years, an exception has been the overhang of short-term time deposits over demand deposits. This is largely due to the expansion of deposit offerings with very short notice periods in the middle of the year relating to the exchange rate turbulence. As of December 31, 1997, the share of short-term time deposits was 13 points higher than the share of demand deposits, while at the end of 1996, these two shares were practically at the same level. For depositors, short-term time deposits are only slightly less accessible than demand deposits, but the value of deposited funds is distinctly higher.

Time Structure of Deposits

CZK deposits accepted in the CR

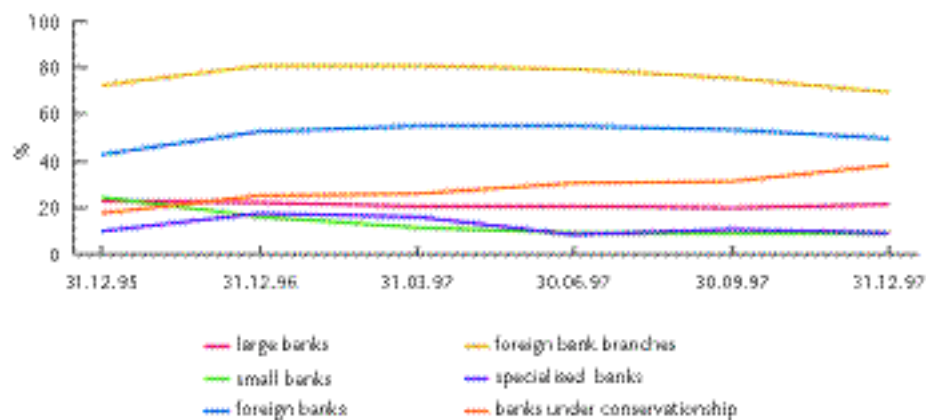


4.2.2 Secondary funds

The total volume of deposits from banks as of December 31, 1997 was CZK 512.6 bn, i.e. 10.2% more than in the previous year. In terms of structure, time deposits and received credits predominate, representing roughly 96% of all secondary deposits.

The interbank market is mostly used for financing by foreign bank branches (69% of the total volume of foreign resources as of December 31, 1997) and foreign banks (49.3%). In contrast, small and specialised banks represented less than 9% of the resources from the inter-bank market during the same period. The high share of interbank activities in banks with substantial foreign ownership interests is given by the fact that they are not oriented toward a wide clientele, and thus do not have adequate primary resources. At the same time, these are banks with good ratings which do not have problems with access to interbank resources, not only from the Czech banking sector, but also from abroad.

Proportion of Secondary Funds in External Funds

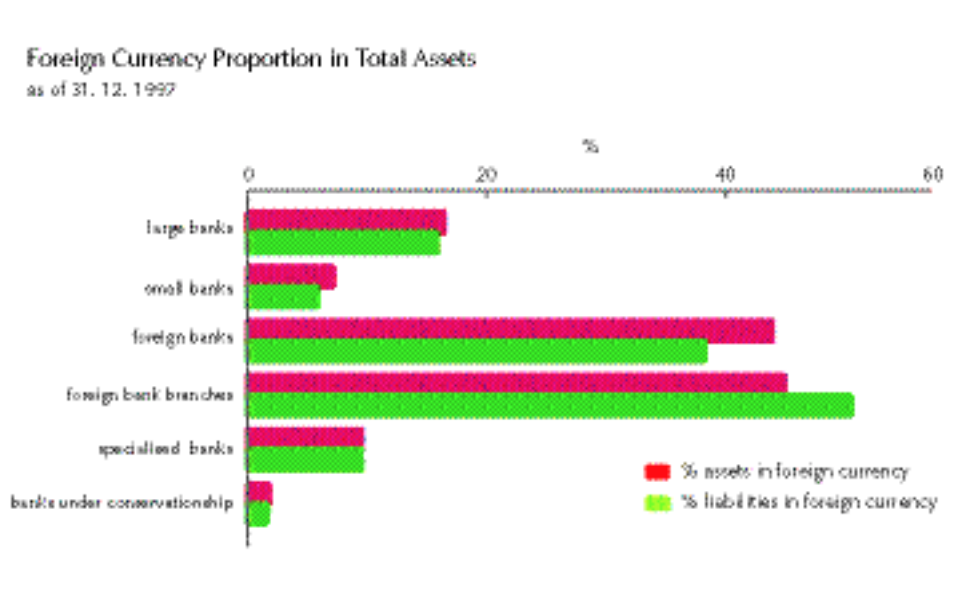


The group of large banks has maintained its level of financing from the interbank market at a level of roughly 22% over the long term. The situation among large banks differs markedly, because Česká spořitelna is the main creditor on the interbank market as a result of its traditional role as the institution with the largest volume of household deposits. The most significant change in terms of funds from the interbank market occurred in the group of small banks where this share decreased by 15.6 points against the end of 1995, to 8.8% as of December 31, 1997. This resulted from a lack of confidence among other interbank market participants in this group of banks related to the survival problems of some banks in this subsector.

5. FOREIGN EXCHANGE ACTIVITIES IN THE BANKING SECTOR

Only banks with a valid foreign exchange licence may conduct trades in foreign currency in the Czech banking sector. Especially among foreign banks and foreign bank branches, the share of foreign currencies on the balance sheet approaches 50%. A significant share of 16% is also found in the group of large banks.

In assets, foreign bank branches have the largest share of balance sheet transactions in a foreign currency, 44.9%. The foreign bank share is a mere 1 percent lower. Banks under conservatorship, small banks, and specialised banks have minimal activity in this area. Their foreign exchange share in total assets has not reached 10%. The reason is this group's orientation toward a Czech clientele and also their limited opportunities to acquire funds from abroad. Foreign exchange assets are found primarily in the credit portfolio and securities.



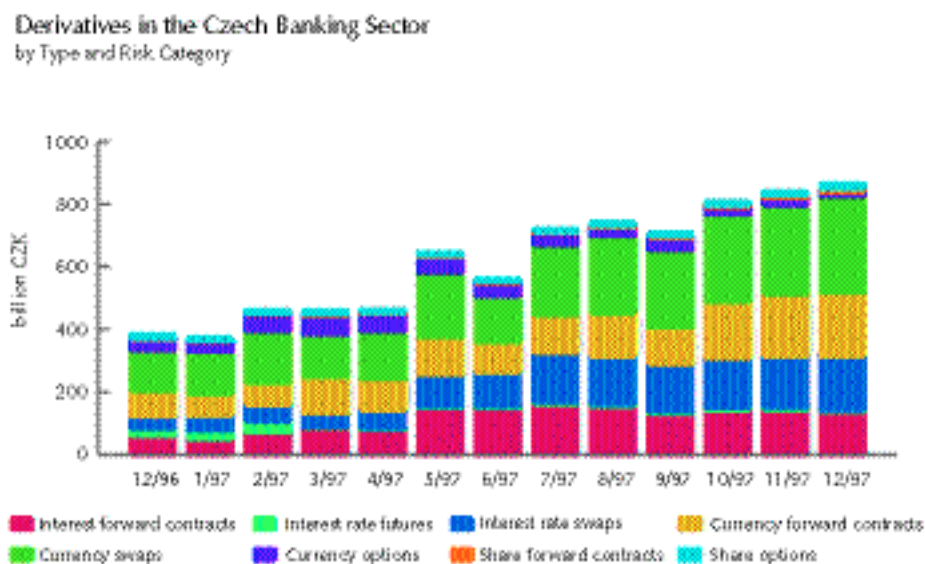
Foreign bank branches are more significantly financed by funds in foreign currencies than other groups. In this group of banks, the share of foreign currency funds in total liabilities is over half (50.5%), which is 5.6 percentage points more than on the assets side of the balance sheet. In second place are foreign banks with 38.2%. In the group of foreign banks, the share of foreign currency in assets and liabilities is the reverse of that found in foreign bank branches. As with assets, in small banks, banks under conservatorship and specialised banks, the level of foreign currency in liabilities is below 10%. Large banks show a 0.6 p.p. lower level of foreign currency liabilities (15.8%) than foreign currency assets.

6. OFF-BALANCE SHEET ACTIVITIES OF THE BANKING SECTOR

Banks (especially foreign and large banks) continue to make progress in the development of **their off-balance sheet activities**. As of December 31, 1997, the share of the off-balance sheet receivables in total assets was 52%, whereas at the end of 1996, it was only 29.5%. The structure of off-balance sheet items is gradually changing in favour of derivative transactions. Whereas in 1996, derivative transactions represented roughly 70% in the volume of off-balance sheet receivables, in 1997, this level was over 80%.

The Czech derivative market is concentrated on the Czech banking sector, although there are derivative contracts which some large Czech companies concluded with foreign financial institutions. Although the market is restricted to the simplest derivatives (simple forwards, swaps and options), its growth is noteworthy. Liquidity has reached a significant level, and so it is easy for banks and clients to enter this market. The major partners of Czech banks and foreign bank branches in the Czech Republic are foreign financial institutions. Turnover with Czech market-makers and with clients is substantially lower. Twenty-seven banks and foreign bank branches have taken derivative positions.

The creation of the Czech derivative market is connected with foreign exchange instruments – foreign exchange forward contracts and foreign exchange swaps excluding interest payments. As recently as the beginning of 1996, these instruments represented over 80% of all derivatives. Since that time, however, the Czech derivative market has made substantial progress. There are increasing amounts of interest instruments – FRAs^{2/}, interest rate swaps and even interest rate futures. The nominal value of derivative contracts in the Czech banking sector at the end of 1997 was over CZK 860 bn (without eliminating duplication in interbank transactions and without the CNB).



Currency derivative assets are claims (i.e. future purchases) on foreign currency of the Czech banking sector through currency forward contracts, interest rate swaps and currency options. Currency derivative liabilities are commitments (i.e. future sales) to provide foreign currency of the Czech banking sector through currency forward contracts, interest rate swaps and currency options. In the case of forward contracts and swaps, values are stated as nominal values and in the case of currency options in delta equivalents (the data are not adjusted for duplication in the banking sector). The main currency conversions are CZK/USD, CZK/DEM and USD/DEM.

^{2/} Forward forward contracts are not classified among derivatives, which is in accord with the classification of derivatives according to the Basle Committee for Banking Supervision. For purposes of interest risk management, however, this instrument is part of a maturity ladder or duration ladder system. Under the current chart of accounts for banks, forward forward contracts are considered as provided or accepted credit promises. FRAs, as instruments developmentally connected to forward forward deposits, are considered to be derivatives.

Since the beginning of 1995, foreign currency derivative assets have exceeded foreign currency derivative liabilities. Any expectation that the Czech koruna will strengthen leads to increased speculation by foreign investors (and partially also domestic investors) for taking advantage of the existing interest rate spread, and thus increasing the difference between foreign currency derivative assets and liabilities. Vice versa, any expectation that the Czech koruna will weaken decreases speculation for taking advantage of the interest rate spread, which means lowering the difference between foreign currency derivative assets and liabilities.

Since October 1997, another trend has appeared, that of forward purchases of foreign currency by foreign investors. The situation was generated by the fact that in the first months of 1998 a large volume of koruna Eurobonds matured. As early as October and November 1997, foreign issuers acquired forward contracts with the Czech banking sector on the sale of Czech koruna for foreign currency. This situation meant that foreign currency derivative liabilities exceeded foreign currency derivative assets at the end of 1997.

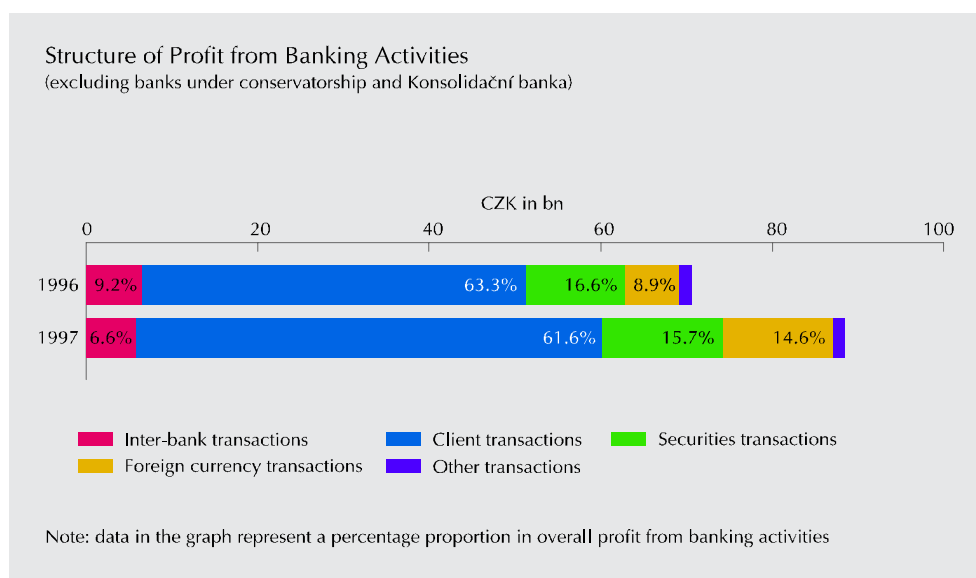
At the end of 1997, the nominal value of currency derivatives (after eliminating duplication in the banking sector) reached CZK 465 bn. At the end of 1997, currency derivatives in nominal value were 60.3% of all derivatives, and the nominal value of all derivatives at the end of 1997 was CZK 770 bn. In terms of nominal value, at the end of 1997 swaps accounted for 55.4%, forward contracts 40.5%, options 3.6% and futures 0.5%. The main part of swaps consisted of currency swaps (35.5%). Interest rate swaps were 19.9%. Currency, interest rate and share forwards had similar ratios. In 1996 and 1997, there was considerable growth of interest rate derivatives.

7. BANKING SECTOR PERFORMANCE

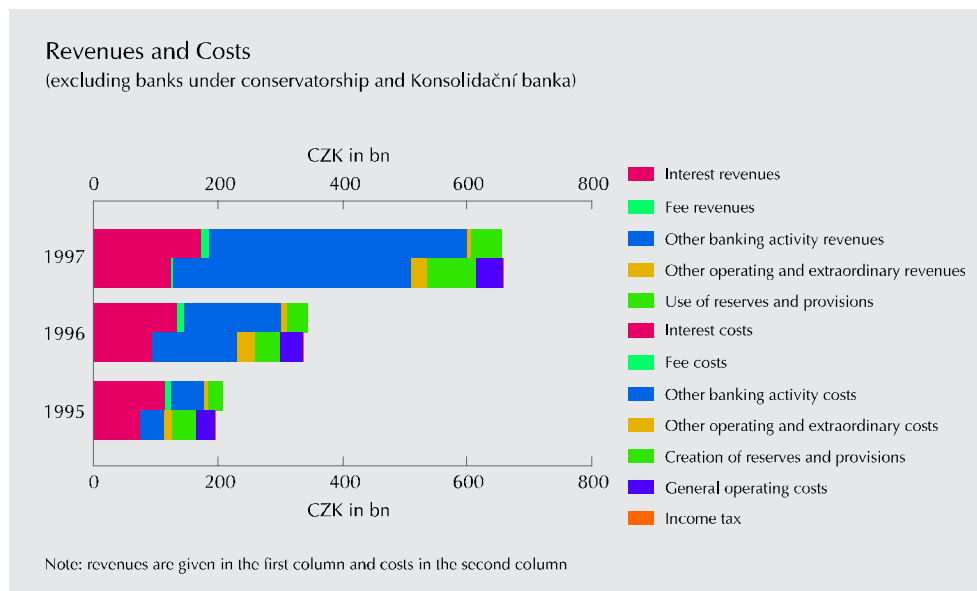
(the banking sector excluding banks under conservatorship and Konsolidační banka)

7.1 Profit from banking activities

Profit from banking activities in 1997 reached CZK 88.6 bn, i.e. 25.4% more than in 1996. The main share of profit in the banking sector comes from client transactions, i.e. traditional credit and deposit banking activity. However, this share is gradually decreasing in favour of foreign currency transactions and securities transactions. In 1997, this trend strengthened, particularly in the period of exchange rate turbulence, when a number of banks significantly increased the volume of foreign currency transactions and securities transactions.



This increased activity is apparent from the overview of the total volume of individual revenues and costs. The total volume of revenues roughly tripled against 1995 and virtually doubled against 1996. A similar trend appears with costs.



In comparison with previous years, the share of interest revenues in total revenues decreased, although they are still increasing in absolute terms (by 16.2% in 1996, by 29.5% in 1997). Interest costs show the same trend. Through a relatively high interest rate spread, banks in the Czech banking system achieve a higher share of profit than in some other countries, where fees and commissions represent a higher share in profit.

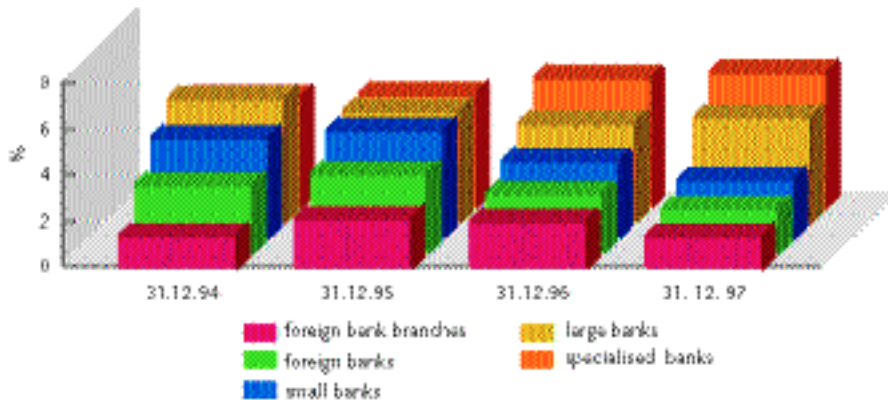
The profitability of credits increased in 1997 by 1.1 points to 11.9%. The costs of deposits showed the same trend, increasing in the same period by 1.2 points to 8.2%. The interest rate spread thus remained at practically the same level as in 1996 (up by a mere 0.1 points). Nonetheless, this is an important change in the trend, because in previous years and in the first half of 1997, there was a constant decline in the interest rate spread. The raising of interest rates after the exchange rate turbulence in the middle of 1997 had a significant effect. After overcoming the effects of turbulence, interest rates settled at a somewhat higher level.

Banking Sector Profitability
(excluding banks under conservatorship and Konsolidační banka)

| | 31.12.95 | 31.12.96 | 1997 | | | |
|---|----------|----------|--------|--------|--------|--------|
| | | | 31.03. | 30.06. | 30.09. | 31.12. |
| Total interest revenues/interest earning assets in % | 11.292 | 10.764 | 10.530 | 11.484 | 11.748 | 11.908 |
| Total interest costs/ interest bearing liabilities in % | 6.839 | 6.989 | 7.199 | 8.004 | 8.187 | 8.214 |
| Interest rate spread | 4.453 | 3.775 | 3.331 | 3.480 | 3.560 | 3.694 |
| Net interest margin in % | 4.042 | 3.002 | 2.634 | 2.822 | 2.913 | 3.056 |

The interest rate spread differs in each bank group. The highest interest rate spread is consistently found in building societies and large banks which also showed a partial increase in the interest rate spread against 1996. In contrast, the lowest interest rate spread is found in foreign banks and foreign bank branches which are more oriented toward other forms of profit creation from banking activities. The group of small banks is distinguished by a marked decline in the interest rate spread as a result of low profitability of credits and the need to increase the attractiveness of their deposit products given the limited possibilities to acquire needed funds on the interbank market.

Interest Rate Spread in Individual Groups of Banks
(excluding banks under conservatorship and Konsolidované banky)



Banks operating in the Czech bank market continue to orient themselves more toward foreign currency transactions which are becoming a significant source of profit, particularly for foreign banks. The percentage of profit from foreign currency transactions increased in 1997 by 5.7 points to 14.6%.

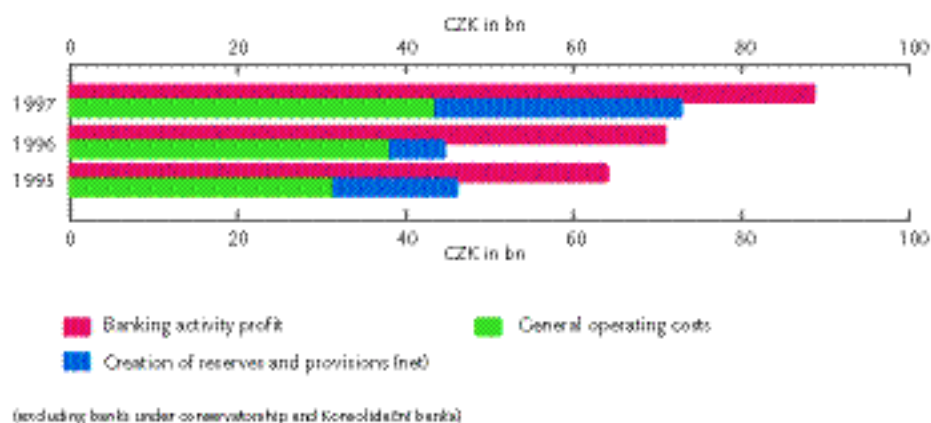
The largest share of overall profit from banking activity, almost 75%, is found in the group of large banks which corresponds to the size of total assets managed by this group of banks. However, profitability is gradually decreasing. In comparison with last year, the large banks' share in the banking sector's income from banking activities declined by 4.7 points. On the other hand, a larger share was recorded by foreign banks, whose share rose to 12.6% (growth by 1.9 points), specialised banks, 6.3% (growth of 1.8 points) and foreign bank branches 3.3% (growth of 1.3 points).

7.2 Net profit

In 1997, the banking sector ended with an overall loss of CZK 3.9 bn. The level of net profit is affected by high operating costs of banking activities and particularly by the extent of provision and reserve creation to cover potential losses. The reason for the loss is the attempt of some banks to fundamentally clean up their balance sheets by maximum creation of provisions to cover potential losses from their credit portfolios. This particularly involves the group of large banks whose results had a negative influence on the total volume of net profit. In contrast, a relatively high level of profit was recorded in 1997 by foreign banks (1.37% of average asset volume), foreign bank branches (0.83%) and building societies (5.20%).

While the share of operating costs in overall profit from banking activities decreased against 1996 by 4.6 points to 49.5%, net creation of provisions and reserves rose sharply and in 1997 represented 32.5% of the total volume of profit from banking activity. The intensive creation of provisions and reserves is the result of strong pressure to address covering potential losses from poor quality credit portfolios created in the early period of the transformation of the Czech economy.

Adequacy of Banking Activity Profit to Cover Operating Costs and Creation of Reserves and Provisions



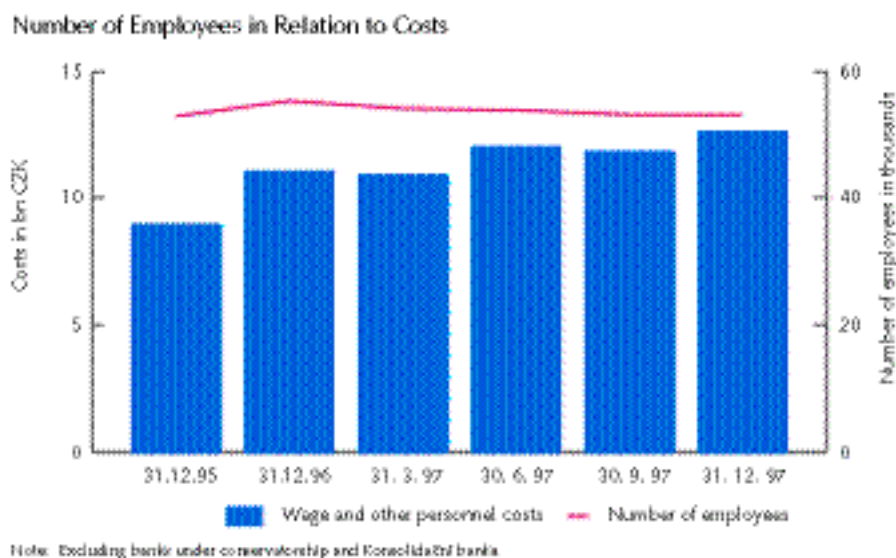
7.3 Efficiency and productivity in the banking sector

Increasing the efficiency of banking services is currently at the centre of attention of all banks operating in the Czech banking sector. Attempts to optimise personnel and the branch network are apparent, particularly in large banks. Evidence of increasing productivity and efficiency is the trend in total assets per employee, which increased against the end of 1996 by CZK 7.2 bn and as of December 31, 1997, amounted to CZK 39.9 mil. The level of profit from banking activity per employee is growing similarly. As of December 31, 1997, it was CZK 1.7 mil., i.e. roughly CZK 400,000 more than in 1996.

Banking Sector Efficiency (excluding banks under conservatorship and Konsolidační banka)

| | 31.12.95 | 31.12.96 | 1997 | | | |
|--------------------------------|-----------------------------------|----------|--------|--------|--------|--------|
| | | | 31.03. | 30.06. | 30.09. | 31.12. |
| | Per employee, in thousands of CZK | | | | | |
| total assets | 30 288 | 32 702 | 34 385 | 36 274 | 38 353 | 39 924 |
| profit from banking activities | 1 206 | 1 277 | 1 312 | 1 449 | 1 518 | 1 665 |
| net profit | 184 | 120 | 200 | 244 | 183 | (73) |
| operating costs | 596 | 692 | 659 | 735 | 767 | 825 |

In contrast, the increase in the volume of operating costs relative to the number of employees has been much slower, up by 19.2% against the end of 1996 to CZK 825,000. Compared to previous periods, there is an apparent tendency to lower the rate of growth in operating costs and make bank operation more efficient. This is also confirmed by the current trend of the declining numbers of employees and banking units. General operating costs in absolute value reached CZK 43.9 bn in 1997, which in comparison with the previous year, is 14.6% more (in 1996, they rose by 21.1%).



Wage and other personnel costs rose in 1997 by 14.5% to CZK 12.6 bn. Labour costs represent under 30% of the total volume of general operating costs. Calculated per employee, wage and other costs rose by 19.2%, amounting to CZK 236,000 in 1997.

8. THE BANKING SECTOR WITH RESPECT TO PRUDENTIAL RULES

8.1 Liquidity

The liquidity crisis in mid-1997, connected to foreign exchange turbulence greatly tested the banks' abilities to handle an atypical situation. The total volume of liquid assets at the end of 1997 amounted to CZK 378.5 bn, i.e. 16.2% of the volume of total assets. In comparison with the end of 1996, this share is roughly 1.1 points higher.

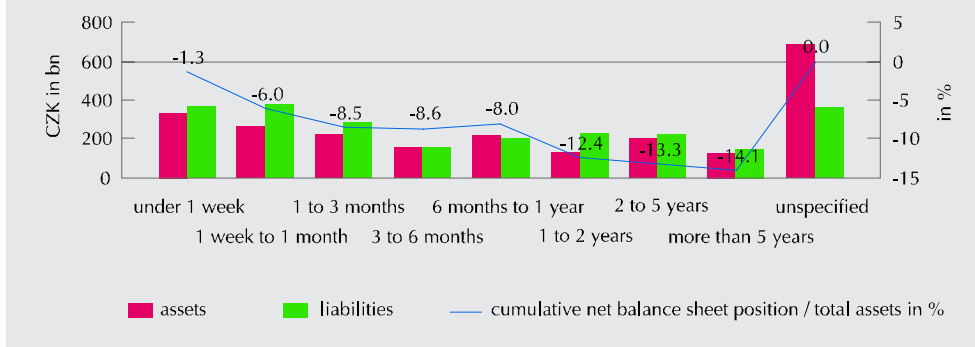
In the structure of quick assets, the largest share is deposits and credits deposited with the central bank, including minimum reserve requirement and Treasury and other bills. As of December 31, 1997, deposits and credits deposited with the central bank were CZK 198.5 bn, which represents 52.5% of the total volume of quick assets. This share was 5.8 points higher than at the end of 1996. Treasury and other bills as of December 31, 1997 reached a volume of CZK 135.4 bn. In comparison with 1996, however, their rate of growth was lower than that of deposits and credits deposited with the central bank (20.4% versus 39.9%), and therefore their share in total quick assets declined by 1.4 points to 35.8%.

Development and Structure of Quick Assets



The harmonisation of maturity dates and volumes of assets and liabilities is important for bank liquidity management. Taking into account a certain degree of permanence with respect to demand deposits, the structure of assets and liabilities in the banking sector as a whole is relatively balanced. In relation to total assets, there is a difference between the volume of assets and liabilities in the individual time periods up to 1 year maturity under -10%. For the item “unspecified,” which shows the greatest difference between the assets and liabilities sides of the balance sheet, assets primarily include all of a bank’s classified credits and tangible and intangible property, and liabilities include especially own funds of banks.

Structure of Assets and Liabilities by Residual Maturity as of 31. 12. 1998



8.2 Quality of assets

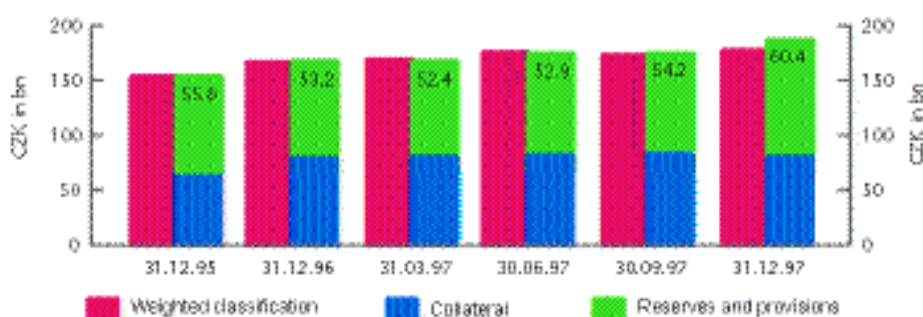
(banking sector excluding banks under conservatorship and Konsolidační banka)

The poor quality of credit portfolios is a key problem in the Czech banking sector. The high volume of classified credits in banks’ portfolios originated in the early period of economic transformation when banks significantly supported the privatisation process. The newly developing business sector carried considerable risk, and just like banks, it had minimal business experience which was a fundamental cause of its inability to repay loans. Gradually, banks considerably tightened the conditions for credit extensions which was reflected in the improving quality of the new credit portfolios.

The total volume of classified credits as of December 31, 1997 reached CZK 272.9 bn, which represents growth of 5.8% against the end of 1996. The share of classified credits in the total volume of credits declined in the same period by 2.1 points to 27.2% particularly in connection to a distinctly higher growth rate of standard credits.

The high volume of classified credits is given by the low level of write-offs of classified claims, the banks' inability to meet claims by enforcing liens, etc. In 1997, banks wrote off claims worth CZK 11.5 bn, i.e. 4.5% of the total volume of classified credits at the beginning of the year. Holding loss-bearing claims on the banks' balance sheets leads to their further growth through capitalisation of unpaid interest, the volume of which increased against December 31, 1996 by CZK 4.2 bn, representing approx. 28% of the total growth of classified credits. Some of the main reasons why banks hold classified credits on the balance sheet include problems in enforcing payment of claims through court proceedings if these claims are written off and not held on the bank's balance sheet, reducing the basis for possible creation of tax-deductible provisions, problems with write-offs in cases of partial coverage of a credit by collateral, etc.

Coverage of Potential Losses from the Credit Portfolio
(excluding banks under conservatorship and Konsolidační banka)



Note: Data represent share of reserves and provisions in weighted classification of credits

In view of unfavourable legislative conditions in enforcing liens, the main problem is the volume of credits secured by collateral. Banks are gradually turning to greater creation of provisions and reserves which would take these aspects into account. This is reflected in the growth of the total volume of created provisions and reserves which increased against the end of 1996 by 21.4% to CZK 106.8 bn. At the end of 1997, provisions and reserves covered 60.4% of the weighted value of classified credits which takes into account the risk levels of individual types of classified credits, i.e. 7.2 points more than as of December 31, 1996.

8.3 Capital adequacy

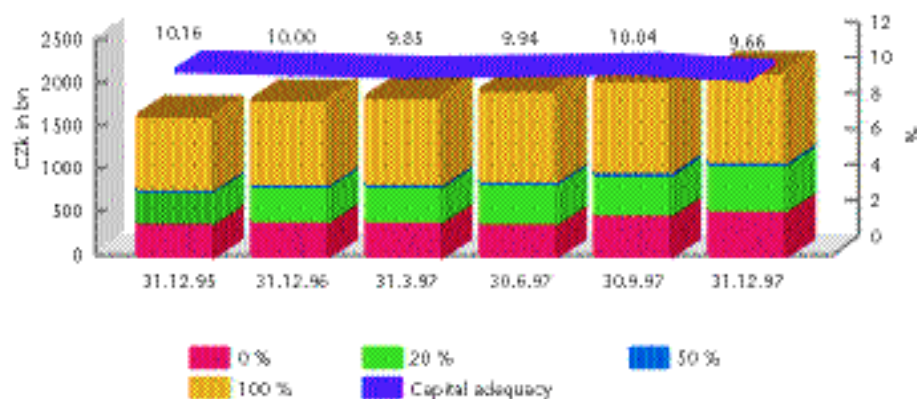
(banking sector excluding banks under conservatorship and Konsolidační banka)

The indicator of capital adequacy reflects all positive and negative trends in banking sector development. The pressure for adequate creation of provisions and reserves to cover all potential losses in the event of inadequate resources for their creation at the current profitability level is reflected in the form of deduction of actual losses in the volume of capital for calculating capital adequacy. In this way, capital adequacy then expresses the actual level of capital in the banking sector.

The total volume of capital in the banking sector as of December 31, 1997 reached CZK 109.9 bn, i.e. 5.4% more than at the end of 1996. The main factors of growth included raising the core capital through

increasing the initial capital listed in the trade register in the group of small and foreign banks (by CZK 8.7 bn), and increasing reserve funds by 1996 profits (by CZK 9.7 bn). On the other hand, the banks' core capital declined significantly in connection with an increase of CZK 16.3 bn in business losses. In view of the higher growth rate of risk-weighted assets in comparison with that of capital (9.1% versus 5.4%), capital adequacy declined by 0.3 points to 9.7% compared to 1996.

Structure of Assets Including Off-Balance Sheet Items by Risk Weight
(excluding banks under conservatorship and Konsolidační banka)

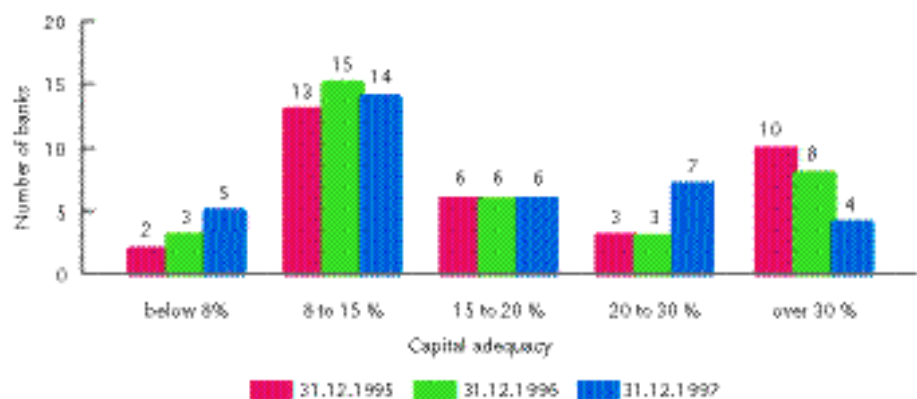


Out of all 37 banks with a valid banking licence (excluding foreign bank branches), five banks do not meet the capital adequacy limit of 8%. Most banks have reached a central range from 8% to 15%. There were fewer extremely high values. Only four banks now have capital adequacy over 30%, and these are largely banks with limited activity or distinctly regional orientation.

Banks which do not meet the capital adequacy limit are largely banks participating in the stabilisation programme. These banks are currently increasing their initial capital so that they will reach the minimum limit in the course of 1998.

Banks by Capital Adequacy

(excluding banks under conservatorship and Konsolidací banka)



In the conditions of the Czech economy, which still shows certain elements of instability and higher business risks, capital adequacy should nevertheless attain higher values than the minimum limit. Experts often recommend a level of 12%. From the 37 banks (excluding foreign bank branches), as of December 31, 1997, a total of 19 banks were over this level, of which three were small banks, nine were foreign banks, and seven were specialised banks.

C.

APPENDICES

Survey of Banks and Foreign Bank Branches Operating in the Czech Republic

I. Banks

| Bank | Beginning of operation | Initial capital CZK in mil. | Number of branches | | Number of lower organisational units | | Number of employees |
|---|------------------------|--------------------------------|--------------------|---------------------|--------------------------------------|---------------------|---------------------|
| | | | in CR | Abroad (country) | in CR | Abroad (country) | |
| Komerční banka, a. s. | 1.1.1990 | 9.502,5 | 99 | 0 | 265 | 0 | 14.759 |
| Česká spořitelna, a. s. | 1.1.1969 | 7.600,0 | 723 | 0 | 405 | 0 | 17.522 |
| Konsolidační banka, s. p. ú. | 23.2.1993 | 5.950,0 | 0 | 0 | 0 | 0 | 377 |
| Investiční a Poštovní banka, a.s. | 1.1.1990 | 5.681,5 | 116 | 0 | 77 | 0 | 5.521 |
| Československá obchodní banka, a. s. | 1.1.1965 | 5.105,0 | 38 | 10 (Slovakia) | 6 | 1 (Slovakia) | 4.997 |
| Pragobanka, a. s. | 1.10.1990 | 2.860,1 | 12 | 0 | 34 | 0 | 712 |
| BANKA HANÁ, a.s. | 11.1.1991 | 2.701,2 | 19 | 1 (Slovakia) | 82 | 8 (Slovakia) | 1.118 |
| UNIVERSAL BANKA, a.s. | 15.2.1993 | 1.600,0 | 11 | 0 | 2 | 0 | 323 |
| Česká exportní banka, a. s. | 1.7.1995 | 1.500,0 | 0 | 0 | 0 | 0 | 90 |
| Vereinsbank (CZ), a. s. | 1.7.1992 | 4.307,0 | 3 | 0 | 3 | 0 | 181 |
| Citibank, a. s. | 24.6.1991 | 1.825,0 | 3 | 0 | 0 | 0 | 251 |
| Živnostenská banka, a. s. | r.1868 | 1.360,0 | 4 | 1 (UK) | 0 | 0 | 645 |
| Union banka, a. s. | 15.11.1991 | 1.940,0 | 13 | 0 | 67 | 0 | 1.330 |
| Creditanstalt, a.s. | 1.4.1991 | 1.246,9 | 10 | 0 | 0 | 0 | 405 |
| Českomoravská hypoteční banka, a. s. | 10.1.1991 | 1.128,4 | 13 | 0 | 8 | 0 | 438 |
| Foesbank, a. s. | 7.9.1993 | 2.010,0 | 19 | 0 | 34 | 0 | 408 |
| PLZEŇSKÁ BANKA, a.s. | 1.10.1993 | 1.000,0 | 1 | 0 | 0 | 0 | 52 |
| BNP- Dresdner Bank (ČR), a. s. | 12.5.1992 | 1.000,0 | 0 | 0 | 0 | 0 | 133 |
| Moravia Banka, a. s. | 2.7.1992 | 1.000,0 | 8 | 1 (Slovakia) | 6 | 1 (Slovakia) | 491 |
| SOCIETE GENERALE BANKA, a.s. | 15.4.1991 | 774,0 | 2 | 0 | 0 | 0 | 159 |
| Bank Austria (ČR), a. s. | 1.1.1992 | 750,0 | 6 | 0 | 1 | 0 | 224 |
| HYPO-BANK CZ, a. s. | 26.2.1992 | 740,0 | 15 | 0 | 5 | 0 | 319 |
| První městská banka, a. s. | 1.9.1993 | 612,0 | 0 | 0 | 8 | 0 | 199 |
| RAIFFEISENBANK a.s. | 1.7.1993 | 1.000,0 | 7 | 0 | 0 | 0 | 255 |
| HYPO stavební spořitelna, a. s. | 1.10.1994 | 500,0 | 0 | 0 | 10 | 0 | 39 |
| GiroCredit-Sparkassen Banka Praha, a.s. | 1.2.1993 | 700,0 | 4 | 0 | 0 | 0 | 163 |
| ČS-stavební spořitelna, a. s. | 1.7.1994 | 500,0 | 0 | 0 | 0 | 0 | 159 |
| IC Banka, a. s. | 12.4.1994 | 500,0 | 1 | 0 | 0 | 0 | 37 |
| EXPANDIA BANKA, a.s. | 1.1.1991 | 500,0 | 0 | 0 | 0 | 0 | 73 |
| Českomoravská záruční a rozvojová banka, a. | 1.3.1992 | 685,0 | 5 | 0 | 0 | 0 | 218 |
| Českomoravská stavební spořitelna, a. s. | 8.9.1993 | 700,0 | 0 | 0 | 0 | 0 | 314 |
| Všeobecná stavební spořitelna Komerční bank | 16.12.1993 | 500,0 | 0 | 0 | 0 | 0 | 224 |
| Interbanka, a. s. | 1.2.1991 | 1.358,7 | 0 | 0 | 0 | 0 | 86 |
| Wüstenrot - stavební spořitelna, a. s. | 11.11.1993 | 500,0 | 5 | 0 | 0 | 0 | 93 |
| Credit Lyonnais Bank Praha, a. s. | 12.11.1992 | 500,0 | 1 | 0 | 0 | 0 | 119 |
| AR stavební spořitelna, a.s. | 7.9.1993 | 500,0 | 0 | 0 | 0 | 0 | 349 |
| Volksbank a.s. | 1.1.1994 | 650,0 | 0 | 0 | 4 | 0 | 97 |

II. Branches of foreign banks

| Branch | Beginning of operation | Country of headquarters | Number of branches | | Number of lower organisational units | | Number of employees |
|---|------------------------|-------------------------|--------------------|------------------|--------------------------------------|------------------|---------------------|
| | | | in CR | Abroad (country) | in CR | Abroad (country) | |
| ABN AMRO BANK N.V. | 6.5.1993 | Nizozemsko | 0 | 0 | 1 | 0 | 110 |
| COMMERZBANK AG | 1.12.1992 | SRN | 0 | 0 | 0 | 0 | 150 |
| Deutsche Bank Aktiengesellschaft Filiale Prag | 1.12.1993 | SRN | 0 | 0 | 0 | 0 | 86 |
| ING Bank N.V. | 1.9.1993 | Nizozemsko | 0 | 0 | 2 | 0 | 142 |
| Raiffeisenbank im Stiftland Waldsassen eG, odštěpný závod Cheb | 1.1.1995 | SRN | 0 | 0 | 0 | 0 | 18 |
| Sparkasse Mühlviertel - West banka a.s., pobočka České Budějovice | 20.3.1995 | Rakousko | 0 | 0 | 3 | 0 | 45 |
| Všeobecná úverová banka, a. s., pobočka Praha | 14.1.1993 | Slovensko | 0 | 0 | 2 | 0 | 95 |
| Midland Bank plc - pobočka Praha | 1.5.1997 | Anglie | 0 | 0 | 0 | 0 | 22 |
| Waldviertler Sparkasse von 1842 | 1.5.1994 | Rakousko | 0 | 0 | 1 | 0 | 17 |

III. Banks under Conservatorship

| Bank | Beginning of operation | Conservators imposed | Number of branches | | Number of lower organisational units | | Number of employees |
|---------------------------|------------------------|----------------------|--------------------|------------------|--------------------------------------|------------------|---------------------|
| | | | in CR | Abroad (country) | in CR | Abroad (country) | |
| Agrobanka Praha, a.s. | 1. 7. 1990 | 17.9. 1996 | 12 | 0 | 269 | 0 | 3116 |
| COOP BANKA, a. s. | 24. 2. 1992 | 23.4. 1996 | 5 | 0 | 10 | 0 | 218 |
| Podnikatelská banka, a.s. | 18.12. 1992 | 6.6. 1996 | 5 | 0 | 0 | 0 | 97 |
| Velkomoravská banka, a.s. | 3.11. 1992 | 10.7. 1996 | 2 | 0 | 0 | 0 | 86 |

IV. Banks in Liquidation

| Bank | Beginning of operation | Licence revocation |
|--|------------------------|--------------------|
| AB Banka, a.s. v likvidaci | 1. 4. 1991 | 15.12. 1995 |
| Banka Bohemia, a.s. - v likvidaci | 1. 2. 1991 | not removed |
| Kreditní banka Plzeň, a.s. - v likvidaci | 1. 1. 1991 | 8. 8. 1996 |
| Bankovní dům SKALA, a.s. | 13.12.1990 | 31. 3. 1997 |

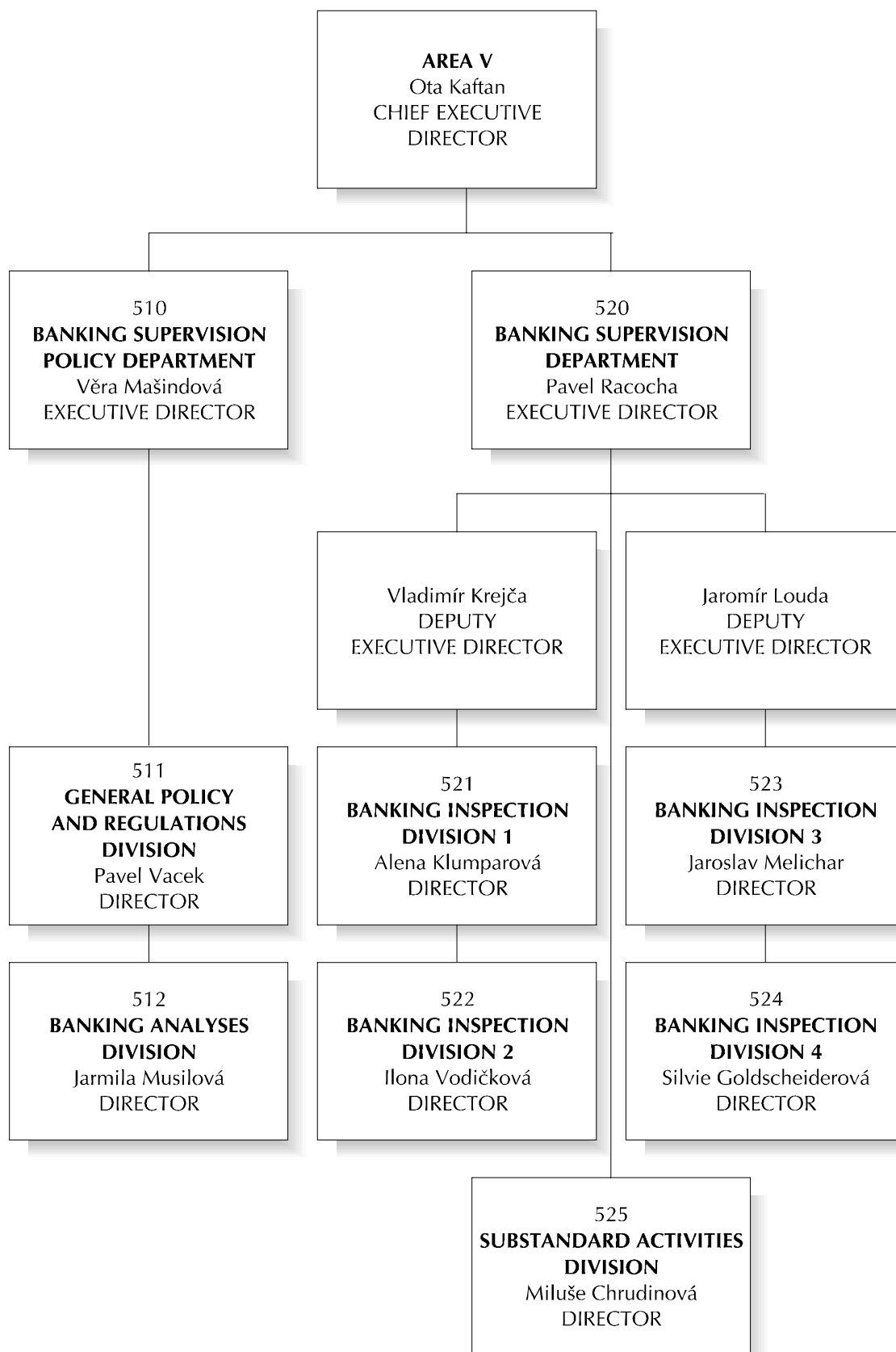
V. Banks in Bankruptcy Proceedings

| Bank | Beginning of operation | Licence revocation | Beginning of bankruptcy proceedings |
|--|------------------------|--------------------|-------------------------------------|
| Česká banka, akciová společnost Praha | 18.2.1992 | 15.12.1995 | 28.6.1996 |
| Kreditní a průmyslová banka, a.s. | 1.4.1991 | 15. 6. 1995 | 2.10.1995 |
| Realitbanka, akciová společnost | 1.11.1991 | 17. 4.1997 | 24. 3.1997 |
| První slezská banka, a.s., v likvidaci | 12. 1. 1993 | 13. 5. 1996 | 20.11.1997 |

VI. Banks without licence

| Bank | Beginning of operation | Licence revocation |
|--------------------|------------------------|--------------------|
| EKOAGROBANKA, a.s. | 1.11.1990 | 31.5.1997 |
| Evrobanka, a.s. | 1.10.1991 | 30.6.1997 |

ORGANISATIONAL STRUCTURE OF THE BANKING SUPERVISION DEPARTMENT



BREAKDOWN OF BANKS INTO GROUPS

I. Large Banks

1. Česká spořitelna, a. s.
2. Československá obchodní banka, a. s.
3. Investiční a poštovní banka, a. s.
4. Komerční banka, a. s.
5. Konsolidační banka, s. p. ú.

II. Small Banks

1. Banka Haná, a. s.
2. Expandia banka, a. s.
3. Foresbank, a. s.
4. Moravia banka, a. s.
5. Plzeňská banka, a. s.
6. Pragobanka, a. s.
7. První městská banka, a. s.
8. Union banka, a. s.
9. Universal banka, a. s.

III. Foreign Banks

1. Bank Austria (ČR), a. s.
2. BNP-Dresdner Bank (ČR), a. s.
3. Citibank, a. s.
4. Creditanstalt, a. s.
5. Credit Lyonnais Bank Praha, a. s.
6. Erste Bank-Sparkassen Banka Praha, a. s.
7. HYPO-BANK CZ, a. s.
8. IC Banka, a. s.
9. Interbanka, a. s.
10. Societé Générale Banka, a. s.
11. Raiffeisenbank, a. s.
12. Vereinsbank (CZ), a. s.
13. Volksbank, a. s.
14. Živnostenská banka, a. s.

IV. Foreign Bank Branches

1. ABN AMRO BANK N.V.
2. Commerzbank AG.

3. Deutsche Bank Aktiengesellschaft Filiale Prag
4. Internationale Nederlanden Bank N. V
5. Midland Bank plc - pobočka Praha.
6. Raiffeisenbank im Stiftland Waldsassen eG
7. Sparkasse Muehlviertel - West bank, a. s.
8. Všeobecná úvěrová banka, a. s. pobočka Praha
9. Waldviertler Sparkasse von 1842

V. Specialised Banks

1. Česká exportní banka, a. s.
2. Českomoravská hypotéční banka, a. s.
3. Českomoravská záruční a rozvojová banka, a. s.
4. AR stavební spořitelna, a. s.
5. Českomoravská stavební spořitelna, a. s.
6. ČS-stavební spořitelna, a. s.
7. Všeobecná stavební spořitelna, Komerční banky
8. HYPO stavební spořitelna, a. s.
9. Wuestenrot - stavební spořitelna, a. s.

VI. Banks under Conservatorship

1. Agrobanka Praha, a. s.
2. COOP banka, a. s.
3. Podnikatelská banka, a. s.
4. Velkomoravská banka, a. s.

Main Indicators of Monetary and Economic Developments in the Czech Republic

| | | 1994 | 1995 | 1996 | 1997 |
|---|---------------------------------|---------|-----------|-----------|-----------|
| Gross domestic product | Value (CZK in bn) 1) | 1.148,6 | 1.221,6 | 1.269,4 | 1.281,8 |
| | Increase (%) 2) | ... | 6,4 | 3,9 | 1,0 |
| Output - increase in % 2) | Industry | ... | ... | 2,0 | 4,5 |
| | Construction | 7,5 | 8,5 | 4,8 | -3,9 |
| Prices | Inflation rate (%) | 10,0 | 9,1 | 8,8 | 8,5 |
| Unemployment 3) | Unemployment rate (%) | 3,2 | 2,9 | 3,5 | 5,2 |
| Foreign trade 3) | Exports (USD in mil.) | 16.205 | 21.657 | 21.907 | 22.776 |
| | Imports (USD in mil.) | 17.428 | 25.265 | 27.716 | 27.179 |
| | Balance (USD in mil.) | (1.223) | (3.608) | (5.809) | (4.403) |
| Average wage 2) | Nominal (%) | 18,5 | 17,5 | 18,0 | 11,9 |
| | Real (%) | 7,7 | 7,7 | 8,5 | 3,1 |
| Balance of payment 3) | Current account (USD in mil.) | -786,8 | (1.369,1) | (4.292,2) | (3.155,8) |
| | Financial account (USD in mil.) | 3.371,1 | 8.225,9 | 4.296,7 | 1.081,9 |
| Exchange rate 4) | CZK/USD | 28,78 | 26,55 | 27,14 | 31,71 |
| | CZK/DEM | 17,75 | 18,52 | 18,06 | 18,28 |
| Average interbank deposit interest rate (PRIBOR) (%) 5) | 7 day | 12,28 | 11,17 | 12,61 | 16,64 |
| | 3 month | 12,65 | 10,93 | 12,67 | 17,50 |
| | 6 month | 12,65 | 10,89 | 12,55 | 17,40 |
| Discount rate (%) 3) | | 8,50 | 9,50 | 10,50 | 13,00 |
| Lombard rate (%) 3) | | 11,50 | 12,50 | 14,00 | 23,00 |

1) Constant prices of 1994

2) Increase in % to the same period of previous year

3) End of period data

4) Exchange rate midpoint, yearly average

5) Average monthly interest rate as of the end of the period

Assets

(CZK in mil. resp. % of total assets, branches abroad included)

| | 31-Dec-95 | 31-Dec-96 | 1997 | | | |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | | | 31.03. | 30.06. | 30.09. | 31.12. |
| Cash | 23.731 | 27.976 | 25.766 | 29.596 | 27.340 | 29.713 |
| Deposits and credits with CNB | 163.190 | 141.866 | 172.359 | 153.400 | 208.181 | 198.540 |
| of which minimum reserve requirement | 74.842 | 113.518 | 119.880 | 89.080 | 104.955 | 91.322 |
| Deposits and credits with banks | 314.775 | 389.657 | 372.474 | 422.292 | 411.629 | 490.376 |
| of which: current accounts | 12.499 | 20.879 | 14.905 | 25.786 | 13.728 | 19.355 |
| time deposits | 172.588 | 277.021 | 291.884 | 328.909 | 330.866 | 396.775 |
| granted credits | 129.688 | 91.756 | 65.685 | 67.598 | 67.035 | 74.246 |
| T-bills | 33.976 | 49.935 | 55.471 | 68.554 | 52.145 | 39.629 |
| CNB bills | 121.863 | 62.830 | 62.216 | 44.606 | 83.286 | 95.784 |
| Granted credits | 831.192 | 928.251 | 979.000 | 1.026.808 | 1.017.876 | 1.027.783 |
| of which: to clients | 826.328 | 923.282 | 973.358 | 1.014.297 | 1.006.379 | 1.012.106 |
| to state and municipal authorities | 4.864 | 4.969 | 5.642 | 12.511 | 11.497 | 15.677 |
| Tradable securities | 146.960 | 171.886 | 166.552 | 144.816 | 144.608 | 101.009 |
| of which: bonds | 122.149 | 132.388 | 133.396 | 117.186 | 117.796 | 85.841 |
| shares | 23.191 | 37.321 | 29.675 | 24.324 | 23.371 | 11.397 |
| Investment securities | 22.497 | 21.548 | 38.096 | 54.159 | 59.045 | 93.449 |
| Tangible and intangible assets | 56.535 | 64.639 | 64.041 | 66.189 | 67.217 | 66.631 |
| Other assets | 100.147 | 150.349 | 132.337 | 147.883 | 173.606 | 192.124 |
| Total assets | 1.814.866 | 2.008.938 | 2.068.312 | 2.158.304 | 2.244.933 | 2.335.037 |
| Cash | 1,31 | 1,39 | 1,25 | 1,37 | 1,22 | 1,27 |
| Deposits and credits with CNB | 8,99 | 7,06 | 8,33 | 7,11 | 9,27 | 8,50 |
| of which minimum reserve requirement | 4,12 | 5,65 | 5,80 | 4,13 | 4,68 | 3,91 |
| Deposits and credits with banks | 17,34 | 19,40 | 18,01 | 19,57 | 18,34 | 21,00 |
| of which: current accounts | 0,69 | 1,04 | 0,72 | 1,19 | 0,61 | 0,83 |
| time deposits | 9,51 | 13,79 | 14,11 | 15,24 | 14,74 | 16,99 |
| granted credits | 7,15 | 4,57 | 3,18 | 3,13 | 2,99 | 3,18 |
| T-bills | 1,87 | 2,49 | 2,68 | 3,18 | 2,32 | 1,70 |
| CNB bills | 6,71 | 3,13 | 3,01 | 2,07 | 3,71 | 4,10 |
| Granted credits | 45,80 | 46,21 | 47,33 | 47,57 | 45,34 | 44,02 |
| of which: to clients | 45,53 | 45,96 | 47,06 | 47,00 | 44,83 | 43,34 |
| to state and municipal authorities | 0,27 | 0,25 | 0,27 | 0,58 | 0,51 | 0,67 |
| Tradable securities | 8,10 | 8,56 | 8,05 | 6,71 | 6,44 | 4,33 |
| of which: bonds | 6,73 | 6,59 | 6,45 | 5,43 | 5,25 | 3,68 |
| shares | 1,28 | 1,86 | 1,43 | 1,13 | 1,04 | 0,49 |
| Investment securities | 1,24 | 1,07 | 1,84 | 2,51 | 2,63 | 4,00 |
| Tangible and intangible assets | 3,12 | 3,22 | 3,10 | 3,07 | 2,99 | 2,85 |
| Other assets | 5,52 | 7,48 | 6,40 | 6,85 | 7,73 | 8,23 |
| Total assets | 100,00 | 100,00 | 100,00 | 100,00 | 100,00 | 100,00 |
| Total assets | 1.604.791 | 1.808.779 | 1.865.231 | 1.952.838 | 2.043.243 | 2.123.462 |

Liabilities

(CZK in mil. resp. % of total liabilities, branches abroad included)

| | 31-Dec-95 | 31-Dec-96 | 1997 | | | |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | | | 31.03. | 30.06. | 30.09. | 31.12. |
| Resources from CNB | 73.775 | 71.403 | 71.918 | 82.781 | 88.902 | 97.071 |
| Deposits and credits from banks | 379.607 | 465.115 | 473.896 | 498.298 | 486.904 | 512.632 |
| of which: current accounts | 14.968 | 16.776 | 10.479 | 21.041 | 11.787 | 19.656 |
| time deposits | 240.064 | 330.974 | 347.379 | 363.163 | 359.770 | 368.854 |
| received credits | 124.576 | 117.365 | 116.038 | 114.095 | 115.347 | 124.121 |
| Accepted deposits | 916.506 | 1.007.637 | 1.018.711 | 1.057.909 | 1.087.075 | 1.150.722 |
| of which: from clients | 851.611 | 962.219 | 971.473 | 1.005.003 | 1.036.277 | 1.112.050 |
| from state and municipal authorities | 44.549 | 39.928 | 42.383 | 43.942 | 42.695 | 36.925 |
| deposit certificates | 20.346 | 5.491 | 4.855 | 8.964 | 8.104 | 1.748 |
| Bond issue | 48.850 | 62.940 | 75.014 | 89.238 | 97.324 | 92.724 |
| Reserves | 42.394 | 39.345 | 39.733 | 36.665 | 38.220 | 42.224 |
| Reserve funds | 57.430 | 63.697 | 63.529 | 72.363 | 72.089 | 72.316 |
| Capital funds | 15.308 | 20.389 | 20.648 | 20.605 | 19.708 | 20.829 |
| Initial capital | 60.589 | 66.832 | 69.683 | 70.019 | 70.519 | 75.884 |
| Retained profit | 1.850 | 1.853 | 16.474 | 1.950 | 1.793 | 1.332 |
| Current year profit | 12.135 | 14.445 | 3.975 | 9.361 | 12.367 | 11.188 |
| Other liabilities | 206.422 | 195.282 | 214.732 | 219.116 | 270.033 | 258.117 |
| Total liabilities | 1.814.866 | 2.008.938 | 2.068.312 | 2.158.304 | 2.244.933 | 2.335.037 |
| Resources from CNB | 4,07 | 3,55 | 3,48 | 3,84 | 3,96 | 4,16 |
| Deposits and credits from banks | 20,92 | 23,15 | 22,91 | 23,09 | 21,69 | 21,95 |
| of which: current accounts | 0,82 | 0,84 | 0,51 | 0,97 | 0,53 | 0,84 |
| time deposits | 13,23 | 16,48 | 16,80 | 16,83 | 16,03 | 15,80 |
| received credits | 6,86 | 5,84 | 5,61 | 5,29 | 5,14 | 5,32 |
| Accepted deposits | 50,50 | 50,16 | 49,25 | 49,02 | 48,42 | 49,28 |
| of which: from clients | 46,92 | 47,90 | 46,97 | 46,56 | 46,16 | 47,62 |
| from state and municipal authorities | 2,45 | 1,99 | 2,05 | 2,04 | 1,90 | 1,58 |
| deposit certificates | 1,12 | 0,27 | 0,23 | 0,42 | 0,36 | 0,07 |
| Bond issue | 2,69 | 3,13 | 3,63 | 4,13 | 4,34 | 3,97 |
| Reserves | 2,34 | 1,96 | 1,92 | 1,70 | 1,70 | 1,81 |
| Reserve funds | 3,16 | 3,17 | 3,07 | 3,35 | 3,21 | 3,10 |
| Capital funds | 0,84 | 1,01 | 1,00 | 0,95 | 0,88 | 0,89 |
| Initial capital | 3,34 | 3,33 | 3,37 | 3,24 | 3,14 | 3,25 |
| Retained profit | 0,10 | 0,09 | 0,80 | 0,09 | 0,08 | 0,06 |
| Current year profit | 0,67 | 0,72 | 0,19 | 0,43 | 0,55 | 0,48 |
| Other liabilities | 11,37 | 9,72 | 10,38 | 10,15 | 12,03 | 11,05 |
| Total liabilities | 100,00 | 100,00 | 100,00 | 100,00 | 100,00 | 100,00 |

Revenues and Costs

(CZK in mil., branches abroad included, banks under conservatorship and Konsolidační banka excluded)

| | 31.12.95 | 31.12.96 | 1997 | | | |
|--|----------|----------|--------|--------|---------|---------|
| | | | 31.03. | 30.06. | 30.09. | 31.12. |
| Interest earned | 115.649 | 134.439 | 35.355 | 80.447 | 127.214 | 174.094 |
| Interest paid | 74.919 | 94.276 | 26.164 | 60.147 | 93.398 | 125.566 |
| Interest yield | 40.730 | 40.163 | 9.191 | 20.300 | 33.817 | 48.528 |
| Fees and commissions earned | 9.884 | 12.531 | 2.797 | 6.621 | 9.758 | 13.488 |
| Fees and commissions paid | 1.052 | 1.436 | 274 | 702 | 1.107 | 1.659 |
| Fee and commission profit | 8.832 | 11.095 | 2.524 | 5.918 | 8.651 | 11.829 |
| Interest yield incl. fee and commission profit | 49.562 | 51.258 | 11.714 | 26.218 | 42.468 | 60.357 |
| Securities revenues | 5.761 | 11.727 | 3.751 | 6.808 | 9.156 | 13.920 |
| Foreign exchange operations revenues | 7.031 | 6.315 | 1.651 | 4.946 | 7.494 | 12.892 |
| Other banking operations revenues | 1.569 | 1.340 | 677 | 1.018 | 1.537 | 1.384 |
| Banking activity profit | 63.923 | 70.640 | 17.794 | 38.991 | 60.654 | 88.554 |
| General operating costs | 31.594 | 38.261 | 8.942 | 19.772 | 30.647 | 43.855 |
| Reserve and provision creation (net) | 14.441 | 6.184 | 4.391 | 8.430 | 11.062 | 28.820 |
| Other operating revenues (costs) | -6.947 | -19.364 | -1.369 | -3.638 | -10.534 | -19.404 |
| Gross operating profit | 10.941 | 6.832 | 3.092 | 7.151 | 8.411 | -3.526 |
| Extraordinary revenues (costs) | 476 | 226 | -142 | -4 | 129 | 704 |
| Pre-tax gross profit | 11.418 | 7.058 | 2.950 | 7.147 | 8.540 | -2.822 |
| Taxes | 1.680 | 445 | 231 | 566 | 1.228 | 1.085 |
| Net profit | 9.738 | 6.613 | 2.719 | 6.581 | 7.312 | -3.906 |

Profitability and Efficiency

(branches abroad included, banks under conservatorship and Konsolidační banka excluded)

| | 31.12.95 | 31.12.96 | 1997 | | | |
|--|----------|----------|--------|--------|--------|--------|
| | | | 31.03. | 30.06. | 30.09. | 31.12. |
| Banking activity profit/assets in % | 4,64 | 4,17 | 3,88 | 4,14 | 4,01 | 4,49 |
| Gross profit/assets in % | 0,83 | 0,42 | 0,64 | 0,76 | 0,56 | -0,14 |
| Net profit/assets in % | 0,71 | 0,39 | 0,59 | 0,70 | 0,48 | -0,20 |
| Net profit/core capital in % | 21,48 | 12,30 | 18,91 | 22,55 | 16,26 | -6,52 |
| Total interest revenues/interest earning assets in % | 11,292 | 10,764 | 10,530 | 11,484 | 11,748 | 11,908 |
| Total interest costs/ interest bearing liabilities | 6,839 | 6,989 | 7,199 | 8,004 | 8,187 | 8,214 |
| Interest rate spread | 4,453 | 3,775 | 3,331 | 3,480 | 3,560 | 3,694 |
| Net interest margin in % | 4,042 | 3,002 | 2,634 | 2,822 | 2,913 | 3,056 |
| Number of employees in banking sector | 52.985 | 55.311 | 54.245 | 53.836 | 53.274 | 53.188 |
| Per employee CZK in thousands | | | | | | |
| total assets | 30.288 | 32.702 | 34.385 | 36.274 | 38.353 | 39.924 |
| profit from banking activity | 1.206 | 1.277 | 1.312 | 1.449 | 1.518 | 1.665 |
| net profit | 184 | 120 | 200 | 244 | 183 | -73 |
| operating costs | 596 | 692 | 659 | 735 | 767 | 825 |

1) credits and deposits granted to or accepted from non-bank clients and banks, without fees

Credits

(credits granted in the Czech Republic, up to 1996 only CZK credits, from 1997 inc. credits in foreign currencies)

| | 31.12.95 | 31.12.96 | 1997 | | | |
|------------------------------------|----------|----------|-----------|-----------|-----------|-----------|
| | | | 31.03. | 30.06. | 30.09. | 31.12. |
| Total credits | 761.960 | 844.030 | 1.037.155 | 1.093.868 | 1.087.869 | 1.121.854 |
| of which: short-term | 310.717 | 360.409 | 457.985 | 486.488 | 472.597 | 469.507 |
| medium-term | 215.018 | 211.844 | 247.238 | 258.853 | 252.719 | 266.470 |
| long-term | 236.225 | 271.777 | 331.932 | 348.527 | 362.553 | 385.877 |
| Total credits | 761.960 | 844.030 | 1.037.155 | 1.093.868 | 1.087.869 | 1.121.854 |
| of which: to public sector | 160.750 | 146.826 | 165.601 | 157.103 | 151.252 | 156.702 |
| to private sector | 482.601 | 585.768 | 743.161 | 792.740 | 790.865 | 805.127 |
| to government sector | 3.503 | 3.986 | 5.270 | 13.221 | 11.253 | 16.258 |
| to small businesses | 59.076 | 59.367 | 61.623 | 60.432 | 61.182 | 60.653 |
| to households | 34.503 | 37.718 | 42.843 | 44.306 | 44.011 | 49.924 |
| other | 21.527 | 10.365 | 18.657 | 26.066 | 29.305 | 33.190 |
| of which: agriculture and forestry | 31.361 | 34.528 | 34.197 | 30.092 | 34.211 | 33.785 |
| manufacturing industry | 245.789 | 277.766 | 339.006 | 348.507 | 335.584 | 348.030 |
| construction | 26.828 | 28.816 | 34.266 | 34.785 | 35.214 | 34.410 |
| finance and insurance | 22.578 | 36.159 | 63.954 | 66.846 | 59.080 | 65.303 |
| transport and travel | 19.205 | 16.467 | 22.857 | 26.648 | 26.275 | 33.194 |
| trade and catering | 188.671 | 197.698 | 234.861 | 249.834 | 251.256 | 253.678 |
| other activities | 227.528 | 252.596 | 308.014 | 337.156 | 346.249 | 353.454 |

Deposits

(deposits accepted in the Czech Republic, up to 1996 only CZK deposits, from 1997 inc. deposits in foreign currencies)

| | 31-Dec-95 | 31-Dec-96 | 1997 | | | |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | | | 31.03. | 30.06. | 30.09. | 31.12. |
| Total deposits | 821.922 | 907.487 | 1.003.742 | 1.045.904 | 1.066.052 | 1.135.030 |
| of which: demand | 337.208 | 342.955 | 355.341 | 346.951 | 355.634 | 383.697 |
| time | 484.714 | 564.532 | 648.401 | 698.953 | 710.418 | 751.333 |
| of which: short-term | 254.103 | 346.121 | 431.322 | 492.618 | 502.344 | 526.968 |
| medium-term | 181.402 | 159.756 | 146.268 | 127.853 | 123.835 | 128.521 |
| long-term | 49.209 | 58.655 | 70.811 | 78.482 | 84.239 | 95.844 |
| Total deposits | 821.922 | 907.487 | 1.003.742 | 1.045.904 | 1.066.052 | 1.135.030 |
| of which: public sector | 76.687 | 84.387 | 61.695 | 50.063 | 53.204 | 56.740 |
| private sector | 212.218 | 250.011 | 240.025 | 261.416 | 266.640 | 296.122 |
| government sector | 40.516 | 37.549 | 42.443 | 44.319 | 43.303 | 37.865 |
| small businesses | 32.865 | 37.197 | 37.546 | 38.442 | 41.352 | 42.082 |
| households | 405.911 | 486.740 | 594.862 | 623.161 | 632.671 | 669.488 |
| other | 53.725 | 11.603 | 27.171 | 28.503 | 28.882 | 32.733 |
| of which: agriculture and forestry | 13.096 | 18.908 | 13.554 | 8.254 | 10.000 | 9.862 |
| manufacturing industry | 62.374 | 95.925 | 69.574 | 54.678 | 63.134 | 73.925 |
| construction | 20.286 | 25.823 | 18.962 | 18.428 | 19.760 | 21.796 |
| finance and insurance | 60.668 | 44.966 | 53.514 | 63.753 | 54.018 | 71.712 |
| transport and travel | 23.185 | 15.820 | 12.462 | 13.124 | 13.288 | 11.730 |
| trade and catering | 63.978 | 69.936 | 60.059 | 70.357 | 69.998 | 76.387 |
| other activities | 578.335 | 636.109 | 775.617 | 817.310 | 835.854 | 869.618 |

Capital, Risk Weighted Assets and Capital Adequacy

(branches abroad included, banks under conservatorship and Konsolidační banka excluded)

| | 31.12.95 | 31.12.96 | 1997 | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| | | | 31.03. | 30.06. | 30.09. | 31.12. |
| Core capital in CZK in mil. | 84.168 | 96.617 | 97.971 | 103.597 | 102.566 | 99.140 |
| Total capital in CZK in mil. | 92.555 | 104.250 | 105.882 | 112.740 | 114.418 | 109.850 |
| Total assets in CZK in mil. | 1.602.079 | 1.780.576 | 1.816.892 | 1.893.952 | 2.002.687 | 2.103.045 |
| of which by risk weight: | | | | | | |
| 0 % | 389.761 | 411.280 | 408.127 | 385.780 | 483.957 | 532.076 |
| 20 % | 361.076 | 391.644 | 397.788 | 446.874 | 448.894 | 518.766 |
| 50 % | 25.814 | 27.680 | 32.075 | 32.318 | 40.427 | 37.459 |
| 100 % | 825.428 | 949.972 | 978.902 | 1.028.980 | 1.029.409 | 1.014.744 |
| Risk weighted assets in CZK in mil. | 910.550 | 1.042.140 | 1.074.497 | 1.134.514 | 1.139.401 | 1.137.227 |
| Risk weighted assets/total assets in % | 56,84 | 58,53 | 59,14 | 59,90 | 56,89 | 54,08 |
| Core capital/ risk weighted assets in % | 9,24 | 9,27 | 9,12 | 9,13 | 9,00 | 8,72 |
| Capital/risk weighted assets in % | 10,16 | 10,00 | 9,85 | 9,94 | 10,04 | 9,66 |

Reserve Resources

(CZK in mil., branches abroad included)

| | 31.12.95 | 31.12.96 | 1997 | | | |
|-------------------------|----------|----------|---------|---------|---------|---------|
| | | | 31.03. | 30.06. | 30.09. | 31.12. |
| Provisions | 74.452 | 98.885 | 99.461 | 108.761 | 116.875 | 146.821 |
| of which for: credits | 71.293 | 89.259 | 89.066 | 95.902 | 96.737 | 122.390 |
| securities | 2.169 | 7.886 | 8.717 | 10.693 | 17.486 | 21.217 |
| other assets 1) | 991 | 1.740 | 1.678 | 2.167 | 2.652 | 3.213 |
| Reserves | 42.394 | 39.345 | 39.733 | 36.665 | 38.220 | 41.880 |
| Reserve funds | 57.430 | 63.697 | 63.529 | 72.363 | 72.089 | 72.316 |
| Capital funds | 15.308 | 20.389 | 20.648 | 20.605 | 19.708 | 20.829 |
| Total reserve resources | 189.585 | 222.316 | 223.371 | 238.393 | 246.892 | 281.845 |

1) provisions for tangible and intangible assets are excluded

Quick assets

(CZK in mil., branches abroad included)

| | 31.12.95 | 31.12.96 | 1997 | | | |
|--------------------------------------|----------|----------|---------|---------|---------|---------|
| | | | 31.03. | 30.06. | 30.09. | 31.12. |
| Cash | 23.731 | 27.976 | 25.766 | 29.596 | 27.340 | 29.713 |
| Deposits and credits with the CNB | 163.190 | 141.866 | 172.359 | 153.400 | 208.181 | 198.540 |
| of which minimum reserve requirement | 74.842 | 113.518 | 119.880 | 89.080 | 104.955 | 91.322 |
| Current accounts with banks | 12.499 | 20.879 | 11.411 | 17.551 | 9.620 | 14.819 |
| T-bills | 33.976 | 49.935 | 55.471 | 68.554 | 52.145 | 39.629 |
| CNB-bills | 121.863 | 62.830 | 62.216 | 44.606 | 83.286 | 95.784 |
| Total quick assets | 355.259 | 303.487 | 327.223 | 313.708 | 380.572 | 378.486 |
| Tradable securities | 146.960 | 171.886 | 166.552 | 144.816 | 144.608 | 101.009 |
| of which: bonds | 122.149 | 132.388 | 133.396 | 117.186 | 117.796 | 85.841 |
| shares | 23.191 | 37.321 | 29.675 | 24.324 | 23.371 | 11.397 |
| Total liquid assets | 502.219 | 475.373 | 493.775 | 458.523 | 525.180 | 479.494 |
| Share to total assets in % | | | | | | |
| quick assets | 19,57 | 15,11 | 15,82 | 14,53 | 16,95 | 16,21 |
| liquid assets | 27,67 | 23,66 | 23,87 | 21,24 | 23,39 | 20,54 |

Assets and Liabilities by Residual Maturity as of December 31, 1996

(CZK in mil., branches abroad included)

| | 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 | more than 5 years | nonspe- cified |
| Total assets | 2.018.972 | 266.471 | 129.657 | 187.225 | 193.313 | 212.294 | 138.787 | 215.097 | 104.607 | 571.520 |
| Total liabilities | 2.018.972 | 653.156 | 173.332 | 142.135 | 134.386 | 181.366 | 188.765 | 184.553 | 40.699 | 320.581 |
| Net balance sheet position | x | -386.685 | -43.674 | 45.091 | 58.926 | 30.928 | -49.978 | 30.544 | 63.908 | 250.939 |
| Cumulative net balance sheet position | x | -386.685 | -430.359 | -385.268 | -326.342 | -295.414 | -345.392 | -314.848 | -250.939 | -0 |
| in % of total assets | x | -19,15 | -21,32 | -19,08 | -16,16 | -14,63 | -17,11 | -15,59 | -12,43 | -0,00 |
| Liabilities with respect to demand deposit liquidity | 2.018.972 | 324.194 | 235.012 | 203.815 | 175.507 | 222.486 | 229.885 | 225.673 | 81.819 | 320.581 |
| Net balance sheet position | x | -57.723 | -105.355 | -16.590 | 17.806 | -10.192 | -91.098 | -10.576 | 22.788 | 250.939 |
| Cumulative net balance sheet position | x | -57.723 | -163.077 | -179.667 | -161.861 | -172.053 | -263.151 | -273.727 | -250.939 | -0 |
| in % of total assets | x | -2,86 | -8,08 | -8,90 | -8,02 | -8,52 | -13,03 | -13,56 | -12,43 | -0,00 |

Assets and Liabilities by Residual Maturity as of December 31, 1997

(CZK in mil., branches abroad included)

| | 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 | more than 5 years | nonspe- cified |
| Total assets | 2.335.001 | 337.772 | 271.501 | 215.710 | 154.401 | 215.781 | 123.086 | 199.305 | 129.390 | 688.056 |
| Total liabilities | 2.335.001 | 722.625 | 315.432 | 210.873 | 114.664 | 159.561 | 183.089 | 181.289 | 102.717 | 344.752 |
| Net balance sheet position | x | -384.853 | -43.931 | 4.837 | 39.737 | 56.220 | -60.003 | 18.016 | 26.672 | 343.304 |
| Cumulative net balance sheet position | x | -384.853 | -428.784 | -423.947 | -384.210 | -327.990 | -387.992 | -369.976 | -343.304 | -0 |
| in % of total assets | x | -16,48 | -18,36 | -18,16 | -16,45 | -14,05 | -16,62 | -15,84 | -14,70 | -0,00 |
| Liabilities with respect to demand deposit liquidity | 2.335.001 | 381.904 | 379.317 | 274.758 | 157.254 | 202.151 | 225.679 | 223.879 | 145.308 | 344.752 |
| Net balance sheet position | x | -44.132 | -107.816 | -59.048 | -2.853 | 13.630 | -102.593 | -24.574 | -15.918 | 343.304 |
| Cumulative net balance sheet position | x | -44.132 | -151.948 | -210.996 | -213.849 | -200.219 | -302.812 | -327.386 | -343.304 | -0 |
| in % of total assets | x | -1,89 | -6,51 | -9,04 | -9,16 | -8,57 | -12,97 | -14,02 | -14,70 | -0,00 |

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