2000

BANKING SUPERVISION 2000

CZECH NATIONAL BANK

CONTENTS

Methodological note

All data used in this publication are for banks with valid licences as of 31 December 2000, 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 the data on the structure of credits and deposits by sector and industry, which comprise only bank transactions in the Czech Republic.

The data for 2000 partly reflect the results of external audits, so they may differ from data previously published by the CNB. There may be additional partial changes to the data given in this publication. However, these should not significantly affect the trends indicated.

The breakdown of bank groups is different than that used in publications issued up until 1999. The continuing privatisation process and concentration of the banking sector has led to a substantial predominance of foreign-controlled banks. Consequently, total assets have been chosen as the single criterion for dividing banks into groups. The large bank group consists of banks with total assets of more than CZK 100 billion. Medium-sized banks have total assets of between CZK 15 billion and CZK 100 billion and small banks have total assets of less than CZK 15 billion. Owing to their specific character, foreign bank branches and building societies have been left as separate groups.

Foreword

Banking Supervision 2000 is the latest in the series of Czech National Bank annual publications informing the public about the CNB's banking supervisory activities and about developments in the Czech banking sector. The aim of this report is to foster a better understanding of the orientation and scope of banking supervision and to provide both professionals and the public with aggregate data on the banking sector's main activities, performance and compliance with the prudential rules. The report is an expression the CNB's endeavours to increase the transparency of banking business and thereby strengthen the stability of the banking sector. The basic data on the banking sector are updated each quarter on the CNB's website (see *Banking supervision – Current information on the banking sector*).

The first part of the report focuses on the CNB's banking supervisory activities in 2000. In particular, it describes the changes to the regulations aimed at fully harmonising the legislative and regulatory base for banking supervision in the Czech Republic with the laws and practices of the European Community and at identifying all the risk areas in banking business. Adherence to these rules considerably limits the potential problems of banks and helps to stabilise the banking sector. A large section is devoted to international co-operation, which is not only affecting the supervisory authority's methodological work itself, but is also increasingly oriented towards bilateral co-operation with partner supervisors in the oversight of banks, which are becoming ever more part of international banking structures. Our active participation in the working groups of the Basle Committee on Banking Supervision makes it possible for us to keep up with new directions in the regulation of banking business and, at the same time, to share our experience with the development of banking in transition economies. This is also fostered by our close contacts with banking supervisors from other Central and Eastern European countries within the regional group. Equally important is our co-operation with other financial market regulators in the Czech Republic, the importance of which is increasing with the gradual establishment of financial groups, which have to be supervised on a consolidated basis. A separate section is devoted to the central register of business credits which CNB is currently preparing as a contribution to better information sharing among banks on the financial standing of present and potential clients.

The second part of the publication describes developments in the banking sector. Unlike in previous years, the analysis is based on identification of the specific risks to which the banking sector is exposed when carrying on its business. The aim of this part is to provide basic data on the development of each area of banking business, chiefly from the point of view of adherence to the prudential rules stipulated in specific Czech National Bank provisions (regulations). The Czech banking sector has been through a relatively stormy phase in recent years. The core trends, however, confirm the sector's gradual consolidation and stabilisation. The improving position of the banking sector is to a large extent due to state interventions aimed at cleaning up the portfolios of state-owned banks ahead of privatisation.

I believe that the transparency of banking business and the pressure from the Czech National Bank for information openness on the part of banks is to the benefit of bank clients. By means of this publication, and also through its website, the Czech National Bank is endeavouring to provide both professionals and the public with enough information to become acquainted with the current stage of development of banking supervision and the banking sector in the Czech Republic.

Pavel Racocha
Chief Executive Director and Bank Board Member
of the Czech National Bank

A. BANKING SUPERVISION IN 2000

The strategic medium-term objective for banking supervisory activity in 1998-2000, formulated in the *Conception for the further development of CNB banking supervision*, was to foster a stable and competitive banking sector resulting from a dynamic balance between the regulation and supervision of banks, market discipline and high-quality management of individual banks. This core objective was expressed in concrete terms in the areas of bank regulation, the exercise of supervision, co-operation with regulators and relations with the public.

1. Banking supervisory activities in 2000

In 2000, supervisory activities focused chiefly on completing all the tasks set out in the medium-term conception. All activities were targeted at completing the legislative base for banking supervision so as to harmonise it with European Commission directives and the international practices expressed in the *Core principles for effective banking supervision* issued by the Basle Committee on Banking Supervision at the BIS.

The fundamental principles for banking sector regulation are set forth in Act No. 21/1992 Coll., on Banks, as amended. These principles are specified in more detail in a series of CNB provisions (regulations) concentrating on risk areas and defining specific rules and limits for the individual areas of activity of the banks and foreign bank branches operating in the Czech Republic. A basic set of prudential provisions was created in 1992. This included regulations on capital adequacy, credit exposure, liquidity and open foreign exchange positions. Gradually, new regulations have been created and the existing ones revised. In 2000, banks' activities were governed by the following provisions (full wordings are available on the Czech National Bank website):

- CNB Provision No. 3 of 28 June 1999 on the Capital Adequacy of Banks Including Credit and Market Risk (this provision also stipulates limits for credit exposure and open foreign exchange positions),
- CNB Provision No. 11 of 20 December 1996 on Bank Liquidity Rules.
- CNB Provision No. 193/1998 Coll. Stipulating the Principles for Classifying Loan Receivables and for Provisioning for these Receivables.
- CNB Provision No. 3 of 9 June 1997 on the Principles for Creating Portfolios of Securities and Holdings by Banks and for Covering the Risk of Devaluation of Securities and Holdings through Provisioning.
- CNB Provision No. 8 of 22 September 1997 Stipulating the Restrictions and Conditions for Banks for Certain Types of Credits and Investments in Ownership Interests.
- CNB Provision No. 4 of 29 September 1998 Stipulating the Requirements for the Bank Performance Report.
- CNB Provision No. 2 of 29 June 1998 Stipulating the Minimum Requirements for the Disclosure of Information by Banks and Foreign Bank Branches.
- CNB Provision No. 2 of 8 July 1999 Stipulating Terms and Conditions for Performing Supervision on a Consolidated Basis.

1.1 Changes to the regulations in 2000

The CNB's provisions cover virtually all the basic banking risk areas. Their compliance with international standards and practices is at a high level, with only minor differences in details. These details are gradually being incorporated into individual regulations. The activities in 2000 were thus concentrated primarily on preparing regulations for those areas which have yet to be covered by appropriate rules and on partial methodological adjustments to the provisions in force.

A new **provision on capital adequacy incorporating market risk**, prepared during 1998 and 1999, took effect in April 2000. For banks, this regulation meant above all a further qualitative shift in risk measurement and management. In addition to regulating capital coverage of credit and market risk, it sets credit exposure limits and limits for open foreign exchange positions. Prior to its entry into force, informative visits were made to the major banks with the aim of verifying their readiness to implement the organisational, methodological and technical aspects of the provision. An amended provision taking on board some of the banks' suggestions was issued in 2000. This addresses a number of the technical aspects of calculating capital requirements.

During the course of 2000 a draft amendment was prepared to the **provision on liquidity** in line with the Basle Committee's recommendations of April 2000. This amendment, approved in April 2001, specifies in more detail the rules for liquidity management in banks, defines the obligations of statutory authorities in this area, enumerates the mandatory documents for banks and so on.

With regard to increasing the transparency of banking business, the **new provision on disclosure of information by banks** of 1998 was also important. This provision was amended in 2000 to include the obligation of each bank to disclose a scheme of its banking group, complete with basic information on entities belonging to this group. CNB Banking Supervision also worked with the Ministry of Finance to prepare a regulation stipulating the content of annual accounts and the disclosure of information in the annual reports of banks, the aim being to promote disclosure of qualitative information on risk measurement and management by banks in line with international practices. These two regulations deal with similar issues and the amendments to them result from an effort to unify the disclosure requirements so as to provide the public with sufficient qualitative and quantitative information to allow it to evaluate objectively the financial strength and trustworthiness of specific financial institutions.

In its Conception for 1998-2000, CNB Banking Supervision declared its intention to develop two related concepts: that of **supervision on a consolidated basis** and that of **"lead supervisor"**. Consolidated supervision of banking groups got under way in 1999 with the issuing of a CNB provision stipulating terms and conditions for conducting supervision on a consolidated basis. The provision sets down the rules for determining a consolidated group and the methods that banks are obliged to use for consolidation. It also stipulates the obligation to maintain capital adequacy – for the time being incorporating credit risk only – for the entire group at 8% or higher. The limits for credit exposure and the maximum limits for holdings in non-bank and non-financial entities on a consolidated basis must be identical to those applied to the bank itself.

In spring 2000, CNB Banking Supervision conducted informative visits in 13 banks to verify their group structures and the ownership, financial and personnel relations and the control mechanisms within each consolidated group. In 2000, banks submitted for the first time consolidated financial statements and statements on capital adequacy and credit exposure for the consolidated group.

The foundations for further development of consolidated supervision have been laid in the draft amendment to the Act on Banks. In addition to terms and conditions for the establishment, functioning and oversight of banking groups, this incorporates supervision of financial holding companies and mixed-activity holding companies that contain a bank registered in the Czech Republic. The Act, and a related decree on consolidated supervision of all types of groups, will serve as the basic framework for the exercise of supervision. Practical implementation of the lead supervisor concept will require effective co-operation and closer informal contacts between experts from the Czech National Bank, the Securities Commission and the Ministry of Finance.

Under the decree, each controlling bank and financial holding company will be obliged to form a regulated consolidated group comprising banks, financial institutions and ancillary banking services undertakings, provided they are controlled entities or affiliated companies whose owners exercise equal control in them (joint ventures). These regulated consolidated groups will then be subject to the prudential rules, i.e. they will be required to observe the capital adequacy limit (8% of the capital of the regulated consolidated group) and credit exposure limits (25% or 20% of the capital of the regulated consolidated group). The capital adequacy calculation will incorporate credit and market risk (at present the obligation to observe capital adequacy incorporating credit and market risk applies to banks only and on a solo basis only). In addition, relevant information on members of consolidated groups will be submitted to the CNB. Mixed-activity holding companies will not be subject to the prudential rules. In the case of mixed-activity holding company groups, the CNB will obtain information only, e.g. on equity capital and the activities of the members of the consolidated group.

With substantial CNB involvement, banks' accounting has been aligned to a large extent with international accounting standards. CNB Banking Supervision helped to prepare an amendment to the Accounting Act which tightens and defines more precisely the requirements for the keeping, extent and conclusiveness of accounts. For banks, the most important change is a new principle for valuing assets, consisting in real valuation of short-term securities on a daily basis, with profits and losses being immediately reflected in the bank's overall profit/loss. The Act has not been approved in full (it has only been partially revised via amendments to other acts). It is expected to enter into force on 1 January 2002.

During 2000, an amendment was prepared to the Ministry of Finance regulation stipulating the accounting procedures and chart of accounts for banks. This newly sets forth the procedure for provisioning for the controlling and substantial holdings of banks and for securities held until maturity, for selling and for trading. The amendment also defines the real value of securities. The incorporation of the principles for provisioning for securities into the chart of accounts made it possible to repeal as of 1 January 2000 CNB Provision No. 3 of 9 June 1997 on Principles for Covering Losses from Depreciation of Securities and Ownership Interests through Provisions.

CNB Banking Supervision is paying considerable attention to harmonising not only the regulatory base, but also the practical exercise of banking supervision with the "Core Principles". For this reason, fulfilment of these principles is regularly assessed, and the relevant legal regulations and the internal procedures and manuals for the conduct of off-site surveillance and on-site examinations are being gradually adjusted. Most of the principles are now being observed in the Czech Republic. The introduction of certain others depends to a large extent on the amendment to the Act on Banks currently under preparation. These include in particular consolidated supervision of financial and mixed-activity holdings and supervision of branches and subsidiaries by foreign supervisory authorities.

1.2 The exercise of banking supervision

Implementation of the *Conception for the further development of banking supervision* continued into 2000, concentrating chiefly on strengthening on-site inspection activities and on standardising the banking supervision procedures. Great attention was paid to drafting manuals regulating each area of banking supervision, with the assistance of partner supervisors from Germany and Greece under the Twinning programme. This programme also contributed to the training of banking supervision inspectors, particularly in the area of consolidated supervision and risk management.

As regards the structure of the banking sector, CNB Banking Supervision was instrumental in the privatisation of large banks (Česká spořitelna and Komerční banka). It was also responsible for assessing applications for bank mergers through sale of a business or part thereof (Erste Bank Sparkassen, Banka Haná and Investiční a Poštovní banka) and helped to prepare the restructuring of the transformation institutions Konsolidační banka Praha, Českomoravská záruční a rozvojová banka and Česká finanční.

The handling of the crisis in Investiční a Poštovní banka in the middle of the year generated considerable public interest in the activities of the supervisor. The CNB's activities in this matter are described in a document issued jointly by the CNB and the Ministry of Finance for the Czech Parliament. This document can be accessed on the CNB's website.

The case of Investiční a Poštovní banka showed that although long-term communication with the external auditors of banks and co-operation with the Chamber of Auditors are gradually making their outputs more applicable to supervisory activities, on-site inspections still play an irreplaceable role in identifying the real situation of banks. The focus of these inspections again in 2000 lay in comprehensive examinations.

1.2.1 Off-site surveillance

Off-site surveillance of banks is one of the two major elements of the exercise of banking supervision, the second being on-site examinations. Off-site surveillance is based on the analysis of information from prudential statements (*inter alia* monitoring of banks' compliance with the prudential rules and limits) and from informative visits, on-site examinations, auditors' reports and other information obtained either directly from the bank or from public sources. The basic outputs consist of monthly information (an early warning system indicating unusual changes in financial indicators) and regular quarterly analyses of banks' financial situations.

The financial analysis of banks involves evaluating indicators submitted generally monthly by banks in the form of statements and reports covering all their activities and focusing chiefly on prudential aspects of banking business. These data are entered into an automated information system producing standardised sets of fundamental indicators, comparisons of these indicators with those of other banks, changes relative to the previous period, etc.

Also part of off-site surveillance is the issuing of decisions and consents to banks pursuant to the Act on Banks. In addition to remedial measures to counter shortcomings detected in a bank's activities, these include consent to acquisitions of holdings exceeding the limits set forth in Article 20 of the Act on Banks, changes in banking licences, approval of consolidated units, approval of external auditors and approval of shareholder structure prior to general meetings.

In 2000, CNB Banking Supervision issued a total of 21 administrative decisions, two of which involved sanctions and the remainder prior consents and changes in banking licences. Sanctions outside the framework of administrative proceedings were applied in 12 banks, most of them requiring the rectification of shortcomings.

Off-site surveillance also involves regular meetings with banks' external auditors. These meetings deal with methodological problems or with the auditors' findings at banks. If differences arise between the auditor and the supervisor in the assessment of the situation in a specific bank, meetings are convened to clarify the differences.

CNB Banking Supervision also expresses its opinion on persons nominated for management positions in banks. The professional ability and integrity of such persons is assessed using relevant documents and information acquired during the exercise of banking supervision or from inquiries with other regulators or state authorities. These assessments generally involve interviews with the candidates. During such interviews, each candidate has the opportunity to give his opinions and ideas regarding his activities in the bank. A total of 32 interviews were conducted in 2000.

Informative visits are an important instrument of off-site surveillance. Unlike on-site examinations, these are not effected under the State Inspection Act. The aim of the visits is to obtain specific and limited information, and their duration (mostly no longer than one week) and number of participants (usually two or three) corresponds to this aim. Informative visits are usually conducted by the director of the banking inspection division responsible for the bank or by the inspector assigned to the bank. The visits in 2000 focused chiefly on strategy and financial results, partial inspections of loan portfolios, functionality of control mechanisms, fulfilment of remedial measures and preparation of on-site examinations. Similarly, regular meetings took place with the senior management of banks. In 2000, at least one visit was carried out in each of 30 banks.

Off-site surveillance also deals to a limited extent with banks whose licences have been revoked and those in liquidation or bankruptcy. It is also responsible for assessing applications for registration of representations of foreign banks and financial institutions carrying on banking activities, and for keeping records of such representations in the Czech Republic.

The banking supervisor also deals with the problem of financial crime. This activity is the remit of the Nonstandard Activities Division, which is responsible for relations with the law enforcement authorities (drawing up opinions, preparing documents for rogatory letters, and instigating criminal proceedings in connection with the findings of the supervisor) and with the Ministry of Finance's Financial Analytical Office in the area of money laundering and sharing of information on new financial crime phenomena. Unlawful acceptance of deposits by non-banks is monitored as well. In 2000, three criminal proceedings were instituted and documents were prepared for 22 rogatory letters from law enforcement authorities.

1.2.2 On-site examinations

On-site examinations are the second major element of the exercise of banking supervision. The aim of on-site examinations is to assess banks' risk management systems (particularly for credit and market risks), internal control systems and financial positions and to verify their reporting systems.

In the risk management system area, inspectors determine whether banks are identifying all the risks to which they are exposed; whether they have appropriate methods in place for measuring these risks; whether they monitor and evaluate the results of risk measurement; and whether they take the necessary corrective decisions in a timely fashion. As for internal control systems, their integrity and adequacy for the bank and its scope of banking activities are assessed. With respect to financial position, the assessment concentrates on systems for valuing bank assets, with the bank's procedures being verified on a selected sample of assets. The purpose of verifying reporting systems is to assess the truthfulness, correctness and reliability of these systems and thereby acquire information on the quality of the data submitted by banks to the supervisor.

The on-site examinations in 2000 were carried out in accordance with an annual plan based on a classification of banks by their importance for the banking sector and on the supervisors' capacities. Three complete inspection teams have been set up with a total complement of 18-24 people. On-site examinations take the form either of an in-depth examination focusing on all areas of the bank's activities or a partial examination focusing on a specific area of activity only. Eleven on-site examinations were carried out in 2000, nine of which were in-depth and two partial.

Owing to the gradual development of banking supervision and the shift in the focus of on-site examinations toward evaluation of the risk management systems in banks, it has become apparent that each member of staff should specialise in a specific type of risk. This need has been generated by the banks' increasingly complicated transactions, risk limitation systems and so on. For this reason, in addition to the inspection teams, specialised working groups started operation in 2000. These groups pool inspection team members by their specialisation – credit risks, market risks and internal control systems and internal auditing.

To conduct on-site examinations effectively it is also important to have a good methodology in place not only for the examination procedure itself, but also for preparing for it, for drawing up the final report and for assessing the bank's position with respect to the prudential rules and its financial position within the banking sector. This is why CNB Banking Supervision in 2000 continued working on a new methodology for organising inspections and for the individual specialised areas subject to in-depth on-site examinations. A first version of the methodology (manual) has been prepared. This includes:

- general procedures for on-site examinations,
- asset and liability management, focusing on the bank's financial management system,
- management of market risks and risks associated with trading on the financial market,
- the bank's lending activity,
- the internal control system.

2. International co-operation

CNB Banking Supervision's international relations take several forms. The most important are contacts regarding clarification of the prudential rules, as part of the harmonisation of those rules with European Community legislation. Closely linked with this is co-operation with the Basle Committee on Banking Supervision at the BIS, which is the most important authority for the future development and improvement of the regulations for banks. Owing to the considerable presence of foreign banks in the Czech banking sector, there is an increasing focus on bilateral co-operation with the home supervisors of banks having branches and subsidiaries in the Czech Republic. Co-operation with Central and Eastern European countries within the established regional group is also of great importance.

To harmonise its banking supervisory regulations, methods and procedures with EU practices, the Czech National Bank joined the EU Institution-Building Programme (twinning) at the end of 1999. This two-year project encompasses banking supervision and insurance and its main aim is to help align key areas of the Czech financial sector with the EU's legal standards and to make it more comprehensive, efficient and compliant with EU requirements. In the banking area, this project is being overseen by the German Federal Ministry of Finance in co-operation with the National Bank of Greece.

The part of the programme dealing with banking supervision has six basic components covering the main areas of bank oversight:

- market risk management,
- supervision on a consolidated basis,
- the setting of individual capital requirements commensurate with the bank's particular risk profile,
- analysis of the bank's financial standing,
- general methods for on-site examinations,
- specific on-site examination procedures (manuals) for individual areas, including information technology.

A detailed survey of sub-tasks and the deadlines for meeting them has been drawn up for each part of the programme. Specific fulfilment of the programme, consisting mainly in an assessment of the compliance of current Czech banking supervisory practices in each area with European practices, proceeded throughout 2000 and will continue into 2001. The main outcome of this programme will be proposals for changes to the legislation, methods and procedures to make them fully compatible with those applied in the EU while respecting certain national differences. The programme also includes training and internships for Czech supervisory staff to improve their ability to deal with the ever more complicated issues affecting the financial sector and its regulation. Two seminars took place in 2000: one on market risk, organised by the German side, and the other on supervision on a consolidated basis, organised by the Greek side.

At the end of 2000, the CNB also joined the IMF/World Bank Financial Sector Assessment Programme (FSAP). The aim of this project is to evaluate the overall strength and stability of the Czech financial sector. In the first phase, the joint IMF/WB mission concentrated on assessing the conformity of current Czech legislation and banking supervisory practices with the Core Principles for Effective Banking Supervision. The main objective of the programme is to define those areas which need to be further aligned with European law and international standards and to determine those areas which represent weak points for the long-term stability of individual banks and the banking sector as a whole.

The mission is also evaluating the functioning of other parts of the financial sector, in particular the capital market and the insurance system. It is also addressing the impact of general laws and decrees on the activities of the financial sector, for example from the point of view of the principles for effective functioning of bankruptcy and the systems for enforcement of creditors' rights. The results of this project will be known in June 2001.

The development of official bilateral contacts is at present being complicated by restrictions arising from the present wording of the Act on Banks, which prevents foreign banking supervisors from conducting on-site examinations in the Czech branches and subsidiaries established by their banks. The problem has been rectified in the draft amendment to the Act on Banks. This should open up room for closer co-operation with partner regulators based on memoranda of understanding.

Another important form of international co-operation is the participation of CNB banking supervisors in the activities of Basle Committee working groups. These groups focus on further improving the Core Principles. Great attention is being devoted to a new concept of capital adequacy (allowing, in particular, more accurate measurement of credit risk), to greater banking transparency, to electronic banking, etc. Through the Banking Association, CNB Banking Supervision has called on banks to express their opinion on the new capital adequacy concept and has organised discussions on specific themes.

3. CO-OPERATION WITH OTHER FINANCIAL MARKET REGULATORS AND PROFESSIONAL ORGANISATIONS

The establishment of the Securities Commission, together with the development of financial banking groups, led in 1998 to the signing of a tripartite co-operation agreement between the Czech National Bank, the Securities Commission and the Ministry of Finance. This laid the groundwork for systematic co-operation between all the regulators on the Czech financial market. In practical terms, this co-operation primarily involves sharing information on regulated entities in the areas of licensing procedures, new shareholders entering financial institutions, remedial measures and on-site examinations.

To enhance this co-operation, the CNB in 2000 initiated the formation of working groups consisting of representatives from each of the regulators. These groups deal with common aspects of regulating each type of financial institution, mainly with respect to the possible unification of regulatory methods and the expansion of the co-operation necessary for conducting consolidated supervision. Four working groups have been set up so far, dealing with consolidated supervision, conduct of supervision, disclosure of data and licensing.

CNB Banking Supervision maintains extensive contacts with the Banking Association, which groups all the banks operating in the Czech Republic. The management of CNB Banking Supervision meets at least once a year with Banking Association representatives so that both parties can inform each other about their planned activities for the year ahead. At a working level, the co-operation takes place mostly through committees formed by the Banking Association for individual areas of interest. In 1998-2000, consultations were held with its Accounting and Tax Committee on the draft amendment to the Accounting Act, accounting procedures and the incorporation of international standards into the Czech accounting system. Permanent contacts are maintained with the Internal Audit Committee, which prepared the Internal Audit Standard for Banks and later also an amendment to this standard. Likewise, closer links were forged with the Commission for Joint Projects as part of the project to set up the Central Register of Credits and with the Securities Commission as part of the fight against money laundering. Banks' comments on the drafts of the new prudential rules were also submitted through the Banking Association. The level of co-operation between the Banking Association and CNB Banking Supervision should improve further following the establishment of the new Committee for Bank Regulation within the Banking Association.

There was also good co-operation with the Chamber of Auditors of the Czech Republic and with auditing firms conducting audits in banks. Discussions on points of contention were held following the disclosure of banks' final accounts and auditors' reports. These were either bilateral (concerning general professional issues) or trilateral (to discuss the specific situation of a particular bank). Moreover, meetings were organised with the auditor and sometimes also with the bank to assess the "Bank Performance Report" describing and evaluating the bank's risk management and internal control systems. Following these meetings, certain problems – concerning in particular the auditor's role in evaluating risk management and internal control systems – were also discussed within the Chamber of Auditors' financial institutions audit group.

In addition to the discussions on specific banks, auditing firms gave presentations on the procedures they used when auditing banks. Besides providing a more detailed knowledge of the approach of individual auditing firms, these allowed auditors and supervisors to establish informal professional contacts and to reach agreement on numerous points of contention.

4. Relations with the public

One of the basic tasks of CNB Banking Supervision is to strengthen public confidence in the banking system, which is a key prerequisite for stability of the system. A very important element in this respect is to provide more information on the main objectives, methods and procedures of CNB Banking Supervision, the scope of regulation of the banking sector and on developments within individual banks and in the banking sector as a whole.

As regards increasing the transparency of banking business, the CNB's 1998 provision on disclosure of information by banks was of great importance. This provision was amended in 2000 to include the obligation of each bank to disclose the structure of its banking group and give basic information on the entities constituting this group. Key information on the bank – such as its capital, shareholder structure, ownership interests in other entities, organisational structure, licensed activities, services provided – is now available at each branch. Moreover, banks are likewise obliged to disclose basic figures on their performance, including the basic composition of their assets, liabilities and off-balance-sheet items, key items of the profit and loss account, and basic ratios characterising their performance, efficiency and prudence. The data must be updated on a quarterly basis.

In recent years, CNB Banking Supervision has been devoting much attention to disclosure of information to the public. The Internet has become the principal medium for presenting banking supervisory and banking sector issues (see www.cnb.cz – *Banking supervision*). The CNB website contains methodological documents – including all the CNB provisions currently in force – providing the public with detailed information on the scope of regulation of the banking sector. Also presented are other methodological documents, comparative analyses and draft recommendations of the Basle Committee on Banking Supervision for discussion by the banking community.

Much space is devoted to topical information about the state of the banking sector as a whole. Annual publications on the banking sector and banking supervision, and other aggregate documents assessing the banking sector, are released on a regular basis.

Regular quarterly publication of basic information on the situation in the banking sector started in 2000. This takes the form of six tables containing basic data on the number of banks, their asset and liability structure, observance of prudential limits, efficiency and profitability, credit classification and provisioning, etc. An updated list of banks, including basic identification and contact data and information on each bank's management and equity and the dates on which it was licensed and commenced activities, is disclosed each month. Information on fundamental measures taken against banks, in particular decisions to impose conservatorship or revoke licences, is published as soon as it becomes available.

5. Tasks for the period ahead

The supervisory objectives for the period ahead follow on from the present activities and further develop the basic principles of effective regulation, exercise of banking supervision, co-operation with regulators and relations with the public. They are based on an assessment of fulfilment of the Core Principles, the recommendations of the FSAP mission and on the need for harmonisation with European directives, while simultaneously reflecting the specific conditions in the Czech Republic.

The main objectives of banking supervision – on which the specific tasks set out in the detailed annual banking supervisory plans are based – are as follows:

- **to promote the sound development, market discipline and competitiveness of banks**

  Through its activities CNB Banking Supervision promotes the sound development of the banking system. This means fostering a situation where:
  - each bank is headed by a high-quality management team that is aware of the risks arising from banking activities and is able to measure and manage these risks;
  - each bank has sufficient capital to cope with any losses arising without its clients being affected and has qualified staff who abide by the ethical rules of the bank;
  - the management, activities and performance of the bank are transparent both to the regulator and to the public.

- **to prevent systemic crises**

  Only a stable banking system can efficiently allocate resources into the economy. Destabilisation of the system means serious disruptions to the economy and large financial losses. CNB Banking Supervision analyses developments in the banking sector, changes in the macroeconomic environment and trends in banking and regulation and reacts to these developments using its regulatory and supervisory tools.

- **to boost public confidence in the banking system**
  The public must be clearly and plainly informed about the financial situation and soundness of individual banks and of the banking sector as a whole. It must understand the responsibilities of the bank's management and shareholders and the role of the banking supervisor in the banking sector, as well as its realistic options for dealing with problems in banks.

- **to protect the small clients of banks**
  Most of banks' funds are deposited by the population. The role of the banking supervisor is to set rules limiting excessive risk-taking by banks and to systematically check banks' compliance with those rules. If, in spite of that, a bank becomes insolvent, there must exist a system ensuring reasonable compensation for its clients.

The tasks of CNB Banking Supervision are objectively determined by trends in the area of banking and financial services and by the development of prudential rules at international level. The financial market is becoming ever more sophisticated. The globalisation of financial markets requires the Czech Republic to integrate into international structures. The banking supervisor must react to new directions in banking regulation, changes in the banking sector and new trends in the conduct of banking supervision.

The new financial products (e.g. credit derivatives) and technologies (e.g. electronic banking) and new methods of risk measurement and management (e.g. the development of sophisticated risk measurement models) which are penetrating the Czech banking market need to be systematically studied and addressed with adequate prudential rules and supervisory methods.

The structure of the banking sector has changed radically. Undercapitalised banks have been cleared out of the sector, the privatisation of large banks is being completed, and a concentration process (bank mergers) is under way. The changes in shareholder structure in favour of foreign banks are generating positive changes in the management of banks. CNB Banking Supervision has to react to these developments and adjust the methods and instruments it uses in off-site surveillance and on-site examinations. The growing share of foreign banks on the Czech market (in the form of subsidiaries or branches) and the establishment of financial groups augurs the need to forge close ties with foreign and domestic regulators.

The implementation of EC legislation requires CNB Banking Supervision to address in detail not only the directives concerning the banking sector and its regulation, but also directives on more general matters (e.g. directives on companies, auditors and accounting standards) and directives on other segments of the financial market (insurance, the capital market, etc.). The European Commission has prepared a Financial Services Action Plan, under which it plans to issue a series of new and amended banking sector directives by the end of 2001. CNB Banking Supervision will have to respond to these.

Market globalisation and the establishment of multinational financial groups with a wide spectrum of activities is leading to closer co-operation between regulators and efforts by international institutions to monitor and govern regulation and oversight in a unified manner. CNB Banking Supervision is currently actively involved in BIS working groups (the New Capital Accord Working Group and the Core Principles Liaison Group). Likewise it is contributing comments on the numerous and increasingly sophisticated consultative documents in the areas of prudential business, banking sector stability, accounting, disclosure of information and so on. This co-operation on the one hand provides a great opportunity for Czech supervisors and on the other hand represents an obligation to prepare high-quality opinions and recommendations that incorporate their own experience.

All this is reflected in the specific tasks set by CNB Banking Supervision for the near future. Once these tasks are completed, the regulation of the Czech banking sector should be at the level customary in advanced countries. This will lead to further banking sector consolidation and stabilisation. The specific tasks involve:

1. completing a comprehensive regulatory framework for banks and consolidated groups containing banks that will steer them towards prudential business but at the same time will not curb fair competition. This framework must be clear and transparent, meet the criteria of EC directives and Basle Committee recommendations, and be in line with best international practices;

2. systematically monitoring and studying the latest world trends in banking and regulation and analysing their possible implementation in the Czech Republic; and actively engaging in co-operation with international institutions in the supervision of banking and financial markets;

3. exercising high-quality, highly professional supervision of banks and consolidated groups containing banks, harmonised with international standards and based in principle on the particular risk profile of each bank or consolidated group. The conduct of supervision will be monitored and its effectiveness assessed;

4. developing an effective system of communication and co-operation with other domestic and foreign regulators as part of the establishment of supervision on a consolidated basis; and, in co-operation with other regulators in the Czech Republic (the Securities Commission and the Ministry of Finance), gradually standardising the rules for regulated entities and the procedures and methods used in supervising them;

5. further increasing the transparency of supervision of the banking sector, this being one of the key prerequisites for proper public understanding of the banking supervisor’s function and a means of strengthening market discipline in the banking sector.

In meeting these objectives, CNB Banking Supervision will consistently monitor the harmonisation of bank regulation with international practices. This, however, must not hamper the development of banking in the Czech Republic. The regulation of banking business and the exercise of banking supervision must react immediately to the dynamic development of banking products and technology and keep pace with the development of EU regulations and Basle Committee recommendations. Focusing on the main risks of banking business should help foster consolidation and stabilisation of the banking sector in the Czech Republic. This can be achieved only through a quick, efficient and transparent response of the supervisor to the situation in banks and through open co-operation with banks and other domestic and foreign regulators.

6. Central register of credits

Credit risk is one of the most significant risks of banking business in every nation. In the Czech Republic, owing to the prevalence of activities in this area and the still not fully developed market environment, this risk is of particular importance. An inability to manage credit risk has been the main cause of the closures of banks, most of them small ones, over the past few years. Reducing credit risk undoubtedly fosters banking sector stability.

One of the ways of reducing credit risk is to raise banks' awareness of the credit exposure of potential clients and their record of payment discipline, financial situation and so on. For this purpose, many countries have a central register of credits allowing banks to acquire this essential information and thereby helping to improve decision-making in banks. In the Czech Republic, however, despite the creation of the legal preconditions for this in the 1998 amendment to the Act on Banks, the banking community has not initiated the setting up of a comprehensive credit register containing information on businesses. For this reason, the CNB has decided – further to one of its primary objectives, namely seeing to the stability of the banking sector – to get involved in this area and to operate a central register of credits giving banks rapid access to information on the credit exposure of existing and potential clients and facilitating decision-making during the lending process itself.

Work on establishing the central register of business credits started in June 2000. The preparations are proceeding in close co-operation with the Banking Association and the individual banks which this register is to serve. Banks are thus able to actively influence the content of the register and therefore also the range of information that will be available in the future.

The central register of credits is being set up as complete, i.e. all banks and foreign bank branches with a banking licence will be obliged to contribute to it. The basic data will be collected monthly. Banks will provide data from their records on all their receivables, regardless of size, from all legal entities and entrepreneurs, be they Czech or foreign. Included will be all receivables involving credit risk, i.e. not only credits themselves, but also credit commitments, guarantees, letters of credit, avals and the like. Banks and foreign bank branches will be responsible for the correctness of the data provided. The CNB will act as operator, i.e. it will be responsible for the processing accuracy and timeliness of the data submitted.

The exclusive users of the register will be banks and foreign bank branches; other entities will not have access to the database. Each month, every bank will receive standard outputs containing information on the total credit exposure of each of its clients in the entire Czech banking sector broken down by type of receivable. A wide range of input data will be fed back to banks. The overall exposure of each client will be broken down into credit line, original amount of each receivable, net balance, past-due amount divided into principal and interest, maximum number of days in arrears, types of collateral applied, currency, purpose of the credit, and sector. At any time during the month every bank will be able to inquire on-line about the credit exposure of a potential client with whom it is negotiating the provision of a loan.

Each bank will be able to choose one of two ways of communicating with the register, depending on which best suits its size, the extent of the data it submits, the degree of automation of its internal processes, the number of changes in the data in individual periods, etc. Access to the register will be possible either interactively using forms or via batch files. The bank will communicate with the register at least once a month, submitting monthly updates and downloading standard output sets. Inquiries about new clients and any revisions of submitted data and detection and correction of discrepancies in client identification codes within the banking sector will take place on an ongoing basis.

Setting up such a register is no easy task. It requires thorough preparation on the part of banks, too, as client and receivable IDs and characteristics will to a large extent have to be unified to enable automated processing. This task, together with the project to set up the register's information system itself, will take at least a year. The register is therefore expected to go live at the end of 2001. However, the launch is conditional on the creation of the necessary legal framework for providing data to banks, which is contained in an amendment to the Act on Banks.

The credit register is being built as an open system, meaning that it will be possible to add other elements in the future based in particular on banks' requirements. This will include the possibility not only to monitor other characteristics of particular receivables, but also to expand the system to include other types of exposure (e.g. securities), monitoring of groups of connected debtors, use of data for statistical purposes and so on.

B. BASIC TRENDS IN THE BANKING SECTOR

1. The economic and legal environment in 2000

The banking sector is strongly affected by the economic and legal environment in which it operates, and particularly by the real economy and the legislative framework. In 2000, the economy began to recover as expected, and this recovery fed through into the banking sector. The positive developments included continuing growth in the total assets of banks, a modest rise in the volume of net credits provided, relatively stable growth in the volume of deposits received, and improving indicators of the quality of banking business (a declining share of classified credits, growing capital of banks, etc). All this, together with ongoing privatisation, is encouraging further consolidation of the banking sector.

Gross domestic product rose by 3.1% after a three-year decline, amounting to CZK 1,433.8 billion at constant prices as of 31 December 2000. GDP rose throughout the year. The recovery was characterised by mixed developments in the individual components of demand. As of 31 December 2000, the volume of gross credits granted by the banking sector represented 74.9% of GDP, which, despite a downward trend in this ratio, means the banking sector has a very significant position in the overall economy. Consequently, its stability is one of the main priorities for the Czech economy.

The growing but generally low inflation rate of 3.9% allowed the current level of basic interest rates to be maintained. The annual headline inflation rate gradually rose during the year, but in 2000 Q4 this trend halted and inflation fell slightly. Net inflation developed similarly. In December 2000, annual net inflation was slightly below the lower boundary of the end-2000 inflation target. The discount rate remained at 5% throughout the year and the Lombard rate stayed at 7.5%. Interest rates hit a low in May 2000 then gradually increased in all financial market segments. The main factor underlying this trend was financial market expectations regarding economic growth and higher inflation. The trend in financial market rates did not pass through into client (credit and deposit) interest rates, which were flat or slightly falling throughout the period.

The koruna's exchange rate appreciated throughout most of 2000, mainly because of continuing inflow of foreign capital into the Czech economy. Nevertheless, the koruna's exchange rates against the euro and the dollar saw mixed developments during the course of 2000. From CZK 36.13 to the euro at the end of 1999, the koruna strengthened to CZK 35.09 to the euro as of 31 December 2000. The koruna's exchange rate against the US currency weakened from CZK 35.98 to CZK 37.81 to the dollar in the same period. To prevent undesirable appreciation and destabilising volatility of the exchange rate, the CNB in co-operation with the Government opened a special privatisation account for depositing foreign exchange acquired from the sale of state property to foreign investors.

The developments on the labour market confirmed the longer-term trend of a diminishing imbalance between demand for and supply of labour. The unemployment rate fell from 9.4% at the end of 1999 to 8.8% as of 31 December 2000. Adjusted for the usual seasonal fluctuations, the unemployment rate declined gradually throughout the year. At the whole-economy level, labour productivity growth outpaced real wage growth. Total year-on-year growth in average nominal wages reached 6.6% and real wage growth 2.6% at the end of 2000.

In 2000, the Czech Republic's balance of payments recorded widening trade and current account deficits. The current account deficit ended the year at CZK 91.4 billion. This was generated mainly by an exogenous cost shock in the form of high prices of imported energy raw materials, and – to only a smaller extent – by strengthening demand factors in the second half of the year. The current account deficit was covered by massive inflow of foreign capital, chiefly in the form of foreign direct investment and drawings on credits by the corporate sector. The financial account surplus rose by CZK 23 billion to CZK 129.6 billion.

As for the legal framework affecting banking activities, first mention should go to the new acts and amendments to existing acts aimed at improving the position of creditors in the area of debt recovery. In 2000, a new act on public auctions took effect. This should be of key significance for banks with regard to out-of-court enforcement of collateral. Also issued were comprehensive amendments to the Civil Code, Commercial Code and Civil Procedure Code, which, with effect from 1 January 2001, *inter alia* substantially changed the treatment of lien in the Czech Republic. The amendment to the Civil Code, in line with the requirements of European law, also abolished the possibility of opening new anonymous deposit books and other forms of deposits. The issue of enforceability and repayment of receivables is also addressed in several amendments to the Bankruptcy and Settlement Act adopted in 2000 and in the new Act on Judicial Executors and Executory Activities (the Executory Code, which entered into force on 1 May 2001). The amended Bankruptcy and Settlement Act now recognises the position of creditors of subordinated debts in the repartition behind other "unsubordinated" creditors. However, it limits the claims of separate (secured) creditors of a bankrupt, most of which are banks, to just 70% of their pro rata proceeds from realisation of the security.

A fundamental amendment to the Act on Banks intended to ensure full harmonisation of Czech banking legislation with European law was rejected by the Czech Parliament in 2000. This was not on the grounds of reservations about the act's "pro-European" content, but due to disagreement among legislators over whether, and how, to expand the deposit insurance scheme to include the clients of certain banks that are already bankrupt. An almost identical draft "harmonisation" amendment, which should *inter alia* allow comprehensive supervision of banks on a consolidated basis, will therefore have to be debated this year.

In August 2000, a comprehensive amendment to the anti-money laundering act entered into force. This should bring Czech law into harmony with the European requirements for prevention of money laundering.

In the area of accounting, the Czech National Bank and Ministry of Finance are jointly harmonising the Czech accounting regulations with International Accounting Standards (IAS). Significant recent changes have concerned the book-keeping of financial instruments (e.g. derivatives) and – in the near future – securities. However, harmonisation with IAS is to a large extent limited by the current accounting act. For example, the provisions regarding valuation of property and receivables do not permit real value to be implemented into the Czech procedures. The addressing of these problems has been put back by the Czech Parliament's failure to approve an amendment to the accounting act in 2000. A new act on auditors adopted in 2000 sets forth, in addition to higher qualitative requirements for auditing services and the providers of those services, the duty of the auditor to notify the supervisory body without delay of any relevant shortcomings detected in the entity being audited (i.e. banks or entities in which a bank has a share of 20% or more).

This brief summary of the most important legal changes affecting the activities of banks would not be complete without mentioning the amendment to the Securities Act. This amendment, effective 1 January 2001, in addition to other changes in the capital market area, expands expands the powers of the Czech Securities Commission in supervising the activities of securities traders (including those that are banks). This means that banks are in many respects now supervised simultaneously by the Czech National Bank and by the Securities Commission (e.g. with regard to licensing and to acquisitions of qualifying holdings in a bank).

2. The structure of the banking sector in the Czech Republic

2.1 Number of banks
(for banks with licences as of the given date)

The Czech banking sector consists almost solely of banks having the form of joint-stock companies. The exception is Konsolidační banka, which as of 31 December 2000 was the only "state financial institution". Konsolidační banka, which administers the lower-quality assets of the corporate and banking sectors and carries on certain other specific activities, will cease operations on 31 August 2001. Most of its business will be transferred to its legal successor Česká konsolidační agentura (Czech Consolidation Agency).

Table 1
Number of banks
for banks carrying on activities for clients as of 31 December of the given year

	1995	1996	1997	1998	1999	2000
Banks, total	55	53	50	45	42	40
of which						
large banks	5	5	5	5	5	4
medium-sized banks	10	9	13	12	12	11
small banks	24	19	13	12	9	8
foreign bank branches	10	9	9	10	10	10
building societies	6	6	6	6	6	6
banks under conservatorship	0	5	4	0	0	1
For information:						
banks without licences	4	6	10	18	21	23

As of 31 December 2000, the Czech banking sector was made up of 40 banks and foreign bank branches. The number of banks has been gradually declining since 1995. Up until 1999 licences had been revoked mainly because of the poor financial situation of the banks in question, whereas the decline in 2000 was primarily due to bank mergers. The number of banks fell by two during 2000 as a result of the merger of Erste Bank Sparkassen (CR) and Česká spořitelna on 30 September 2000. On 1 December 2000, Banka Haná – which sold most of its activities to Investiční a Poštovní banka in 1998 and had carried on only minimal activities in the subsequent two years – announced that it was terminating its activities in the banking area.

As regards the number of banks, the biggest group as of 31 December 2000 was that of medium-sized banks, with 11 banks, followed by 10 foreign bank branches. The former Investiční a Poštovní banka (now IP banka) was transferred from the large banks group to the group of banks under conservatorship. During June 2000, Investiční a Poštovní banka fell into an acute liquidity crisis – brought on chiefly by a sharp and extensive decline in its primary deposits – and found itself in serious solvency difficulties. Because of the unwillingness of the bank's management to propose and pursue effective measures to overcome this crisis and deal with its causes, and of shareholders to adopt and implement them, coupled with the bank's systemic importance for banking sector stability, the CNB decided to impose conservatorship upon the bank on 16 June 2000. After evaluating the overall condition of the bank's finances and acquiring prior consent from the Czech National Bank, the conservator concluded an agreement to sell Investiční a Poštovní banka to Československá obchodní banka (ČSOB). On the basis of this agreement, almost all its assets, plus corresponding funds, were transferred to ČSOB.

The sharp decline in the number of small banks is associated with revocation of the banking licences of poorly performing banks, which belonged exclusively to this group, and with the development of foreign banks, which have gradually shifted to the medium-sized banks group. Of the 63 banking licences granted since 1989, a total of 23 have been terminated, 17 of them because of poor financial condition and non-compliance with the prudential rules (as a rule at the initiative of CNB Banking Supervision and partly at the request of the banks themselves). Five banking licences have been terminated because of sales and mergers, and one bank failed to start operating within the mandatory deadline.

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

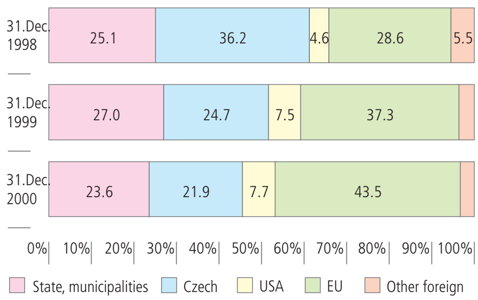
The ownership structure of a bank founded as a joint-stock company is expressed in terms of each owner's share in the equity capital of that company. The only bank having the form of a state financial institution as of 31 December 2000 (Konsolidační banka) is fully owned by the Czech state. Both legal entities and natural persons may become shareholders of a bank, regardless of their registered address or country of residence.

The main factor influencing the ownership structure of the banking sector is the ongoing privatisation of large banks in which the state held, or holds, a controlling interest. The privatisation of Česká spořitelna was completed in 2000 with the purchase of a controlling interest by Austria's Erste Bank der Oesterreichischen Sparkassen AG. The completion of the privatisation of Komerční banka, the last large state-owned bank, is expected in 2001. Foreign banks are becoming the new shareholders of the large banks, a phenomenon which is considerably strengthening the representation of foreign capital in the ownership structure of banks. The holdings of the state, which is only involved in banks specifically oriented towards support for government programmes in the areas of exports and support for small businesses, are falling correspondingly. As of 31 December 2000, foreign capital predominated in 16 banks. Moreover, some banks (building societies in particular) are owned by foreign bank subsidiaries licensed in the Czech Republic and are thus also indirectly controlled by foreign capital. From the legal point of view, Czech entities owned seven banks as of 31 December 2000, although in reality – after excluding banks where a foreign bank subsidiary is the controlling shareholder – the figure is four.

Foreign entities hold the largest stake in the Czech banking sector, with 54.5% of the total equity capital as of 31 December 2000, an increase of 6.1 points on a year earlier and of 15.8 points compared with the end of 1998. The largest proportion of the foreign capital is concentrated in European Union member states. The share of Czech banks in total equity capital was 43.5% at the end of 2000, 6.2 points higher than a year earlier and 14.9 higher than at the end of 1998. The share of US capital is increasing steadily, although the growth rate has slowed in recent years. Conversely, the share of other foreign owners, i.e. investors from outside the EU and the USA, is gradually declining, and was only 3.3% at the year-end.

The rising share of foreign investors in 2000 was mainly at the expense of the share of the state and municipalities, which fell by 3.4 points to 23.6%. The share of Czech private owners dropped by 2.8 points to 21.9%. Following a decrease of 11.5 points in 1999, the decline in the involvement of Czech private entities on the domestic banking market slowed in 2000. As of 31 December 2000, state investment in the banking sector remained modestly higher (1.7 points) than private Czech investment. A year earlier the difference had been 2.3 points. After the completion of the privatisation process the share of state capital will continue to decrease.

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



Note: Percentage share in equity capital

Foreign capital is already having a major effect on the Czech banking sector. This is particularly apparent when one compares the total assets administered by banks in which foreign shareholders have controlling interests (i.e. more than 50% of the capital). Their share in total assets (Konsolidační banka excluded) stood at 71.6% at the year-end. Including banks owned indirectly by foreign entities via subsidiaries operating in the Czech Republic, this share increases to 75.4%. Once the privatisation process has been completed, these banks will administer almost 95% of the total assets of the banking sector.

2.3 Employees and banking units (for banks with licences as of the given date)

TABLE 2
NUMBER OF EMPLOYEES AND BANKING UNITS IN THE BANKING SECTOR
for banks with licences as of the given date

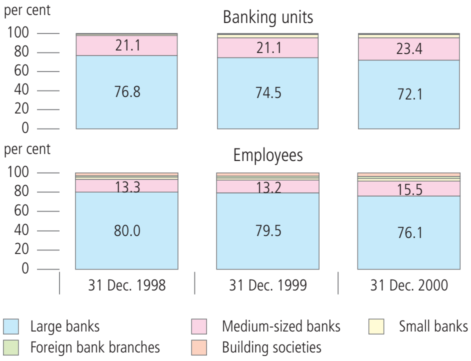
	31 Dec. 1995	31 Dec. 1996	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000
Number of employees (thous.)	61.1	60.1	54.0	52.8	49.4	45.5
Number of banking units (thous.)	3.4	3.2	2.5	2.2	2.0	1.8
Number of employees						
per bank (thous.)	1.1	1.1	1.1	1.2	1.2	1.1
per banking unit	17.9	19.0	21.9	23.8	24.6	25.0
Number of population						
per bank (thous.)	187.7	194.5	206.0	228.7	244.7	256.7
per banking unit (thous.)	3.0	3.3	4.2	4.6	5.1	5.7
per employee	170.0	172.0	190.8	196.0	208.0	225.6

The year 2000 saw a continuation of the long-term downward trend in the number of banking employees and banking units. These reductions are aimed at raising productivity and efficiency in the individual banks and are especially typical of the large banks, which had – and still have – extensive branch networks. The rapid introduction of modern electronic banking services, which virtually all banks are starting to offer in one form or another, is also enabling banks to streamline their operations.

As of 31 December 2000, there were 45,512 people working in the Czech banking sector, 7.9% fewer than a year earlier and more than 25% fewer than in 1995, when the banking sector workforce peaked. An analogous trend is visible for the number of banking units, which as of 31 December was down by almost one tenth (9.2%) from the previous year at 1,809 units and down by almost half (47.4%) since the end of 1994, when the number of banking units peaked.

As the number of banks operating in the Czech banking sector decreased in the period under review, the fall in workforce and banking units per bank is not as significant as the drop in workforce and banking units alone. At the same time it is true that in many cases the branch networks were bought up complete with their staff by the remaining banks, or, in the case of bank mergers, were automatically taken over. As of 31 December 2000, there were 1,138 employees per bank on average, a fall of 3.2% from 1999, and 25 employees per banking unit, the same as a year earlier.

CHART 2
STRUCTURE OF BANK UNITS AND EMPLOYEES BY BANK GROUP
for banks with licences as of 31 December 2000



Owing to the demographic trend in the Czech Republic, where the population size is stable, the productivity of the banking sector measured in terms of the number of citizens per bank, banking unit or employee depends solely on developments within the sector. As of 31 December 2000 there were 256,700 citizens per bank, 4.9% more than a year earlier, and 5,700 citizens per banking unit, 10.8% more than in 1999. At the close of the year, each banking employee served 226 citizens on average, a rise of 8.5%.

The downsizing of branch networks and workforces is generating savings in banks' operating expenses, which is in turn making them more competitive. The clients of these banks are gradually ceasing to communicate face-to-face with staff in branches and are starting to get used to the new information and communication environment provided by new technology, particularly electronic banking. Despite the declining number of staff in banks and branches, the range of services provided is not falling but is continuing to grow.

The number of staff and banking units in each bank group differs and depends primarily on each bank's main clientele type. The large banks are making cutbacks in both workforce and banking units, whereas medium-sized banks are showing the opposite trend. This is associated in particular with the further development of foreign banks, which are declaring their intention to engage to a greater extent in retail banking. This is operationally more demanding and requires at least a minimal branch structure and more staff. The development of electronic forms of banking in the Czech Republic is substantially reducing these operational demands.

The differing trends in the number of banking units and employees has led to convergence in the bank groups' productivity indicators. For example, in the large bank group, which still has the largest clientele share, the number of employees in 2000 shrank by 7.7% and the number of branches by 12.7%. Following a decline in workforce in 1999, there was a change in trend in the group of medium-sized banks back towards a slight increase. The same workforce trend has been recorded in the past two years by small banks, i.e. a decline in 1999 and a rise in 2000. The number of employees in foreign bank branches was flat in 1999 and rose by more than one tenth in 2000. Building societies are seeing a different trend: their total workforce rose significantly in 1999 and remained at this level in 2000.

The large banks employ 76.1% of all bank staff, compared with 79.5% a year earlier and 80% at the end of 1998. Second are medium-sized banks, accounting for 15.5% of all employees at the end of 2000 (a year earlier medium-sized banks had employed 13.2% of the total, i.e. their share of the banking market is growing in this respect as well). The shares of small banks, foreign bank branches and building societies are roughly equal, ranging between 1.8% and 3.6% over the last three years.

Since the end of 1994, average total assets managed by each employee have more than doubled, amounting to CZK 59.8 million as of 31 December 2000. Apart from some minor exceptions, average total assets per employee showed an upward trend in all bank groups during the period under review. At the end of 2000, this indicator was highest in foreign bank branches and lowest in the small banks.

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

For several years, concentration has been one of the characteristic trends not only of the banking sector, but also in other areas of the economy. Mergers and acquisitions are bringing about a decline in the number of market participants in each industry. The size of those remaining active on the market – whether expressed in terms of equity capital, total assets, turnover or market share – is meanwhile growing. In the Czech Republic, the concentration process is also associated with bank privatisation, which is generally accompanied by merger with the new investor's subsidiary bank, if the investor operates in the Czech Republic.

During 2000, the concentration process in the Czech Republic was affected in particular by the privatisation of Česká spořitelna, into which the Erste Bank Sparkassen (CR) subsidiary was subsequently integrated, and by the sale of Investiční a Poštovní banka to ČSOB. The concentration process is expected to continue into 2001 – a merger between Bank Austria Creditanstalt Czech Republic and Hypo Vereinsbank has already been given the go-ahead. The size of the banking sector will also be affected very significantly by the transformation of Konsolidační banka into a specialised non-bank that will continue to administer poor-quality assets.

CHART 3
BANKS BY TOTAL ASSETS
for banks with licences as of the given date

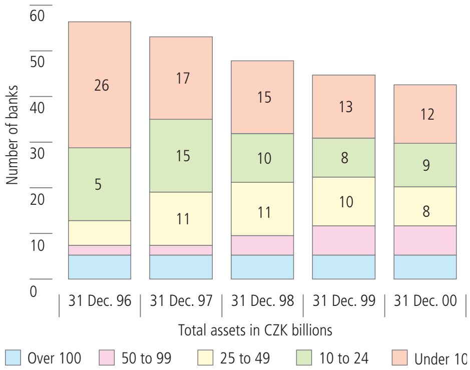
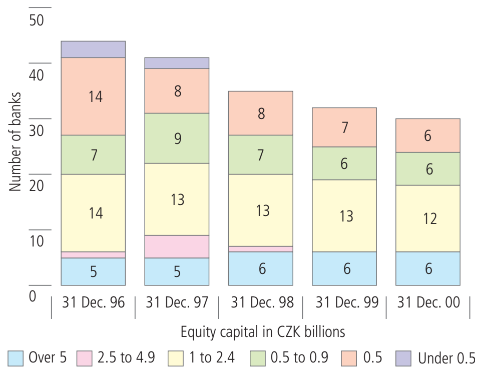


TABLE 3
PERCENTAGE SHARES OF INDIVIDUAL BANK GROUPS IN TOTAL ASSETS
for banks with licences as of the given date

	31 Dec. 1995	31 Dec. 1996	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000
Banks, total	100.0	100.0	100.0	100.0	100.0	100.0
of which						
large banks	70.0	68.1	66.6	66.2	65.0	61.9
medium-sized banks	14.7	12.6	16.4	16.9	17.4	19.6
small banks	8.2	6.9	3.1	3.2	1.7	2.0
foreign bank branches	6.0	6.4	7.8	9.5	11.4	11.1
building societies	1.1	2.0	3.0	4.2	4.5	4.8
banks under conservatorship	0.0	4.0	3.1	0.0	0.0	0.6

CHART 4
BANKS BY EQUITY CAPITAL
for banks with licences as of the given date



In addition to the ongoing mergers, the concentration process is being affected by the increasing activity of foreign banks and foreign bank branches. As of 31 December 2000, five banks had total assets of more than CZK 100 billion, the same figure as a year earlier. However, the average size of the large banks rose from CZK 332.2 billion to CZK 358.9 billion. The banks with total assets exceeding CZK 100 billion also include one foreign bank branch. The number of banks with total assets of between CZK 25 billion and CZK 100 billion fell in the same period by two banks to 14, owing to mergers. Total assets of less than CZK 10 billion were recorded by only 12 banks as of 31 December 2000, whereas in 1994 this group had comprised 38 banks.

The concentration of the banking sector is characterised by average bank size measured in terms of total assets rather than by the number of banks. As of 31 December 2000, the average bank size was CZK 68.1 billion, i.e. up by CZK 8.2 billion on a year earlier. The average stock of assets per bank was double the end-1994 figure.

Table 3 shows that the large banks still play a major role. However, their share is gradually declining in favour of other groups. Particularly apparent is the growing significance of medium-sized banks. Also increasing are the shares of small banks and building societies, although these are still of only marginal significance (2% and 4.8% respectively). As of 31 December 2000, the group of medium-sized banks, which chiefly comprises foreign bank subsidiaries, accounted for 19.6% of total assets, a rise of 2.2 percentage points on a year earlier. In addition to the large banks, a modest fall was recorded by foreign bank branches, whose share dropped by 0.3 percentage points to 11.1%.

The continuing concentration is also increasing the banking sector's capital. The growth in average equity capital per bank is the result of the gradual liquidation of small banks and the increasing equity capital of active banks. This trend was seen mainly in 1996-1999 and was less pronounced in 2000.

Owing to the gradual stabilisation and consolidation of the banking sector, no bank has had equity capital below the mandatory minimum of CZK 500 million since 1998. As of 31 December 2000, six banks, i.e. one less than a year earlier, were at the minimum acceptable limit of CZK 500 million. The number of large banks, i.e. banks with equity capital exceeding CZK 5 billion, has remained unchanged at six since 1998.

Average equity capital per bank amounted to CZK 2.5 billion at the year-end. This represented the first-ever annual decline (of CZK 0.2 billion), due to the winding up of one bank in 2000. Average equity capital per bank peaked at the end of 1999 at CZK 2.7 billion.

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

The growing competition on the Czech banking market is one of the major positive features at present. It is leading to a wider range of products and services being offered and is also generating improvements in their quality.

The Herfindahl index of market competition[1] for selected groups of banking transactions suggests a further intensification of market conditions. By comparison with 1999, however, the pace of this trend slowed somewhat. The greatest competition is on the credit market. The least competitive market is that for non-bank client deposits, owing to the limited number of banks engaged in retail banking. Here too, however, the competition is set to increase, since many foreign banks – whose clients come predominantly from the corporate sector – intend to focus more on providing services to natural persons.

For classic products, i.e. credits and deposits, the index shows a constant decline. The derivatives index peaked in 1997 then declined for two years and was flat in 2000. The index for the derivatives area therefore describes a massive increase in derivatives transactions at some banks in 1997 followed by gradual introduction and expansion of such transactions by other banks. Last year, however, the number of banks carrying on this type of transaction did not rise considerably. Many banks and foreign bank branches do not engage in this activity at all.

Chart 6 clearly demonstrates the predominance of large banks, especially with respect to client deposits, where they accounted for 69.7% of the total volume as of 31 December 2000. The figure is only slightly lower for credits: 64.4% as of the same date. As with total assets, the large banks' position here is gradually weakening, mainly in favour of medium-sized banks and foreign bank branches. The situation is completely different in the area of derivatives transactions, which is shared almost exclusively by the large and medium-sized banks and foreign bank branches. At the end of both 1998 and 1999, the large banks had also occupied the controlling position here, whereas as of 31 December 2000 the situation had changed, with first place taken by foreign bank branches with 38.6% of the total. The share of foreign bank branches rose by 10.5 percentage points in 2000 alone. The share of the large banks on the derivatives market fell by 8.7 percentage points to 33.2%. The medium-sized banks' share is the only one to show a constant decline over the last three years, falling in 2000 by 2.0 percentage points to 27.9%.

The deviations of banks' market shares in specific products from their basic shares in assets demonstrate the orientation of the individual banks. Typical of the large banks are classic banking services consisting in providing credits and accepting deposits, with lower involvement in interbank transactions and derivatives transactions. Medium-sized banks and foreign bank branches replenish their funds to a larger extent from interbank sources, where they also deposit their free funds. A major feature is their engagement in derivatives transactions. The small banks do not deviate significantly for any product. Building societies typically have a high share of deposits with banks, where they lodge their free funds, and virtually zero engagement in derivatives operations. This stems from the specific prudential rules provided by the building societies act.

2.6 ASSETS AND LIABILITIES
(for banks with licences as of 31 December 2000)

As of 31 December 2000, the total assets of the banking sector amounted to CZK 2,722.4 billion, an increase of CZK 209.2 billion, or 8.3%, on a year earlier. The growth rate was 1.3 percentage points higher than in 1999. All groups of banks

CHART 5
HERFINDAHL INDICES OF MARKET COMPETITION
for banks with licences in the given year

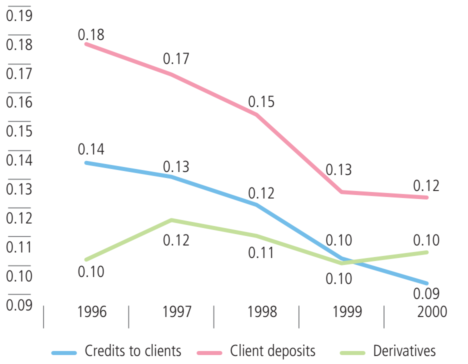


CHART 6
MARKET SHARES OF BANK GROUPS IN SELECTED PRODUCTS
IN PER CENT
for banks with licences as of 31 December 2000

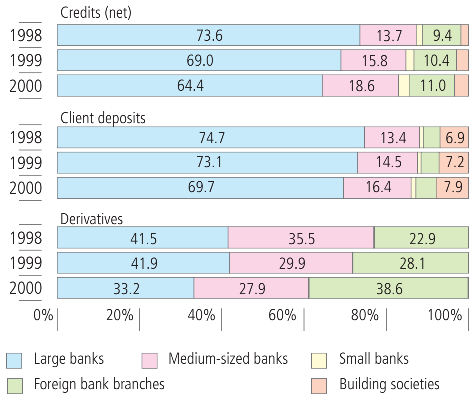
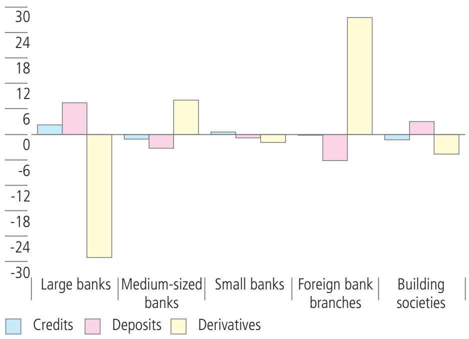


CHART 7
MARKET SHARES OF BANK GROUPS IN SELECTED PRODUCTS
IN PERCENTAGE POINT DEVIATIONS FROM MARKET SHARES
IN ASSETS AS OF 31 DECEMBER 2000
for banks with licences as of 31 December 2000



1 *The Herfindahl index of market competition can take values in the range of 0 to 1, where 1 represents a totally non-competitive environment. Competition on the market increases with declining Herfindahl index value.*

CHART 8
GROWTH OF TOTAL ASSETS
for banks with licences as of 31 December 2000

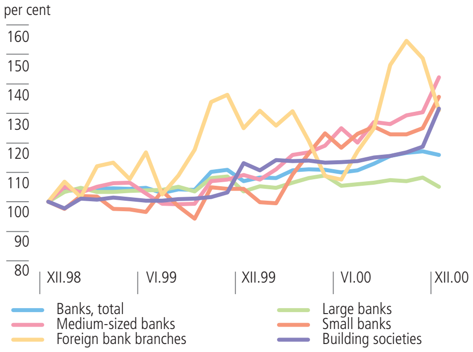
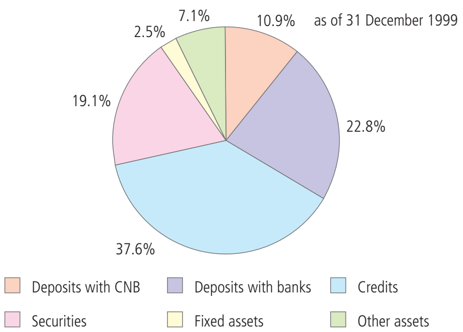
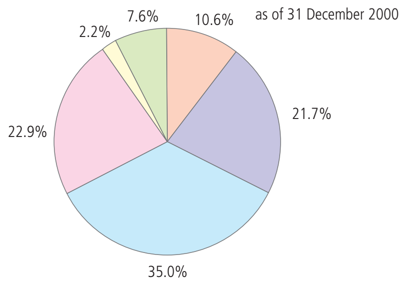


CHART 9
ASSET STRUCTURE
for banks with licences as of 31 December 2000





contributed to the overall growth in total assets. Medium-sized banks contributed the most, accounting for 59.3% of the rise. This increase was partly due to transfer of credits from Konsolidační banka (as part of its transformation into a non-bank) to a specialised bank focusing on state programmes for business promotion. The shares of the other bank groups in the overall rise in total assets varied between 6% and 12%.

Total assets increased most rapidly again for the medium-sized banks (by 30.3% compared with the end of 1999, partly because of the aforementioned credit transfer). Strong rises were also recorded by the small banks (29.9%) and building societies (16.3%). On the other hand, minimal growth rates of total assets in 2000 were shown by large banks (1.5%) and foreign bank branches (4.8%). The latter, however, typically show high volatility of total assets.

The prevailing orientation of banks towards classic banking, i.e. accepting deposits and providing credits, is reflected in the total asset structure. The Czech economy typically demonstrates a high proportion of credits. As of 31 December 2000, credits in gross terms represented 74.9% of GDP. The economic recession in recent years, which in 2000 was replaced by a modest recovery, fed through mainly into the asset structure. Reduced lending activity resulting from a shortage of creditworthy projects led to a decrease in credits as a percentage of total assets (of 2.6 points compared with 1999 to 35.0%). Banks invested their free funds in securities, whose share of total assets rose by 3.8 points in 2000 to 22.9%. Banks invested chiefly in government bonds, CNB bills and other bonds.

On the liabilities side of the balance sheet, which describes the banking sector's main sources of financing, client deposits are still dominant, amounting to 51.7% as of 31 December 2000. In comparison with the end of 1999 this share was down by a modest 0.6 points. Citizens tend to deposit their free funds at banks, although other forms of saving such as supplementary pension insurance, life insurance and collective investment are gradually developing. As with client deposits, the share of deposits from banks in total assets decreased (by 1.7 points), owing to a reduced need to replenish funds for asset operations due to the limited lending activity. The biggest growth in share was recorded for other liabilities (2.9 points). This is linked mainly with repo transactions in T-bills and CNB bills.

The own funds of the banking sector amounted to CZK 241.9 billion of 31 December 2000, a rise of 15.5% compared with the end of 1999. This demonstrates the growing influence of the own funds which banks need to cover the risks they undertake. At the end of 2000, own capital accounted for 8.9% of total funding sources, 0.6 points more than a year earlier.

The increase in own funds was chiefly attributable to general reserves and net profit. Equity capital, which constitutes 36.8% of all own funds, increased by CZK 2.2 billion in 2000, while reserves rose by CZK 19.4 billion. The banking sector's loss of the previous three years was replaced by a profit in 2000, which again positively affected the overall volume of funds.

The banking sector's external funds totalled CZK 2,016.7 billion as of 31 December 2000, an increase of 4.0% on a year earlier. This growth rate is 11.5 percentage points slower than the growth rate of own funds. The biggest external funds items are client deposits and deposits from banks. Own bond issues and funds from the central bank are insignificant sources of financing of banking activities. Client deposits totalled CZK 1,408.1 billion at the end of 2000, accounting for 69.8% of total external funds. This share was two points higher than a year earlier. The share of deposits from banks in total external funds meanwhile fell from 25.4% to 24.2%. Bond issues account for around 5% of external funds.

3. Risks in banking

In the course of their activities banks are confronted with a whole range of risks arising from both external and internal conditions. The principal factors are the economic environment and the institutional environment. Some of the primary risks associated with banking activities are credit risk, liquidity risk, market risk (including currency, interest rate, equity and commodity risks) and country risk. Banking transactions face further risks which are however difficult to quantify and regulate, even though the ensuing losses can sometimes be substantial. This concerns primarily operational risk, which has risen sharply with the development of electronic transactions, reputational risk, which may affect the bank's liquidity, legal risk and risk from unforeseen events.

In accordance with international practices, banking supervisory regulations stipulate fundamental rules and limits that are intended to limit risks undertaken and to ensure sufficient funds to cover potential losses. The decisive factor in limiting bank risks, however, is a bank's ability to identify, monitor and manage specific risks. Prudent internal procedures for the overall management of the bank and for specific transactions are an essential precondition for successful functioning of a bank.

3.1 Credit risk

Credit risk can be defined as the risk of non-repayment of a loan or a part thereof, or default on the contractually stipulated payments. Owing to the current legislative situation and the high ratio of credits to total assets in the banking sector, this type of risk constitutes the greatest threat for banks operating in the Czech Republic. The risk is exacerbated by banks' bad experience with debtors, as evidenced by the high ratio of classified credits to overall credits. Banks limit credit portfolio risk primarily by assessing in detail the financial situation of potential loan partners. This has led to a reduction in the volume of newly-granted credits. Collateral represents the main form of security, although the volume of credit derivatives has also grown recently.

In its role as banking supervisor the Czech National Bank lays down clear conditions for classifying credits according to their quality and also stipulates the mandatory creation of reserves and provisions. Credit transactions are a frequent and regular subject not only of off-site surveillance, but also of on-site examinations in banks.

3.1.1 Credit structure and credit trends (for banks with licences as of 31 December 2000)

As of 31 December 2000, the total volume of net credits amounted to CZK 952.4 billion. This represents a year-on-year increase of almost one percent. The low level of lending activity stems from the unfavourable development of the economy in 1998 and 1999, when there were insufficient projects meeting the banks' generally stricter lending criteria. The economic recovery that emerged in 2000 has yet to be fully reflected in an increased growth rate of credits.

The low rate of growth in the volume of credits is the result of an absolute fall in the large banks group, which still provides the largest proportion of credits (64.4% of the overall volume of credits as of 31 December 2000). However, the increased lending

Chart 10
Liabilities structure
for banks with licences as of 31 December 2000

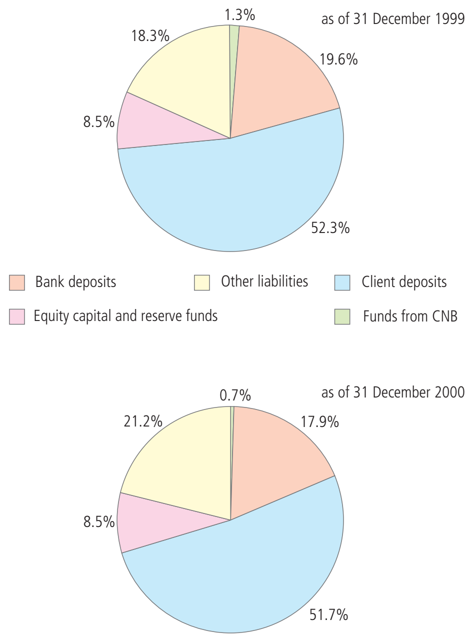
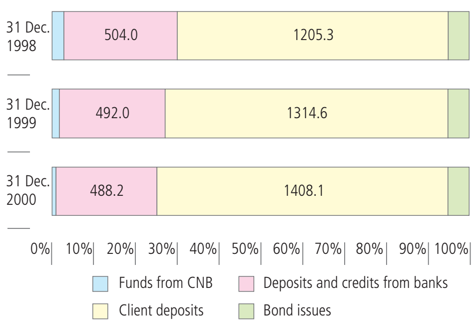
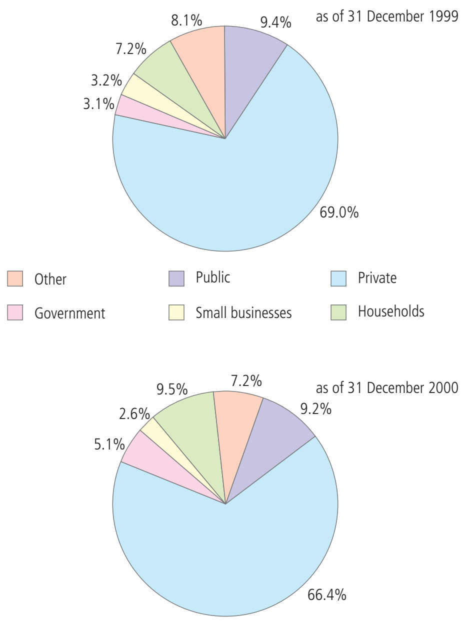


Chart 11
Banks' external funds
for banks with licences as of 31 December 2000



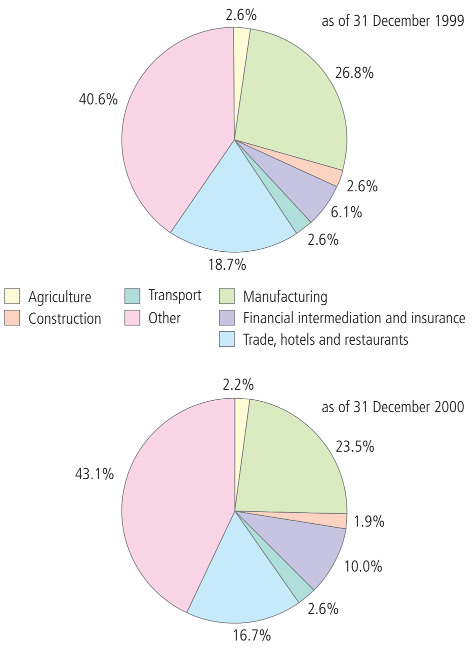
Note: The data in the chart are in CZK billions

CHART 12
CREDIT STRUCTURE BY SECTOR
for banks with licences as of 31 December 2000



Note: Credits granted in the Czech Republic only

CHART 13
CREDIT STRUCTURE BY INDUSTRY
for banks with licences as of 31 December 2000



Note: Credits granted in the Czech Republic only

activity of the other bank groups compensated for or exceeded this decline. Credits from large banks amounted to CZK 597.0 billion at the year-end, a year-on-year fall of 8.9%. Credits granted by medium-sized banks were almost one third higher than in 1999, amounting to CZK 191.4 billion as of 31 December 2000 (the increase, however, was partly due to the aforementioned transfer of credits). Foreign bank branches recorded CZK 107.2 billion of credits granted, representing a year-on-year increase of 12.3%. The credit portfolios of small banks and building societies, although still relatively small, also recorded increases.

Owing to the ongoing privatisation and restructuring of the economy, private companies are the most significant credit recipients. As of 31 December 2000, these accounted for 66.4% of all credits granted, a fall of 2.6 percentage points from the previous year. Credits to the public sector were flat, representing 9.2% of the total volume of credits at the year-end. Credits to small businesses, i.e. people using a trading licence, fell by 0.6 percentage points over the same period to 2.6%. The reduction in credits to the corporate sector caused by the economic situation in the Czech Republic and stricter lending criteria was reflected in an increase in the proportion of credits granted to the government sector and the population. The banks' preference for consumer credits and mortgages to other entities derives from their low level of risk compared with the corporate sector. However, these credits still constitute a low share of the overall volume, amounting to 9.5% as of 31 December 2000. Government credits rose over the same period by 2 percentage points to 5.1%.

With regard to industry the largest volume of credits was granted to manufacturing (23.5%, a year-on-year fall of 3.3 percentage points), followed by trade, hotels and restaurants (16.7%, down by 2.0 percentage points) and financial intermediation and insurance (10.0%, up by 3.9 percentage points). Credits to construction and agriculture fell as a proportion of the loan structure, while credits to transport and travel remained at the 1999 level. In absolute terms, financial intermediation and insurance is the only industry recording an increasing volume of credits, up by 60.1% in 2000. The others category contains principally those credits for which it is difficult to specify a sector (credits to the government sector and other entities etc.).

For corporate clientele, short-term credits (credits with maturity up to 1 year) mostly comprise operational credits, while long-term credits – with a maturity date of over 4 years – are generally for investment purposes. With regard to the population these are principally mortgage credits and credits from building societies to cover domestic renovation and refurbishment. The year 2000 continued to see a slight shift towards long-term credits, while the proportion of short and medium-term credits fell. As of 31 December 2000, long-term credits comprised 44.0% of the total volume of client credits (4.5 percentage points more than as of 31 December 1999). Over the same period short-term credits fell by 2 percentage points to 36.5%.

3.1.2 CLASSIFIED CREDITS
(for banks with licences as of 31 December 2000, excluding Konsolidační banka and banks under conservatorship)

Credit portfolio quality remains the fundamental problem of the Czech banking sector. To a large extent, however, the relatively high volume of classified credits is also largely caused by the low level of write-offs of these receivables against provisions owing to difficulties in recovering written-off receivables through the courts and in deriving tax-deductible provisions from the volume of classified credits and to the low recovery rate of collateral on classified credits.

As of 31 December 2000, the total volume of classified credits amounted to CZK 256.0 billion, a fall of 12.0% compared with the end of 1999. This sharp reduction was largely due to the transfer of bad credits to Konsolidační banka or their sale at net value to other banks. The absolute fall in classified credits was reflected in a reduction in their proportion of the total volume of credits granted. This fell by 2.5 percentage points to 29.6%.

The current methodology also includes watch credits in the volume of classified credits. These have a minimal degree of risk and in many countries are not considered problem credits. The total volume of problem credits, i.e. substandard, doubtful and loss, amounted to CZK 170.7 billion as of 31 December 2000, or 19.7% of the total volume of credits granted.

The proportion of watch credits in the structure of classified credits illustrates the difference between classified and problem credits. As of 31 December, watch credits amounted to 33.3% of all classified credits, an increase of 1.7 percentage points compared with 1999. The proportion of loss credits fell gradually, although this is largely due to their transfer to Konsolidační banka. At the year-end, loss credits accounted for 34.8% of the total volume of classified credits, down by 6.8 percentage points from the end of 1999. The gradual improvement in the quality of the credit portfolio is also evident in the growing proportion of substandard credits and the simultaneous decline in the category of doubtful credits, which have a higher degree of credit risk.

The potential risk of the credit portfolio is expressed by the weighted classification, which takes into account the degree of risk in specific loan categories. As of 31 December 2000, its volume amounted to CZK 118.2 billion, a fall of 22.6% from the end of 1999. The reduction was caused primarily by the transfer and sale of classified credits. Even after excluding these atypical factors in gross terms from the weighted classification it is evident that the weighted classification of credits is rising more slowly than the total volume of classified credits. This is caused by the improving structure of classified credits, in which lower-risk credits (watch and substandard credits) are gradually gaining predominance. Watch credits and substandard credits have weights of 5% and 20% respectively in the weighted classification.

The total volume of reserves and provisions created by banks to cover credit portfolio losses amounted to CZK 77.1 billion as of 31 December 2000. This represents a fall of CZK 26.6 billion from a year earlier, due principally to their abandonment or cancellation in connection with the sale and transfer of classified credits between banks. Provisions and reserves covered 65.2% of the total volume of the weighted classification at the year-end, a fall of 2.7 percentage points compared with the end of 1999 due to the increased volume of state guarantees for credits in the portfolios of the large banks.

3.2 MARKET RISK

Market risk covers interest rate risk, foreign exchange risk, equity risk and commodity risk. In line with the new capital adequacy framework, banks have to hold a minimum volume of capital in respect of all these risks. This is derived from the degree of risk and the volume of transactions conducted. Whereas exposure to foreign exchange

CHART 14
TIME STRUCTURE OF CREDITS
for banks with licences as of 31 December 2000

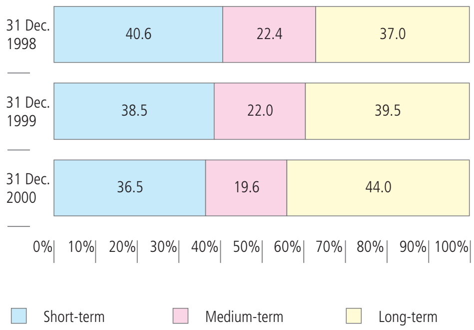


TABLE 4
STRUCTURE OF CLASSIFIED CREDITS
for banks with licences as of 31 December 2000, excluding Konsolidační banka and banks under conservatorship

	31 Dec. 1998	31 Dec. 1999	2000 31 Mar.	30 Jun.	30 Sep.	31 Dec.
Classified credits, in CZK millions	258 004	291 061	246 147	243 927	243 302	256 047
as a percentage of total credit volume	26.45	32.15	28.55	28.48	28.07	29.63
of which: watch credits	58 721	92 124	89 683	88 368	84 292	85 341
substandard credits	33 427	39 379	32 556	36 787	36 788	54 064
doubtful credits	35 538	38 433	31 894	32 367	33 387	27 488
loss credits	130 318	121 125	92 014	86 406	88 835	89 154

CHART 15
STRUCTURE OF CLASSIFIED CREDITS
for banks with licences as of 31 December 2000, excluding Konsolidační banka and banks under conservatorship

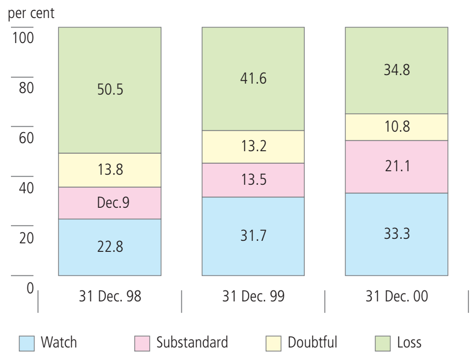
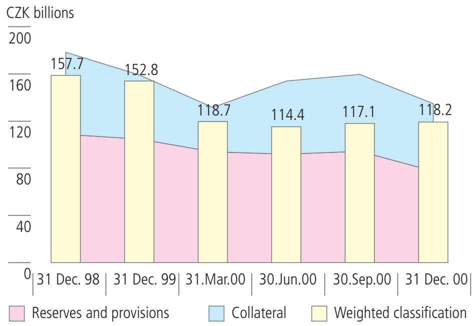


CHART 16
COVERAGE OF POTENTIAL LOSSES FROM CREDIT PORTFOLIO
for banks with licences as of 31 December 2000, excluding Konsolidační banka and banks under conservatorship



and equity risk can be assessed from angles other than from capital requirements (as more detailed statistics are available for these areas), other sources of data are limited in the case of interest rate risk and commodity risk. Commodities transactions, however, are virtually non-existent in the Czech banking sector. With regard to interest rate risk, interest rates were relatively stable in 2000 and no major changes were recorded relative to 1999. Banks generally assess their interest rate risk exposure according to knowledge of the distribution of their assets and liabilities into time bands using the gap or duration method. The CNB's banking supervisors address this issue during on-site examinations.

3.2.1 FOREIGN EXCHANGE RISK
(for banks with licences as of 31 December 2000)

CHART 17
FOREIGN EXCHANGE ASSETS AND LIABILITIES AS A PERCENTAGE OF TOTAL ASSETS AND LIABILITIES
for banks with licences as of 31 December 2000

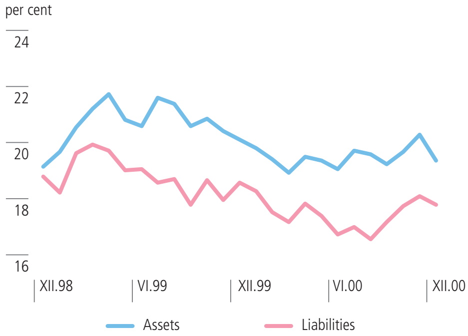
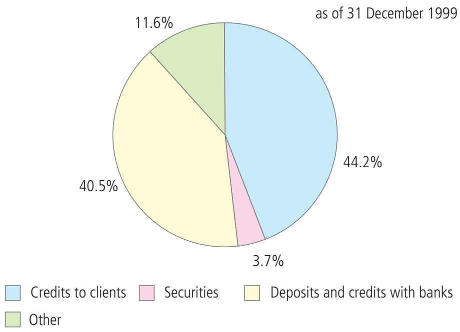
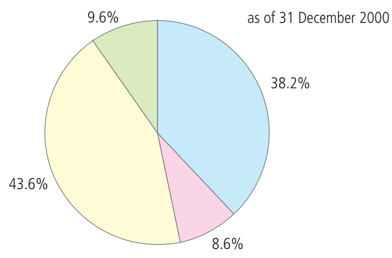


CHART 18
STRUCTURE OF FOREIGN EXCHANGE ASSETS
for banks with licences as of 31 December 2000





Foreign exchange risk derives from changes in exchange rates. The foreign exchange risk to which Czech banks are exposed is currently linked primarily with the development of the US dollar and the euro. The Czech banking sector, however, is principally oriented towards meeting the needs of the domestic economy and population. As a result, most banking operations are conducted in koruna.

As of 31 December 2000, foreign exchange assets amounted to CZK 559.5 billion and foreign exchange liabilities to CZK 483.6 billion, recording increases of 2.6% and 3.9% respectively for 2000. The sluggish growth rate of both assets and liabilities demonstrates the stable share of foreign exchange transactions in the overall volume of total assets. At the year-end, foreign exchange assets made up 19.3% of total assets and foreign exchange liabilities 17.8%. No significant changes in these proportions were recorded over the last period.

Not all banks are exposed to the same degree of foreign exchange risk. Branches of foreign banks conduct the largest amount of foreign exchange transactions owing to their close ties with their home country. This applies both to funds (e.g. credits from head office and the interbank market) and to the use of such funds (e.g. lending to entities having their registered office in the country of the bank's head office and their subsidiaries, the interbank market, etc.). At the end of 2000, foreign bank branches had foreign exchange assets amounting to 39.8% of their overall total assets and foreign exchange liabilities totalling 38.6% of total assets. A high share of foreign exchange assets is also apparent for medium-sized banks, a group which generally includes subsidiaries of foreign banks. This, too, is due to strong ties with foreign clients and access to foreign funds. As of 31 December 2000, the share of the medium-sized banks' foreign exchange assets in total assets amounted to 31.1% and the share of liabilities to 29.9%. The proportion of foreign exchange transactions in the small banks group is relatively high, as this group also contains a large number of foreign banks. The large banks fall below the average for the banking sector: as of 31 December 2000 their share of foreign exchange assets in total assets amounted to 14.0% and the share of foreign exchange liabilities to 11.6%. Owing to restrictions arising under a special legislative act, building societies do not conduct foreign exchange transactions.

Deposits and credits with banks were the biggest component of foreign exchange assets as of 31 December 2000. They comprised 43.6% of all foreign exchange assets, a rise of 3.2 percentage points compared with the end of 1999. Up to the year 2000, credits to clients had formed the largest share of foreign exchange assets, but this share fell by 6 points compared with 1999 to 38.2%. This change was brought about by the limited lending activities of banks, which preferred instead to place liquid funds with foreign banks. Despite a year-on-year increase of 4.9 points to 8.6%, the share of securities in foreign exchange assets remained relatively negligible.

As on the assets side, the most significant items in foreign exchange liabilities are transactions with clients and banks. In 2000, the share of client deposits in total foreign exchange liabilities increased by a further 3.4 points to 54.3%. The share of deposits and credits from banks meanwhile fell by 3.1 points to 40.5%. The lower growth rate of foreign exchange deposits from banks stems from the reduced need for additional funds owing to the limited lending activity. Bond issues in foreign currencies are of only peripheral interest. Their share of total liabilities at the end of both years only slightly exceeded 2%.

The importance of foreign exchange differs according to the type of banking transaction. The highest proportion occurs in interbank transactions. This applies both to the assets and liabilities side of the balance sheet. Foreign exchange transactions made up 41.3% of the total volume of deposits with other banks and 35.6% of deposits from banks. The figure is much lower with regard to credits, with foreign exchange credits comprising only 21.8% of the total volume of credits at the year-end. This proportion, however, is stable. The same applies to foreign exchange client deposits, which as of 31 December 2000 made up 16.5% of the total volume of client deposits. This proportion is also stable from the long-term perspective.

The market shares of the individual bank groups in foreign exchange assets are considerably different in structure to the corresponding market shares in total assets. As of 31 December 2000, the market share of the large banks was 16.0 points lower, while the shares of the medium-sized banks and foreign bank branches were up by 10.9 and 10.4 points respectively. The foreign exchange assets of small banks and building societies are still of little significance. A similar situation applies in the case of liabilities, where the market share of the large banks was 21.3 points lower than their share in total liabilities. The foreign exchange transactions of medium-sized banks and foreign bank branches, conversely, exceeded their share of total liabilities by 13.1 and 13.0 points respectively.

In the case of client transactions the differences between the total and foreign exchange market shares are not so striking. In the large banks group, the market share of credits differs by 8.9 points in favour of total market share, while for medium-sized banks and foreign bank branches the figures are 8.3 and 3.6 points respectively. A similar situation occurs in the case of client deposits, where the large banks had a 9.1 point lower share of foreign exchange client deposits than of total client deposits regardless of currency. Conversely, the shares of medium-sized banks and foreign bank branches were 9.7 points and 4.0 points larger respectively.

The predominance of balance sheet foreign exchange assets over foreign exchange liabilities resulted in a long foreign exchange position of CZK 75.9 billion as of 31 December 2000. A short position in off-balance foreign exchange transactions reduces the overall long position of the banking sector to CZK 38.0 billion, i.e. to 1.4% of total assets. The relative equilibrium of the foreign exchange position, which remains stable at around 1% to 1.5% of total assets, significantly reduces the foreign exchange risk of the sector as a whole.

CHART 19
STRUCTURE OF FOREIGN EXCHANGE LIABILITIES
for banks with licences as of 31 December 2000

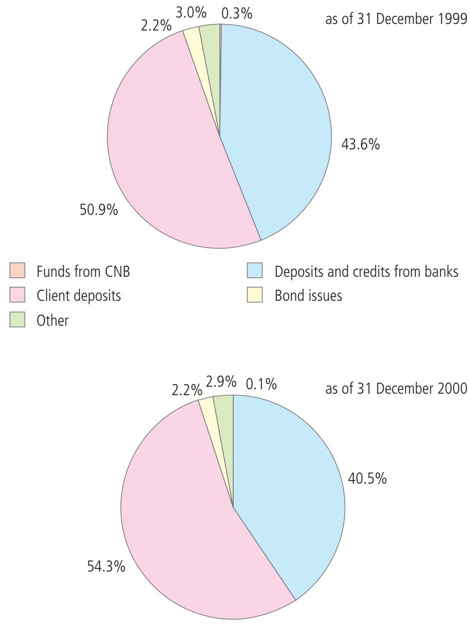


CHART 20
SHARE OF FOREIGN EXCHANGE IN SELECTED PRODUCTS
for banks with licences as of 31 December 2000

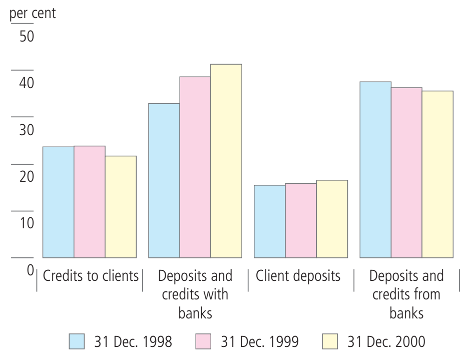


CHART 21
MARKET SHARES OF BANK GROUPS IN SELECTED FOREIGN CURRENCY PRODUCTS IN PER CENT
for banks with licences as of 31 December 2000

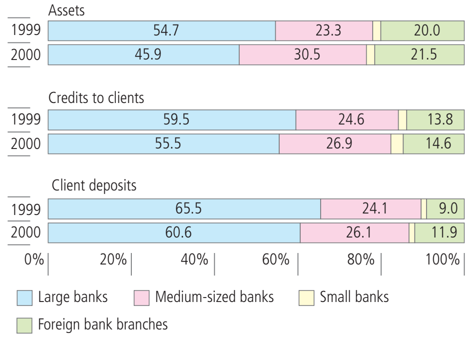


CHART 22
FOREIGN EXCHANGE POSITION OF THE BANKING SECTOR
for banks with licences as of 31 December 2000

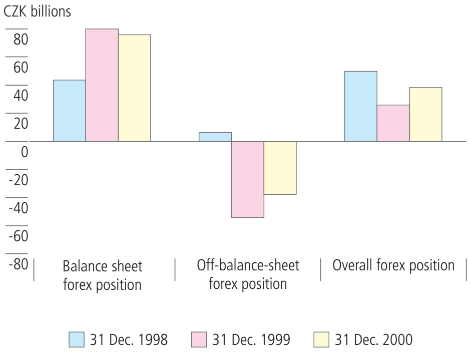
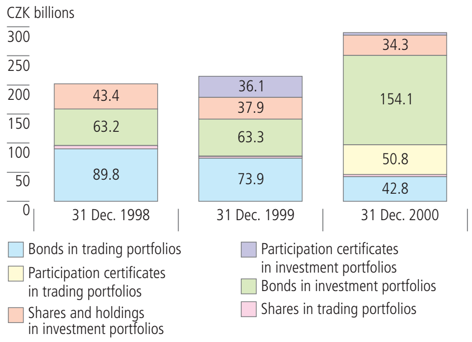
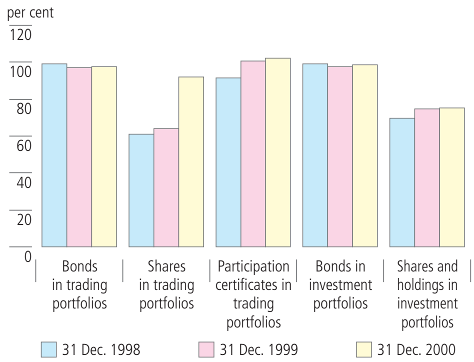


CHART 23
STRUCTURE OF SECURITIES IN BANK PORTFOLIOS
for banks with licences as of 31 December 2000



Note: Excluding T-bills and CNB bills and regardless of provisions

CHART 24
SECURITIES - RATIO OF REAL VALUE TO PURCHASE PRICE
for banks with licences as of 31 December 2000



3.2.2 EQUITY RISK
(for banks with licences as of 31 December 2000)

The risk of securities falling in value arises from developments on the capital market. Price fluctuations are caused primarily by the financial results of the issuers, economic expectations for a given sector or the economy as a whole, changes in market interest rates or changes in exchange rates.

The structure of the securities portfolio determines the degree of equity risk exposure. With bonds the main risk is presented by interest rates, although currently this risk is not high owing to the relative stability of interest rates in the Czech Republic. A counter factor, however, is the relatively unstable development of share prices on the capital market, which increases equity risk. The banking sector's low involvement in trading or holding shares and participation certificates in their portfolios significantly limits the equity risk exposure. Banks hold most of their shares in the banking portfolio, which represents long-term investment.

Securities, i.e. securities for trading, long-term financial investments, T-bills and CNB bills, amounted to CZK 622.1 billion as of 31 December 2000, or 29.6% higher than a year earlier. The most rapid increase was recorded by securities in the banking portfolio. These accounted for more than half of the overall rise in securities. CNB bills accounted for roughly one third of the overall increase in securities for 2000 and securities in the trading portfolio for approximately one tenth. T-bills and CNB bills comprised 53.4% of the total volume of securities, securities in the trading portfolio 14.9% and securities in the banking portfolio 31.7%.

With the exception of T-bills and CNB bills, which are liquid funds and are mainly used by banks for repo operations with the Central Bank, the banking sector's involvement in the securities area is relatively low. The net value of the securities in the trading and investment portfolios amounted to CZK 290.2 billion as of 31 December 2000, or 10.7% of the overall volume of total assets.

As regards the degree of risk, the structure of securities by type is positive. Banks invest principally in bonds. As of 31 December 2000 these represented 67.9% of the total volume of securities excluding T-bills and CNB bills. The proportion of bonds is gradually rising at the expense of shares and participation certificates, which in the Czech Republic carry significantly more risk. The total volume of shares and participation certificates amounted to CZK 92.9 billion as of 31 December 2000, or 3.4% of overall total assets and 32% of the volume of securities excluding T-bills and CNB bills. The volume of bonds rose by 43.4% in 2000, the dominant factor being bonds in the banking portfolio. Shares and participation certificates increased by 19.1%. The lower growth in shares and participation certificates by comparison with bonds generated a gradual improvement in the ratio between bonds and shares.

A comparison of the real value and purchase price of particular types of securities illustrates the higher degree of risk associated with shares than with bonds. Whereas for bonds (whether in trading or banking portfolios) the ratio is slightly below 100%, for shares the corresponding figure is 80%. The overwhelming majority of shares are, however, placed in banking portfolios and therefore represent long-term financial investment.

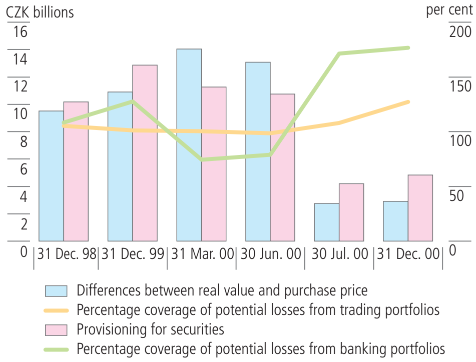
Under a CNB regulation, banks are required to create provisions to cover the negative difference between the real value and purchase price for specific securities in the trading portfolio on a daily basis. For securities in the banking portfolio this requirement applies at the year-end to the difference between the real value and purchase price of all securities combined.

As of 31 December 2000, the total need for provisions, i.e. the sum of the differences between the real value and purchase price, amounted to CZK 2.9 billion, or 1.1% of the total volume of securities excluding bills. Compared with the end of 1999 this figure fell by CZK 8.0 billion. This indicates that the quality of securities in banks' portfolios is improving. The improvement is being brought about by the increasing proportion of bonds and by greater prudence shown by banks when investing in other types of security.

As of 31 December 2000, banks had created provisions of CZK 4.8 billion to cover potential losses from securities portfolios, a figure which exceeds the actual requirement. Potential losses from trading portfolios were 127.3% covered and potential losses from banking portfolios 176.5% covered. In both cases this represents a considerable improvement compared with the end of 1999. Coverage of banking portfolio risk rose by 49.0 points and coverage of trading portfolio risk by 26.1 points.

CHART 25

COVERAGE OF POTENTIAL LOSSES FROM SECURITIES PORTFOLIOS
for banks with licences as of 31 December 2000, excluding Konsolidační banka and banks under conservatorship

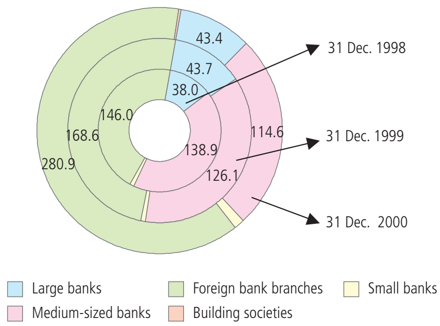


3.2.3 DERIVATIVES RISKS (for banks with licences as of 31 December 2000)

The risks attaching to financial derivatives are overwhelmingly market risks relating to the movements in the market prices of their underlying assets (e.g. the capital market index, commodities, shares, other derivatives). In other cases, the risks derive from fluctuations in interest rates and exchange rates. Credit risk occurs in the case of transactions in credit derivatives, although this also derives from the risk attaching to the underlying assets. Banks limit risks from derivatives transactions principally through hedging operations, which themselves are used to cover the risks from certain banking transactions. CNB Banking Supervision has included market risks from derivatives transactions in its capital adequacy provision. This has been binding for banks since April 2000.

CHART 26

RECEIVABLES FROM DERIVATIVES TRANSACTIONS AS A PERCENTAGE OF TOTAL ASSETS
for banks with licences as of 31 December 2000



Banks' involvement in derivatives transactions has increased greatly in recent years. Receivables from derivatives transactions amounted to CZK 2,197.4 billion as of 31 December 2000, a year-on-year rise of 27.0% and a two-year rise of 49.5%. Derivatives made up 80.7% of overall total assets as of the same date, an increase of 11.9 points compared with 1999 and 18.1 points compared with 1998.

Despite this large increase, derivatives transactions are still restricted to a limited circle of banks, mainly medium-sized banks and foreign bank branches. Of the total of 40 banks at the end of 2000, 28 were involved in derivatives transactions, an increase of 3 on the previous year. Receivables from derivatives transactions have long constituted the largest ratio to total assets in the foreign bank branch group, amounting to 280.9% as of 31 December 2000. In comparison with 1999 this proportion is two-thirds higher and compared with 1998 it is almost double. Medium-sized banks also record a higher volume of derivatives receivables than total assets, the ratio amounting to 114.6% as of 31 December 2000. This figure, however, is down 11.5 points compared with 1999 and 24.3 points compared with 1998. In both groups, however, only roughly half of all banks are involved in derivatives transactions. Large banks have lower involvement, with a ratio to total assets of 43.4% as of 31 December 2000, a figure that is essentially unchanged from

CHART 27

DERIVATIVES STRUCTURE BY UNDERLYING ASSET
for banks with licences as of 31 December 2000

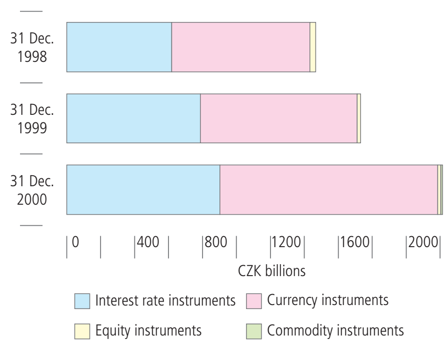


CHART 28
DERIVATIVES STRUCTURE BY TRANSACTION TYPE
for banks with licences as of 31 December 2000

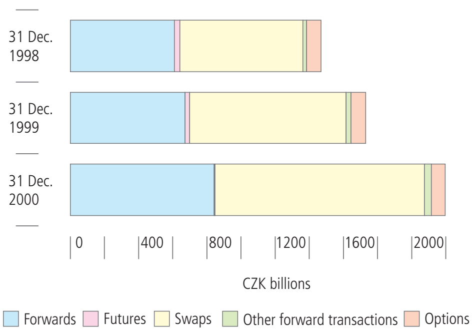
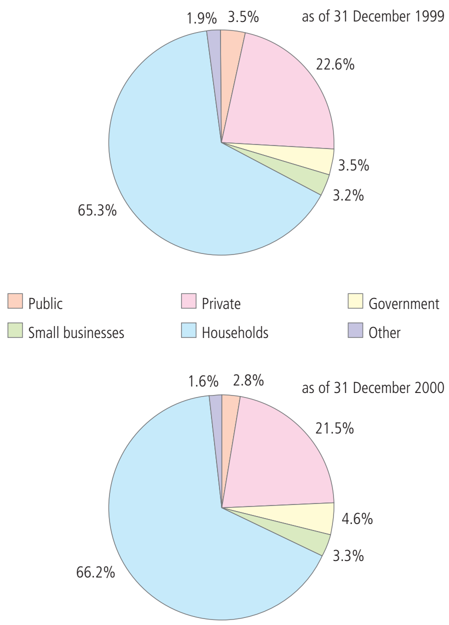


CHART 29
DEPOSIT STRUCTURE BY SECTOR
for banks with licences as of 31 December 2000



Note: Deposits accepted in the Czech Republic only

the end of 1999 and 5.4 points higher than in 1998. Small banks and building societies have negligible receivables from derivatives transactions.

With regard to the instruments used, banks focus primarily on currency and interest rate transactions. As at 31 December 2000, transactions in currency instruments made up 58.6% of receivables from derivatives and transactions in interest rate instruments 41.1%. Transactions in equity and commodity instruments were negligible. Transactions in currency instruments rose the most in 2000, surging by 39.1%. Transactions in interest rate instruments increased by just 14.4%. This was a reversal of the situation in 1999, when banks preferred transactions in interest rate instruments to currency instruments (growth of 27.6% compared with 13.5%). This can be explained by the relatively stable interest rates and the more volatile exchange rates in 2000 than in 1999.

Swaps and forwards are the most common types of derivatives transactions, comprising 55.8% and 38.4% respectively of the total volume. These ratios are relatively stable. As of 31 December 2000, options formed only 3.7% of the total volume of receivables from derivatives transactions, their fall of 5.1% compared with 1999 reflecting the sharp rise in other types of derivatives transactions.

3.3 LIQUIDITY RISK

Liquidity risk can be defined as the risk of banks not being able to fulfil their obligations in the required time and volume. Poor liquidity, which can ultimately lead to a bank terminating its activities, is caused by unforeseen withdrawals of funds due, for example, to a loss of trust on the part of its clients or to unexpected events connected to the bank's results from any type of banking transaction. In such cases the overall stability of the bank is of the utmost importance, as is a constant and sufficient volume of quick assets that correspond to the size of the bank and may be used to cover any unforeseen outflows of funds. The main instrument for the management of bank liquidity is the optimisation of the time structure of assets and liabilities.

3.3.1 PRIMARY FUNDS (for banks with licences as of 31 December 2000)

Client deposits constitute the main source of financing for the majority of banks, with foreign bank branches and certain medium-sized foreign banks being the only exceptions. Primary client deposits are one of those items being affected by the reduction in the intermediation of financial services by banks in favour of new products such as pension schemes, life insurance, collective investment and so on. Despite this new and counteracting trend, primary deposits as a whole have risen.

As of 31 December 2000, total client deposits amounted to CZK 1,408.1 billion, a rise of 7.1% compared with the end of 1999. The rate of growth was 2 points lower than that in 1999. Non-banking client deposits rose by 7.8% to make up 96.2% of the total figure. Deposit certificates and deposits from the government sector are continuing to decline and are of only peripheral significance in the total figure for client deposits.

As of 31 December 2000, deposits from households had a 66.2% share of total primary deposits. This represented a rise of 6.1%, despite the widening range of alternative savings possibilities such as pension funds, insurance companies and investment funds.

The growth rate is 4.1 points greater than that for the corporate sector. Most deposits from the corporate sector come from private companies, which account for 21.5% of total deposits. Other sectors account for around 3%-4% in the long term.

Excluding the other sectors category, which includes deposits from households, the structure of primary deposits by industry is evenly spread with no single industry dominating. Trade, hotels and restaurants has the largest share, rising by 0.5 points compared with 1999 to 5.9% of total deposits. Manufacturing fell back by 0.1 points to 5.1%. Financial intermediation and insurance fell by 1.8 points to 4%. Deposits from companies from the agriculture, construction, transport and travel sectors together make up 3.5% of total deposits, a figure that is little changed from that for 1999.

Demand client deposits cover various types of current account. For corporate clients and local authorities the funds on these accounts are used principally for non-cash payments. A significant part of the Czech population still uses such accounts to deposit funds, with this form of saving boosted recently by falling interest rates on time deposits. Short-term time deposits comprise all deposits with a maturity date of up to one year. Medium-term time deposits typically have maturities of between one and four years, while long-term time deposits cover all deposits with maturity over 4 years.

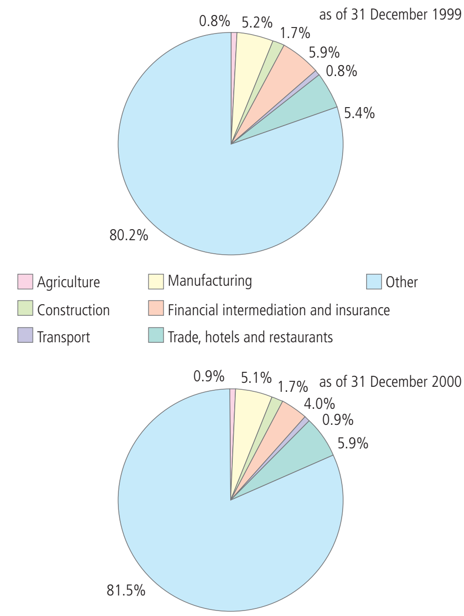
As of 31 December 2000, demand client deposits amounted to CZK 437.6 billion, a rise of 12.4% compared with the end of 1999. They now make up 35.8% of total client deposits. Their increase is responsible for 90% of the overall rise in client deposits. Short-term time deposits have the largest share of the client deposits structure with 46.8%. As the absolute volume of such deposits stagnated while total deposits increased, there was a 2.2 point fall in this item as a share of total client deposits. Long-term time deposits are recording stable growth. Their volume rose by 12.2% compared with 1999 to comprise 10.6% of total deposits. This increase is largely related to the development of building societies.

3.3.2 SECONDARY FUNDS
(for banks with licences as of 31 December 2000)

Secondary funds represent a particularly important source of financing for foreign bank branches and for banks with majority foreign capital. Such banks have easy access to secondary funds from their head offices or parent banks. On the other hand, these banks do not currently have an extensive branch network, either because this is not part of their business strategy or because they have yet to complete such a network. Today, even given the development of electronic banking, a branch network is a necessary condition for contact with clients and greatly facilitates the receipt of deposits. Česká spořitelna and Komerční banka remain typical retail banks with a lower level of financing by external funds. They were joined in 2000 by Československá obchodní banka following its takeover of Investiční a Poštovní banka. GE Capital Bank and Union banka now also have large branch networks, and a clear trend towards an expansion in the number of workplaces dealing directly with clients is also evident in the case of Živnostenská banka. Several other banks have also expressed their intention to place greater emphasis on the collection of primary deposits.

At the end of 2000 the total volume of deposits and credits from banks amounted to CZK 488.2 billion, or 17.9% of total assets. Interbank market funds have fallen

CHART 30
DEPOSIT STRUCTURE BY INDUSTRY
for banks with licences as of 31 December 2000



Note: Deposits accepted in the Czech Republic only

CHART 31
TIME STRUCTURE OF DEPOSITS
for banks with licences as of 31 December 2000

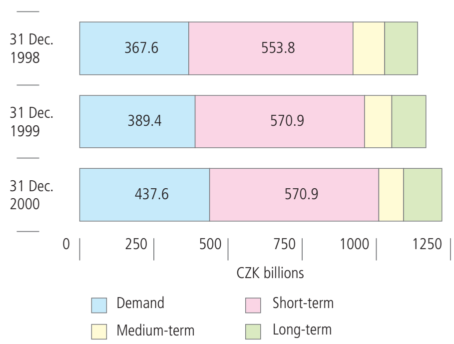
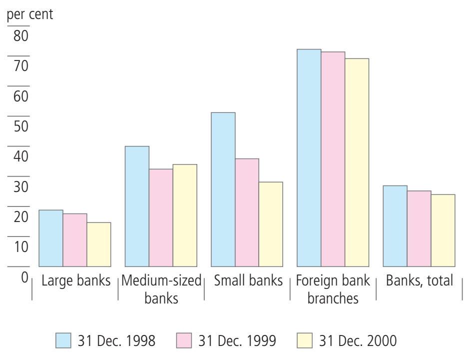


CHART 32
SECONDARY FUNDS AS A PERCENTAGE OF EXTERNAL FUNDS
for banks with licences as of 31 December 2000

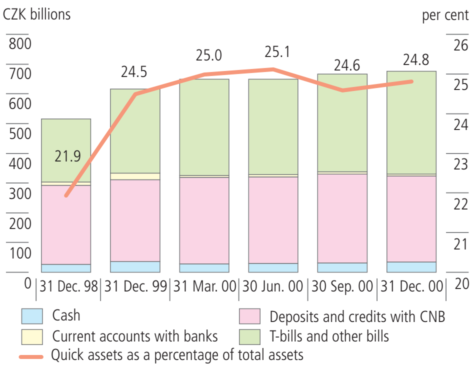


gradually since 1998 owing to the lower need for additional funds as a result of reduced lending activity in the banking sector. In 2000, the decline in the volume of deposits and credits from banks slowed somewhat thanks to better lending opportunities in the improving economy. The fall in deposits and credits from banks is solely attributable to foreign exchange items against a background of stagnating koruna items.

As of 31 December 2000, the average ratio of secondary funds to external funds for banks operating in the Czech banking sector was 24.0%. This figure has fallen by 2.9 points over the last two years. Only the large banks operate below the average level, with a ratio of 14.7% at the year-end. Foreign bank branches have the largest proportion of interbank financing with 69.1%. The downward trend in the secondary-primary deposit financing ratio is evident for all groups of bank apart from medium-sized banks, where the ratio between secondary and total external funds increased by 1.6 points to 34.0%. This, however, is still below the end-1998 level.

3.3.3 QUICK ASSETS
(for banks with licences as of 31 December 2000)

CHART 33
QUICK ASSETS
for banks with licences as of 31 December 2000



Quick assets are those items on the assets side of the balance sheet which come in direct money form (either cash or positive current account balances that can be used with immediate effect) or in the form of bills tradable on the short-term bond market at very short notice. Trading securities may also be regarded as liquid assets in the broader sense, although given the low liquidity of the current Czech capital market, sales of such securities are limited to a few domestic stocks and blue-chip foreign stocks.

As of 31 December 2000, the total volume of quick assets was CZK 675.5 billion, or 24.8% of the total assets of the banking sector. In comparison with the end of 1999 their volume rose by 9.7%, although the rate of growth is almost half that for 1999. The buoyant growth in quick assets is connected with the excess liquidity in the Czech banking sector, which stems from a lack of eligible credit demand and relatively stable growth in primary funds. The modestly rising lending activity in 2000 is thus the reason for the slower increase in quick assets for that year.

The most important quick asset items are T-bills and CNB bills. These amounted to CZK 346.0 billion (51.2% of the overall volume of quick assets). Deposits and credits with the central bank amounted to CZK 289.7 billion (42.9%). Banks use cash for problem-free and smooth cash operations. Their volume is consequently maintained at the minimum required level of approximately 5%. Current accounts maintained with other commercial banks (used for non-cash interbank payments) are the least significant item in quick assets, comprising less than 1% of the whole as of 31 December 2000.

3.3.4 MATCHING OF ASSET AND LIABILITY MATURITIES
(for banks with licences as of 31 December 2000)

The basic instrument of liquidity management is the matching of maturities between the asset and liability items of the balance sheet. For fixed-term items the maturity date is clearly stated in the relevant contract, whether this relates to bank-client relations or interbank relations. Items for which the maturity date is very short (short-term client and bank deposits and certain types of overdraft credits where the debit has to be cancelled regularly, usually monthly) or is not stated at all (sight deposits) can be ascribed a corresponding specific share and thus also an amount which remains permanently available to banks, whether the items are assets or liabilities. When managing liquidity banks therefore include in their calculations a certain degree of invariability for items that could theoretically be cancelled with immediate effect by the relevant business partner or client.

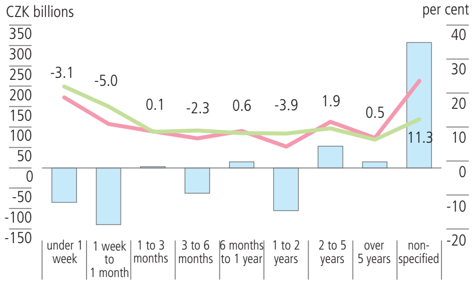
The basic prerequisite for a sound liquid position is harmony between the residual maturity of assets and liabilities in specific time bands. Management of short-term liquidity up to 3 months is of prime importance, although neither should large differences between maturities exist in longer time bands that could at some point require the bank to obtain funds elsewhere.

As of 31 December 2000, liabilities maturing within 3 months exceeded payable assets even taking into account the effect of demand deposits. The cumulative balance sheet position to 3 months taking into account the invariability of demand deposits amounted to -8.14% of total assets. This indicator gradually deteriorated during 2000 owing to a shift of liabilities into time bands with shorter maturities, whereas on the assets side of the balance sheet the volume in the time bands to three months remained essentially unchanged. The single most important factor was an increase in client demand deposits and other liabilities. On the assets side, the increase in credits with maturity up to 3 months and deposits and credits with the central bank was reduced by a fall in deposits and credits with banks.

As at 31 December 2000, the net balance sheet position (taking into account demand deposit liquidity) recorded the highest figures for residual maturities in the range of 1 week to 1 month (CZK 139.5 billion) and 1 to 2 years (CZK 105.2 billion). The position with maturity of 1 to 3 months was almost exactly balanced and very low figures were also recorded for positions with residual maturities of from 6 months to 1 year and above 5 years. The absolute value of the difference between the volume of balance sheet assets and liabilities as a proportion of total assets (taking into account demand deposit liquidity) is around the 5% mark in all of the monitored maturity groups. The structure of the assets and liabilities of the banking sector as a whole is in a state of long-term relative equilibrium.

These developments were also reflected in the other ratios characterising short-term liquidity, particularly the asset coverage of liabilities with maturities of up to one month, which fell by 7.8 points to 55.6% compared with the end of 1999. As payable liabilities include a substantial part of demand deposits, which are essentially stable, this ratio should be regarded as sufficient. As far as long-term liquidity is concerned, financing of long-term assets with short-term funds remains evident. Assets with maturity over one year exceed funds with the same residual maturity by approximately 40%. Receivables with maturity over 5 years are roughly twice as large as funds over 5 years.

CHART 34
ASSETS AND LIABILITIES BY RESIDUAL MATURITY AS OF 31 DECEMBER 2000
for banks with licences as of 31 December 2000



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

TABLE 5
MATCHING OF ASSET AND LIABILITY MATURITIES
for banks with licences as of 31 December 2000; percentages

	31 Dec. 1999	31 Mar. 2000	30 Jun. 2000	30 Sep. 2000	31 Dec. 2000
Cumulative net position:					
to 3 months as a percentage of assets[1)]	-4.36	-3.37	-4.67	-2.61	-8.14
to 1 month as a percentage of assets[1),2)]	-4.35	-3.26	-5.67	-1.43	-5.40
Assets/liabilities maturing:					
within 1 month	60.33	62.91	58.90	61.39	55.57
in more than 1 year	109.47	115.95	130.02	138.07	138.82
in more than 5 years	159.05	180.65	180.59	185.44	183.47

1) minus 80% of demand deposits
2) including off balance sheet

3.4 *COUNTRY RISK*

The country risk to which Czech banks are exposed is defined by the amount of assets they have invested in other countries or that are held by non-residents. Country risk is linked with the changes, primarily political and legislative, that might prevent clients and business partners in the relevant country from repaying their liabilities either wholly or partially or might cause them to default. Country risk also covers the possibility of an economic downturn that might make it impossible for debtors in the relevant county to meet their obligations in the agreed volume and time limits. Banks minimise the potential losses from country risk by reducing their exposure to risk countries according to the degree of risk attaching to future political and economic developments. Activities with risk countries are restricted by the application of volume limits for the relevant regions and by the application of stricter conditions for the provision of the relevant assets (higher interest rates and shorter maturities), and in certain cases also by the requirement for assets to be secured by a third party. It is not easy to quantify country risk. Banks evaluate it on an individual basis in their own internal risk management systems.

3.4.1 ACTIVITIES VIS-À-VIS NON-RESIDENTS (for banks with licence as of 31 December 2000)

CHART 35
NON-RESIDENT ASSETS AND LIABILITIES AS A PERCENTAGE OF TOTAL ASSETS AND LIABILITIES
for banks with licences as of 31 December 2000

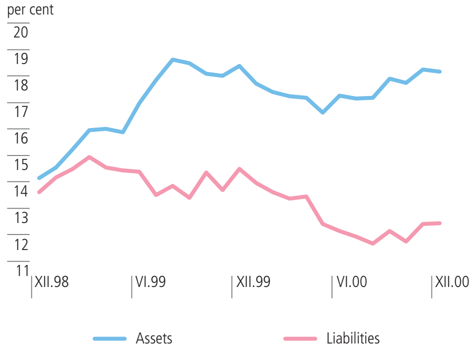
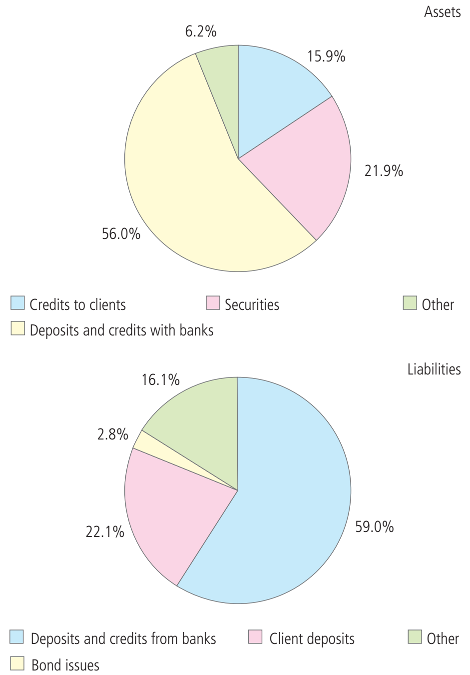


CHART 36
STRUCTURE OF ASSETS AND LIABILITIES VIS-A-VIS NON-RESIDENTS AS OF 31 DECEMBER 2000
for banks with licences as of 31 December 2000



The openness of the Czech economy allows banks to enter into business relations with foreign banks and non-banks. The current exposure of the banking sector vis-à-vis non-residents is not high, although these activities can be expected to become more important given the preparations for the Czech Republic's accession to the EU, the increase of foreign capital in banks operating on the domestic market and the ongoing foreign investment in the Czech economy as a whole.

As of 31 December 2000, the assets of the whole banking sector vis-à-vis non-residents amounted to CZK 525.9 billion, or 18.2% of total assets. Such assets rose by 5.4% on a year-on-year basis, but their share of total assets fell by 0.2 points. Liabilities towards non-residents fell by 7.1% to CZK 338.4 billion and their share of total assets fell by 2.1 points to 12.4%. Transactions with non-residents comprise almost half of all off-balance-sheet operations, the majority of which being derivatives ransactions.

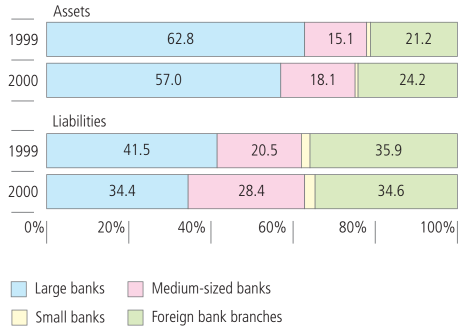
As with foreign currency transactions, transactions with non-resident banks are the single largest item in the overall structure of assets and liabilities. Deposits and credits with non-resident banks amounted to CZK 294.5 billion as of 31 December 2000, or 56.0% of the total volume of non-resident assets. Banks operating in the Czech Republic lend primarily to domestic entities; at the year-end, credits to non-residents amounted to only CZK 83.4 billion, or 9.4% of the overall volume of credits granted. Foreign securities also make up a significant proportion of non-resident assets. As of 31 December 2000 banks had CZK 115.2 billion invested in such securities, which is 21.9% of the total volume of non-resident assets. The securities were mostly participation certificates and bonds.

Deposits and credits from banks constitute the majority of non-resident liabilities. As of 31 December 2000, these amounted to CZK 199.6 billion, or 59.0% of the total volume. More than three quarters of the deposits were placed in foreign bank branches and the medium-sized banks group. This reflects the greater tendency of these groups to finance activities from interbank sources, principally by using funds from parent banks and foreign head offices. Funds from non-resident banks constituted 40.9% of the total volume of deposits and credits from banks. Non-resident client deposits continued to rise, amounting at the year-end to 22.1% of total liabilities towards non-residents and 5.5% of total client deposits.

Activities with respect to non-residents differ markedly according to bank group. Although large banks – thanks to their size – generally dominate in terms of absolute volume for specific types of transaction, in relative terms foreign bank branches and medium-sized banks in particular have a greater degree of exposure to non-residents, as is the case with foreign currency transactions.

In line with the trend for overall transactions, the large banks' share is gradually falling in favour of foreign bank branches and medium-sized banks, which were much more active in 2000 than in 1999. This has also led to a gradual increase in the difference compared with the fundamental division of the banking market as a whole. As of 31 December 2000, large banks administered 61.9% of total assets. Their share of the total volume of non-resident assets was 4.9 points lower at 57.0%. Foreign bank branches, on the other hand, with 24.2% of the total volume of non-resident assets, had 13.1 points more than their share of total assets. For medium-sized banks the difference was 1.5 points in favour of total assets. The exposure of small banks towards non-residents remains negligible, while for building societies such activities are an exception owing to the specific nature of their operations.

CHART 37
MARKET SHARES OF BANK GROUPS IN SELECTED PRODUCTS VIS-A-VIS NON-RESIDENTS IN PER CENT
for banks with licences as of 31 December 2000



The dominance of foreign bank branches in non-resident transactions is even more marked on the liabilities side of the balance sheet, chiefly as a result of their access to funds from head offices. Their share of total non-resident liabilities was 34.6%, which is 23.5 points more than their share of total assets. Medium-sized banks administered 28.4% of non-resident liabilities, or 8.8 points more than their share of total assets. Large banks recorded lower exposure to foreign transactions by comparison with their overall activities (34.4%, or 27.5 points less than their market share of total liabilities).

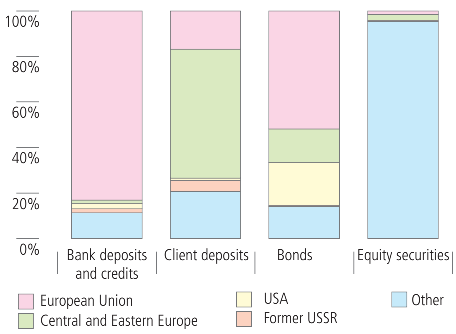
For foreign bank branches and medium-sized banks, the volumes on the assets and liabilities sides of the balance sheet have long been in equilibrium. In the large banks group there is a marked preponderance of assets (of more than 150% as of 31 December 2000), while for small banks liabilities are the dominant item (more than twice as many as of 31 December 2000).

3.4.2 ACTIVITIES VIS-À-VIS INDIVIDUAL COUNTRIES (for banks with licences as of 31 December 2000)

Activities in respect of specific countries were monitored for the first time in 2000 for selected asset and liability, balance-sheet and off-balance-sheet items. Countries are classified by degree of risk and are placed in the following categories: the EU, the United States, Central and Eastern Europe and the former Soviet Union. For classic banking products and services the exposure abroad is relatively low. High figures are recorded on the interbank and derivatives market.

The exposure of the Czech banking sector as a whole differs greatly in each country group according to the type of banking product. For asset-side deposits and credits with banks the EU countries were the main partner for banks operating in the Czech banking sector, with 83.1% of non-resident deposits and credits with banks (CZK 248.9 billion).

CHART 38
ASSET EXPOSURE OF THE BANKING SECTOR ABROAD AS OF 31 DECEMBER 2000
for banks with licences as of 31 December 2000



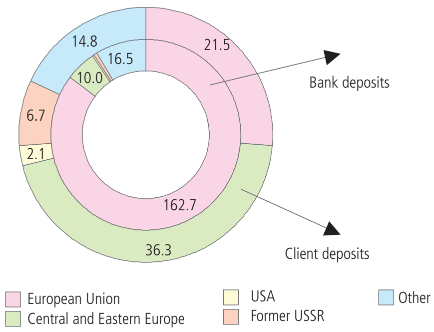
Countries of Central and Eastern Europe were the major debtor group with regard to client credits. They held a 56.6% share of foreign client credits, which represents 5.6% of total credits granted. Three quarters of these credits were granted by large banks, mostly to entities from Slovakia (56.1%). Of the other bank groups, foreign bank branches granted CZK 11.9 billion to non-residents, the majority to countries of the Eastern bloc (58% – particularly Poland and Slovakia) and entities from the European Union (19.3%). However, such transactions represented only 10.9% of the total volume of credits.

More than 50% of the issuers of bonds held in banks' portfolios as of 31 December 2000 were from the European Union. The shares of other country groups where essentially even, with the exception of former Soviet Union, whose share was negligible.

On the liabilities side of the balance sheet, the most important products with non-residents are bank and client deposits. Of the total volume of non-resident deposits from banks, 85.4% were deposited in Czech banks by banks from EU countries. More than three quarters of such deposits were placed in foreign bank branches and medium-sized banks. This reflects the greater orientation of these groups towards using interbank funds, principally from parent banks and foreign head offices, to finance their activities. This is confirmed by the country origin of these deposits. Germany had a 34.7% share of the total volume of deposits and credits from non-resident banks, the United Kingdom 18.9% and the Netherlands 11.7%.

Non-bank client deposits came primarily from Central and Eastern Europe (44.6% of all foreign client deposits), and in particular from the Slovak Republic. Deposits from EU countries made up 26.4% of total non-resident client deposits.

CHART 39
LIABILITY EXPOSURE OF THE BANKING SECTOR ABROAD AS OF 31 DECEMBER 2000
for banks with licences as of 31 December 2000



The off-balance-sheet foreign exposure of domestic banks at the end of 2000 was primarily towards EU countries. As regards classic banking operations such as guarantees, credit commitments and letters of credit the EU accounted for 62.3% of foreign activities and 10.5% of total classic off-balance-sheet activities. The European Union was also the main partner on the derivatives receivables market with an 85.6% share of all foreign receivables from derivatives. A long way behind was the USA with a share of 7.8%. The shares of other regions were of little importance. Receivables and liabilities from derivatives transactions are the most important single item in the foreign activities of domestic banks, forming approximately one half of the total volume of the derivatives market recorded on the off balance sheet of the banking sector.

4. CAPITAL ADEQUACY (for banks with licences as of 31 December 2000, excluding Konsolidační banka and banks under conservatorship)

One of the features of the banking sector that distinguishes it from other sectors is the high level of external funding sources, which may be jeopardised in the event of imprudent bank transactions. Capital adequacy is a basic and internationally applied standard which measures the individual banks' real level of capital required to cover unforeseen losses from banking operations and which also safeguards their external funds. Capital adequacy is based on the setting of capital requirements in relation to the extent of banking activities and their degree of risk. Until March 2000, the capital adequacy calculation incorporated credit risk only. Under a new CNB provision that came into effect in April 2000, banks are required to include market risks when calculating capital adequacy. This brought the Czech banking sector into line with the practices of other market economies.

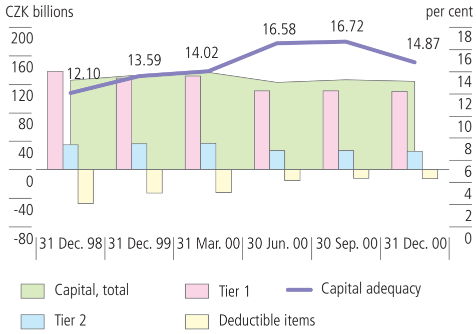
The fundamental methodological change, which consists not only in broadening the capital requirements to encompass market risk, but also in certain changes in calculating overall capital (e.g. including retained earnings and lower write-offs of capital investments), limits the possibilities for comparing the development of capital adequacy and its components over time.

As of 31 December 2000, capital adequacy amounted to 14.87%, which is 1.28 points more than at the end of 1999 and 2.77 points more than at the end of 1998. Overall capital amounted to CZK 124.3 billion, or 6.7% less than at the end of 1999. The reduction is due in part to the introduction of conservatorship in Investiční a Poštovní banka, whereby the bank's own funds were retained, i.e. part of the bank's overall capital, while other assets and liabilities were sold to Československá obchodní banka. The major components of overall capital come from Tier 1, i.e. equity capital, reserve funds, retained earnings, etc. Tier 2 capital, which includes primarily subordinated debt and general provisions and reserves, is less important and has not changed substantially over time. Gradually improving financial results have reduced the volume of deductible items, of which the main items are losses from current and previous periods.

CHART 40

CAPITAL STRUCTURE AND CAPITAL ADEQUACY

for banks with licences as of 31 December 2000, excluding Konsolidační banka and banks under conservatorship



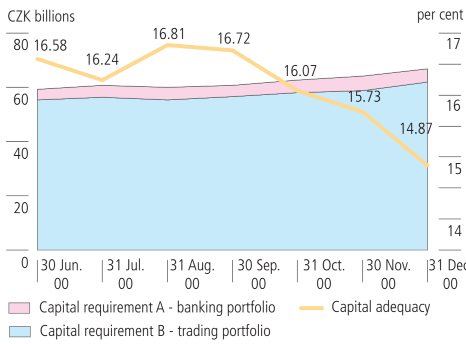
Under the new methodology, retained earnings can also be included in capital where these have been confirmed by an auditor and approved by the general meeting. Given banks' strong performance in the year 2000, this means that the conditions now exist to increase banks' capital after audits and general meetings if these decide to strengthen reserve funds or, instead of paying dividends, to hold on to profit in the form of retained earnings. Even though it is unlikely that all profit created in the year 2000 (approximately CZK 15.0 billion) will be included in capital, as part of it will be used to pay dividends to shareholders and bonuses to management, the opportunity to increase capital is far greater than in previous years.

Most activities in the banking sector are included in the banking portfolio, with which are linked capital requirements in particular for credit risk. These are calculated using specific risk weightings dependent on the type of client or operation. Lower lending activity and location of funds in quick assets or other banks reduces the overall volume of risk-weighted assets, as these items generally have either a zero or 20% risk weighting. As of 31 December 2000, the ratio of risk-weighted assets to their overall book value amounted to 41.5%, a fall of 3.3 points compared with the end of 1999. The relatively low level of risk-weighted assets is the result of limited lending activity in favour of safe operations bearing a lower risk weighting, and the issuing of state guarantees as part of privatisation and the resolving of the situation in Investiční a Poštovní banka. In the second half of 2000, however, the increased lending activity of certain small and medium-sized banks led to a slight rise in risk-weighted assets. This was reflected in an increase in the capital requirements for credit risk.

CHART 41

CAPITAL ADEQUACY INCORPORATING MARKET RISK IN 2000

for banks with licences as of 31 December 2000, excluding Konsolidační banka and banks under conservatorship



Banks' preference for classic forms of banking is evident in the separation of balance sheet assets into trading and banking portfolios in a ratio of 1:4. The opposite situation applies for off-balance-sheet activities, with approximately 60% falling under the trading portfolio and 40% the banking portfolio. The higher degree of risk attaching to classic lending activities predetermines the volume of capital requirements for specific risks.

The overall capital requirement for credit risk amounted to CZK 66.9 billion, a rise of 17.1% compared with April 2000, when the new methodology was first applied. The capital requirements for market risks amounted to only CZK 3.2 billion and chiefly concerned general interest rate risk (54.4%), general equity risk (23.6%) and general foreign exchange risk (18.0%).

The last few years have seen an evening out in capital adequacy across individual banks. Capital adequacy is now concentrated in the 12%-20% range, thanks to falls

CHART 42
BREAKDOWN OF BANKS BY CAPITAL ADEQUACY
for banks with licences as of 31 December 2000, excluding Konsolidační banka and banks under conservatorship

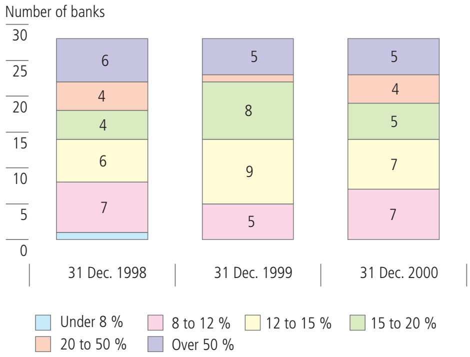
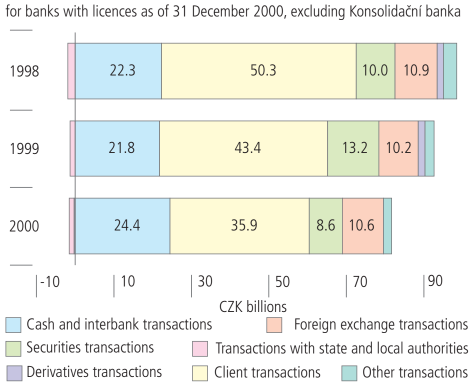


CHART 43
STRUCTURE OF PROFIT FROM FINANCIAL ACTIVITIES BY TYPE OF ACTIVITY
for banks with licences as of 31 December 2000, excluding Konsolidační banka



in the number of banks with capital adequacy below 12% (from 12 to 7 since 1997) and with capital adequacy above 20% (from 10 to 9 banks). As of 31 December 2000, all banks met the minimum limit of 8% and only one bank had capital adequacy below 10%. Of the 28 banks 12 were in the range of 12%-20% (compared with 6 of 36 in 1997). Five banks had capital adequacy over 50% (up from four in 1997). This unusually high figure is generally attributable to low activity or to the specific orientation of the bank.

5. BANKING SECTOR PERFORMANCE (for banks with licences as of 31 December, excluding Konsolidační banka)

A bank's financial results, particularly its final profit volumes from banking activities and its net profit, which comprehensively express the successful management of the bank, are directly connected to the level of its risk coverage. Profit thus becomes the primary source for the inflow of further capital, which in turn eliminates the threat of risk as it is used in large part to create mandatory and voluntary funds. Losses, on the other hand, reduce capital and consequently undermine the stability of the bank as a whole.

5.1 PROFIT FROM BANKING ACTIVITIES

Profit from banking activities for the year 2000 amounted to CZK 80.1 billion, which is only 88.7% of the result for 1999. The main reasons for this lower level are a decrease in interest profit and an overall loss from securities and derivatives transactions, which were profit-making in 1999. This was offset, however, by an increase of CZK 2.6 billion from fees and charges.

Client transactions remained the most important area of profit creation from banking activities. With a profit of CZK 35.9 billion these accounted for 44.8% of the total profit from financial transactions. At the same time, however, this type of transaction recorded the largest fall in profit compared with the previous year (of 17.3%). Increased activity by banks in interbank transactions led to a rise in profit from cash and interbank transactions, which increased by 11.9% to account for 30.5% of the total profit from banking activities. Profits from other transactions types were of far less significance and their volume did not change markedly in the last period.

Interest profit, including securities, amounted to CZK 53.4 billion, a fall of CZK 3.3 billion due to reduced income from client transactions, from which banks realised CZK 9.1 billion less than in 1999. Transactions with the CNB also recorded slightly lower profit (down by CZK 1 billion), although profit from transactions with other banks rose sharply (by CZK 4.6 billion). The decrease in interest profit can be explained not only by the development of interest rates, which were lower than in 1999, but also by the volume of assets and liabilities transactions. Total interest income fell by CZK 21.2 billion compared with 1999 and interest expenses by only CZK 16.5 billion. The difference was even more marked for transactions with clients (CZK 16.0 billion compared with CZK 6.9 billion). Interest income is derived mainly from credits and deposits, which developed in wholly opposite directions during 2000. The volume of credits fell or stagnated, whereas deposits recorded constant growth. Banks thus had high interest expenses, while on the assets side they placed free funds in less remunerative transactions.

The basic interest rates announced by the CNB did not change in 2000, although when comparing the 2000 results with those for 1999 it should be borne in mind that these rates were higher throughout most of 1999. The ratio of interest income to interest earning assets excluding securities was at 6.8% for the whole of 2000 (with a slight fall in the last quarter), a reduction of 1.1 point compared with 1999. The ratio of interest expenses to interest bearing liabilities excluding securities fell by 1 point compared with 1999. In comparison with 1999 the interest rate spread fell by only 0.1 point and recorded modest growth throughout 2000.

The highest levels of interest rate spread are achieved on client transactions. In 2000, this amounted to 4%, which was only 0.1 point lower than in 1999. Interest rate spread recorded gradual growth throughout the year, although its impact on overall profit from banking activities is not great owing to the aforementioned imbalance in the volume of assets and liabilities transactions.

The increased profit from fees and charges, which amounted to CZK 17.2 billion, reflects banks' attempts to change the profit structure of banking activities (where the dominant factor remains interest profit, which is highly dependent on the overall level of interest rates). Profit from fees and charges, which banks can influence through active pricing policy, comes almost exclusively from client transactions. With regard to profits from fees and charges, transactions with banks and the CNB and securities transactions are loss-making. The large banks were responsible for almost three quarters of the profit from fees and charges, owing to the size of their clientele. No major differences exist between the bank groups with regard to profit from banking activities and the ratio between interest profit and profit from banking activities. These indicators range between 16% and 28%, and 22% and 35% respectively, with the exception of building societies, where profit from fees and charges is far lower (5.5%).

As the majority of the securities in bank portfolios are bonds, profit from securities transactions also impacts on interest profit. Compared with 1999, interest profit on bonds rose by CZK 1.3 billion to CZK 9.5 billion. Banks collected CZK 0.8 billion in share dividends. This represents average rate of return on shares of 1.1%. Unlike in 1999, sales of securities were loss-making. The total loss from sales of securities was CZK 1.4 billion, whereas in 1999 banks had recorded a profit of CZK 4.5 billion in this area, mainly thanks to the large banks.

Derivatives transactions were also loss-making in 2000. The total loss in this area came to CZK 1.2 billion, whereas in 1999 banks had made a profit of CZK 1.8 billion. Large banks had the largest share of the total loss, although most medium-sized banks also recorded losses or reduced profit.

5.2 Net profit

After three years of losses the banking sector achieved a net profit of CZK 14.9 billion in 2000. The total profit was affected by a methodological change in the book-keeping of deferred tax. Pre-tax gross profit for 2000 amounted to CZK 12.8 billion.

In addition to the positive development of general operating expenses, the main factor in the banking sector's return to profit was the reduced creation of provisions and reserves. This was facilitated by the transfer of problem receivables to Konsolidační banka and by the exercising of state guarantees for bad assets in the large banks. It is extremely difficult to specify the exact real creation of provisions and reserves owing to the accounting method used for the creation and application of

Chart 44
Structure of profit from financial activities by type of profit
for banks with licences as of 31 December 2000, excluding Konsolidační banka

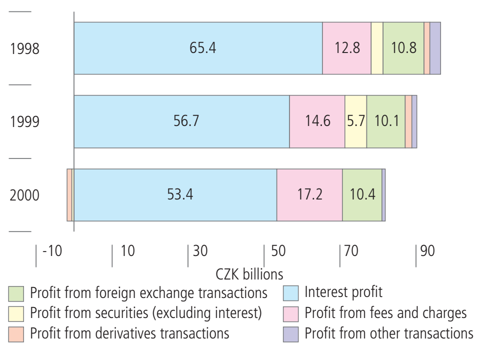


Chart 45
Selected profitability indicators
for banks with licences as of 31 December 2000, excluding Konsolidační banka

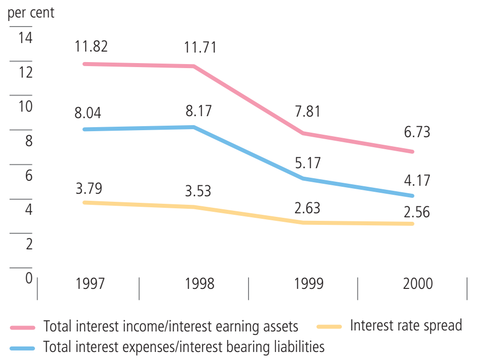


CHART 46
SUFFICIENCY OF PROFIT FROM BANKING ACTIVITIES
for banks with licences as of 31 December 2000, excluding Konsolidační banka

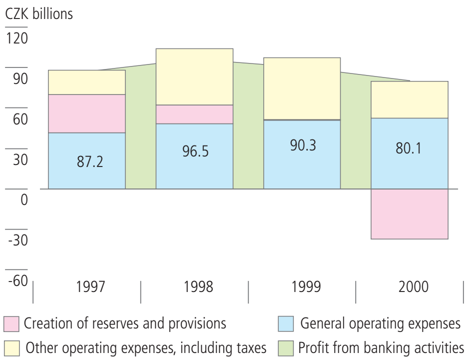
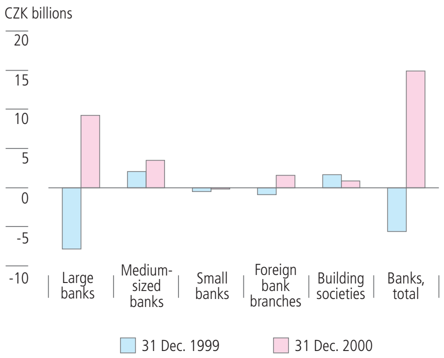


CHART 47
COMPARISON OF NET PROFIT
for banks with licences as of 31 December 2000, excluding Konsolidační banka



provisions and reserves and the expenses and income from transferred receivables. Whereas in 1999, despite transfers of receivables, the net creation of reserves had been positive (CZK 87 million), in 2000 the result was strongly negative (CZK -37.4 billion), with a correspondingly positive impact on profits. Losses from other operational and extraordinary transactions, which include the expenses and income from transfers of receivables, amounted to CZK 52.1 billion. In 1999 the figure had been CZK 43.6 billion.

In the year 2000, banks continued to reduce the growth rate of their general operating expenses. The total volume of these expenses amounted to CZK 52.6 billion, or 3.0% more than in the previous year. The rate of growth was 4.5 points lower than in 1999 and 10.8 points lower than in 1998. The large banks account for most of the reduction, recording an absolute fall of 0.2% for 2000. Building societies also recorded reduced operating expenses, although in the other bank groups there was a rise, albeit at a lower rate. The biggest increase in operating expenses was recorded by medium-sized banks (15.5%).

The largest change in net profitability occurred in the large banks group, which moved from a loss of CZK 7.9 billion in 1999 to a profit of CZK 9.2 billion in 2000. This was due principally to lower creation of provisions and their cancellation following transfers of receivables. Medium-sized banks recorded stable profitability, increasing their earnings by CZK 1.5 billion to CZK 3.5 billion. The small bank group has been moderately loss-making for some time, although it succeeded in reducing such losses to CZK 183 million in 2000. Foreign bank branches, which had ended 1999 with a loss of CZK 0.9 billion, turned in a net profit of CZK 1.5 billion. Building societies were the only group to experience a deterioration. Their net profit fell by approximately one half to CZK 0.9 billion. This result was primarily due to reduced profit from banking activities. Of the total of 38 banks and foreign bank branches seven made a loss, totalling CZK 0.8 billion (in 1999 the number was 13 banks with an aggregate loss of CZK 16.3 billion).

5.3 EFFICIENCY AND PRODUCTIVITY

Banks are striving to increase their efficiency and productivity and have taken steps to streamline their branch networks and workforce and to reduce other costs relating to bank operations. The results of these initiatives can be seen in the overall level of operating expenses. However, lower operating expenses should not be implemented to the detriment of the quality and accessibility of the banks' services. Banks are therefore developing new ways of serving customers, especially electronic banking, which makes possible fast access to banking services without the need to visit the bank concerned.

The reduction of operating expenses is primarily the result of rationalisation of the branch networks and workforce in the large banks. As of 31 December 2000, there were 44,900 people employed in the banking sector, a fall of 8.2% compared with 1999. The decrease is almost exclusively due to a reduction of 4,700 in the workforce in the large banks. By contrast, staff numbers in the other bank groups rose, with the exception of building societies. The same trend is also evident in the number of banking units, the number of which amounted to 1,807 as of 31 December 2000, a fall of 198 compared with 1999. Large banks were again the decisive factor in the decrease, closing 192 branches during 2000.

The structure of general operating expenses is stable, with only minimal changes in composition recorded in 2000 compared with the previous two years. The largest single item remains contracted outputs (e.g. services, materials, travelling expenses, etc.), which rose by 4.7% (compared with 3.7% in 1999). Given that these expenses represent the largest item (44.6%) in general operating expenses, this increase is the main reason for the overall rise. In relative terms, write-offs of intangible assets recorded the largest increase (of 25.7%), although these costs only made up 4% of the total volume of operating expenses. Their increase is linked primarily to the development of computer technology in banks.

Personnel expenses recorded the largest decrease in rate of growth, rising by 3.2% in 2000 compared with 11.3% in 1999. Expenses per employee are the second most important item in general operating expenses, with a share of 28.5%.

Operating expenses per employee are showing a long-term upward trend. This continued into 2000, amounting to CZK 1,171,000, a rise of 12.2% compared with 2000. The ongoing rise in operating expenses per employee is the result of the current reduction in the workforce and the rise in operating expenses. Expenses per employee (i.e. wage and other personnel costs) amounted to CZK 333,000, an increase of 12.1% on 1999. Expenses per employee rose by 0.1 point as a proportion of total operating expenses, amounting to 28.5% at the end of 2000 (an increase of 0.1 point in two-year comparison).

The amount of total assets administered per bank employee is also on an upward trend. At the end of 2000, this ratio was CZK 55.8 billion, or 17.9% more than at the end of 1999 and 29.1% more than at the end of 1998. Conversely, profit from banking activities per bank employee is falling, as a result of profit from banking activities declining at a faster rate than staff numbers. In 2000, banking profit per employee amounted to CZK 1.8 billion, which is 3.4% less than in 1999 and 5.6% less than in 1998.

General operating expenses as a percentage of the average stock of total assets in the banking sector amounted to 2.18% as at 31 December 2000, a fall of 0.03 points compared with the end of 1999. This decrease was due to higher growth in the average stock of assets than in general operating expenses.

CHART 48

STRUCTURE OF GENERAL OPERATING EXPENSES

for banks with licences as of 31 December 2000, excluding Konsolidační banka

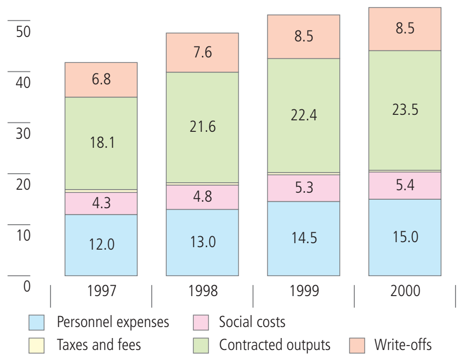
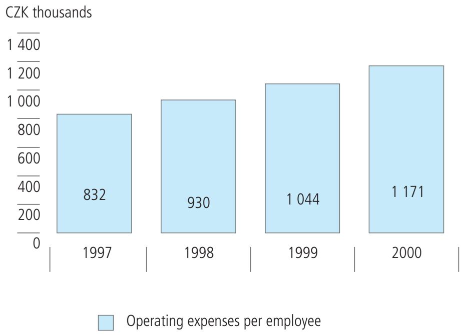


CHART 49

ANNUAL OPERATING EXPENSES PER EMPLOYEE

for banks with licences as of 31 December 2000, excluding Konsolidační banka



C. APPENDICES

Survey of banks and foreign bank branches as of 31 December 2000

I. Banks

Bank	Start of operation	Equity capital in CZK millions	Number of banking units		Number of employees
			in CR	abroad	
Bank Austria Creditanstalt Czech Republic a.s.	1 Apr. 1991	1 997	20	0	945
Citibank, a.s.	24 Jun. 1991	2 425	5	0	441
CREDIT LYONNAIS BANK PRAHA, a.s.	12 Nov. 1992	500	0	0	95
Česká exportní banka, a.s.	1 Jul. 1995	1 650	0	0	117
Česká spořitelna, a.s.	1 Jan. 1969	15 200	707	1	14 133
Českomoravská hypoteční banka, a.s.	10 Jan. 1991	1 328	42	0	268
Českomoravská záruční a rozvojová banka, akciová společnost	1 Mar. 1992	890	5	0	242
Českomoravská stavební spořitelna, akciová společnost	8 Sep. 1993	1 500	5	0	491
Československá obchodní banka, a.s	1 Jan. 1965	5 105	253	30	9 239
ČS stavební spořitelna, a.s.	1 Jul. 1994	750	0	0	290
Dresdner Bank CZ a.s.	12 May 1992	1 000	1	0	173
Expandia Banka, a.s.	1 Jan. 1991	515	6	0	382
GE Capital Bank, a.s.	22 Jun. 1998	500	227	0	2 176
HYPO stavební spořitelna, a.s.	1 Oct. 1994	500	4	0	54
HypoVereinsbank CZ a.s.	1 Jul. 1992	5 047	18	0	466
IC Banka, a.s.	6 Apr. 1994	500	1	0	34
Interbanka, akciová společnost	1 Feb. 1991	1 709	0	0	107
J & T Banka, a.s.	18 Dec. 1992	501	0	0	51
Komerční banka, a.s.	1 Jan. 1990	19 005	342	4	10 703
Konsolidační banka Praha, s.p.ú.	21 Feb. 1991	5 950	2	0	580
PLZEŇSKÁ BANKA, a.s.	1 Oct. 1993	1 000	0	0	38
První městská banka, a.s.	1 Sep. 1993	627	0	0	72
Raiffeisen stavební spořitelna a.s.	7 Sep. 1993	500	0	0	314
Raiffeisenbank a.s.	1 Jul. 1993	1000	19	0	500
Union banka, a.s.	15 Nov. 1991	2 444	106	0	1 149
Volksbank CZ, a.s.	1 Jan. 1994	650	10	0	201
Všeobecná stavební spořitelna Komerční banky, a.s.	16 Dec. 1993	500	0	0	330
Wüstenrot - stavební spořitelna, a.s.	11 Nov. 1993	550	0	0	147
Živnostenská banka, a.s.	1868	1 360	23	1	758

II. Foreign bank branches

Bank	Start of operation	Home country	Number of local units		Number of employees
			in CR	abroad	
ABN AMRO BANK N.V.	6 May 1993	Netherlands	1	0	166
COMMERZBANK Aktiengesellschaft, pobočka Praha	1 Dec. 1992	Germany	2	0	184
Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka	1 Dec. 1993	Germany	1	0	105
HSBC Bank plc - pobočka Praha	1 May 1997	United Kingdom	0	0	37
ING Bank N.V.	1 Sep. 1993	Netherlands	0	0	160
RAIFFEISENBANK IM STIFTLAND eG pobočka Cheb, odštěpný závod	2 Jan. 1995	Germany	1	0	24
SOCIETE GENERALE, pobočka PRAHA	15 Apr. 1991	France	0	0	165
Sparkasse Mühlviertel - West banka a.s., pobočka České Budějovice	20 Mar. 1995	Austria	5	0	50
Všeobecná úverová banka, a.s., pobočka Praha	14 Jan. 1993	Slovakia	1	0	63
Waldviertler Sparkasse von 1842	1 May 1994	Austria	2	0	62

III. Banks under conservatorship

Bank	Start of operation	Imposition of conservatorship
IP banka, a.s.	1 Jan. 1990	16 Jun. 2000

IV. Banks in liquidation

Bank	Start of operation	Revocation of licence
Agrobanka Praha, a.s., in liquidation	1 Jul. 1990	2 Sep. 1998
Banka Bohemia, a.s. - in liquidation	1 Feb. 1991	not revoked
Baska a.s., in liquidation	13 Dec. 1990	31 Mar. 1997
Ekoagrobanka, a.s., in liquidation	1 Nov. 1990	31 May 1997
Evrobanka, a.s., in liquidation	1 Oct. 1991	30 Jun. 1997
COOP BANKA, a.s., in liquidation	24 Feb. 1992	6 May 1998

V. Banks in bankruptcy proceedings

Bank	Start of operation	Revocation of licence	Start of bankruptcy proceedings
AB Banka, a.s. in liquidation	1 Apr. 1991	15 Dec. 1995	18 Mar. 1999
Česká banka, akciová společnost Praha - in liquidation	28 Feb. 1992	15 Dec. 1995	28 Jun. 1996
Kreditní banka Plzeň, a.s. - in liquidation	1 Jan. 1991	8 Aug. 1996	21 Dec. 1998
Kreditní a průmyslová banka, a.s.	1 Apr. 1991	31 Aug. 1995	2 Oct. 1995
Realitbanka,a.s.	1 Nov. 1991	17 Apr. 1997	24 Mar. 1997
Velkomoravská banka, a.s.	3 Nov. 1992	10 Jul. 1998	2 Jul. 1998
Pragobanka, a.s.	1 Oct. 1990	24 Oct. 1998	19 Nov. 1998
První slezská banka a.s., in liquidation	12 Jan. 1993	13 May 1996	20 Nov. 1997
Moravia Banka, a.s.	2 Jul. 1992	9 Nov. 1999	8 Dec. 1999
UNIVERSAL BANKA, a.s.	15 Feb. 1993	10 Feb. 1999	12 Feb. 1999

VI. Banks dissolved without liquidation

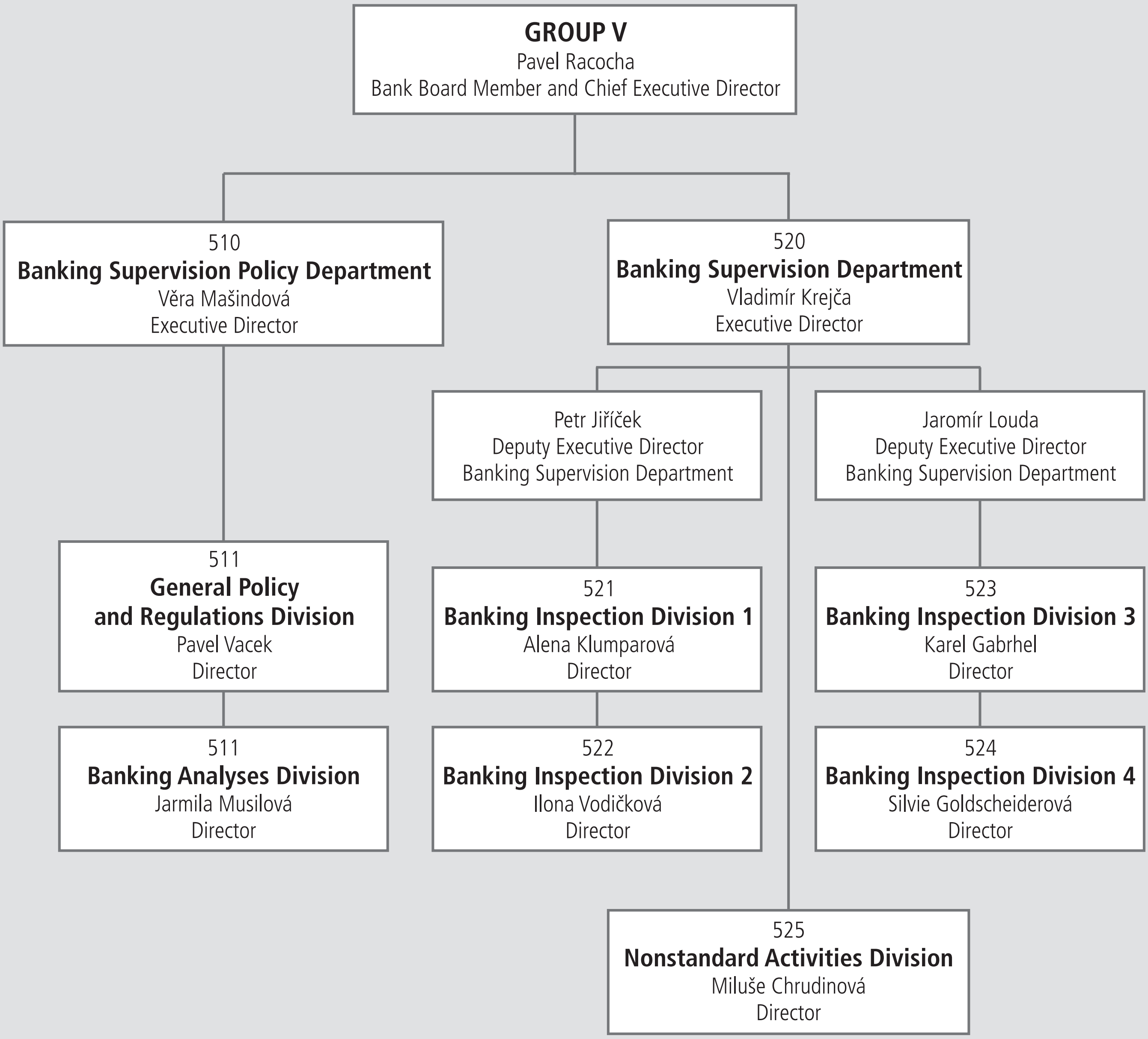
Bank	Start of operation	Termination of licence	Reason
Poštovní banka, a.s.	1 Jan. 1991	1 Jan. 1994	merger
Bank Austria a.s.	1 Jan. 1992	30 Jun. 1998	merger
Westdeutsche Landesbank (CZ), a.s.	operation not started	20 Jan. 1998	operation not started
HYPO-BANK CZ a.s.	26 Feb. 1992	31 Dec. 1998	merger
Erste Bank Sparkassen (CR) a.s.	1 Feb. 1993	30 Sep. 2000	merger

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

Bank	Start of operation	Termination of licence
BANKA HANÁ, a.s.	11 Jan. 1991	1 Dec. 2000
Foresbank, a.s.	7 Sep. 1993	1 Mar. 1999

Organisational structure of the CNB Banking Supervision Group

as of 31 December 2000



BREAKDOWN OF BANKS INTO GROUPS

I. Large banks

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

II. Medium-sized banks

1. Bank Austria Creditanstalt Czech Republic, a.s.
2. Citibank, a.s.
3. CREDIT LYONNAIS BANK PRAHA, a.s.
4. Česká exportní banka, a.s.
5. Českomoravská záruční a rozvojová banka, akciová společnost
6. Dresdner Bank CZ a.s.
7. GE Capital Bank, a.s.
8. HypoVereinsbank CZ a.s.
9. Raiffeisenbank a.s.
10. Union banka, a.s.
11. Živnostenská banka, a.s.

III. Small banks

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

IV. Foreign bank branches

1. ABN AMRO BANK N.V.
2. COMMERZBANK Aktiengesellschaft, pobočka Praha
3. Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka
4. HSBC Bank plc - pobočka Praha
5. ING Bank N.V.
6. RAIFFEISENBANK IM STIFTLAND eG pobočka Cheb, odštěpný závod
7. SOCIETE GENERALE, pobočka PRAHA
8. Sparkasse Mühlviertel - West banka a.s., pobočka České Budějovice
9. Všeobecná úverová banka, a.s., pobočka Praha
10. Waldviertler Sparkasse von 1842

V. Building societies

1. Českomoravská stavební spořitelna, akciová společnost
2. ČS stavební spořitelna, a.s.
3. HYPO stavební spořitelna, a.s.
4. Raiffeisen stavební spořitelna a.s.
5. Všeobecná stavební spořitelna Komerční banky, a.s.
6. Wüstenrot - stavební spořitelna, a.s.

VI. Banks under conservatorship

1. IP banka, a.s.

Main indicators of monetary and economic developments in the Czech Republic

		1997	1998	1999	2000
Gross domestic product 1), 2)	Volume (in CZK billions)	1 432.8	1 401.3	1390.6	1433.8
	Increase (in per cent)	-1.0	-2.2	-0.8	3.1
Output - percentage increase 2)	Industry	4.5	1.6	-3.1	5.1
	Construction	-3.9	-7.0	-6.5	5.3
Prices	Inflation rate (in per cent)	8.5	10.7	2.1	3.9
Unemployment 3)	Unemployment rate (in per cent)	5.2	7.5	9.4	8.8
Foreign trade	Exports (in CZK billions)	722.5	850.3	908.8	1120.4
	Imports (in CZK billions)	870.7	928.9	973.2	1247.2
	Balance (in CZK billions)	-148.2	-78.6	-64.4	-126.8
Average wage 2)	Nominal (in per cent)	10.5	9.4	8.2	6.6
	Real (in per cent)	1.9	-1.2	6.0	2.6
Balance of payments	Current account (in CZK millions)	-101.9	-43.1	-54.2	-91.4
	Financial account (in CZK millions)	34.3	94.3	106.6	129.6
Exchange rate 4)	CZK/USD	31.7	32.3	34.6	38.6
	CZK/EUR	35.8	35.9	36.9	35.6
Average interbank deposit	7 day	18.31	14.15	6.85	5.29
rate (PRIBOR)	3 month	15.97	14.33	6.85	5.36
(in per cent) 4)	6 month	15.15	14.23	6.89	5.48
Discount rate (in per cent) 3)		13.0	7.5	5.0	5.0
Lombard rate (in per cent) 3)		23.0	12.5	7.5	7.5

1) At constant 1995 prices
2) Percentage increase on a year earlier
3) End-of-period data
4) Annual averages

Assets

(for banks with licences as of 31 December 2000)

	31 Dec. 1998	31 Dec. 1999	2000			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
	in CZK millions					
Cash	26 397	36 903	27 852	29 877	30 730	34 782
Deposits and credits with CNB	265 998	274 204	291 897	290 907	298 759	289 676
of which: required reserves	85 739	28 019	29 134	29 559	30 336	28 442
Deposits and credits with banks	492 213	572 856	584 606	564 925	641 787	591 546
of which: current accounts	18 055	23 206	8 390	14 009	24 986	7 955
time deposits	386 705	407 313	394 742	390 243	458 053	416 444
credits granted	87 453	142 337	181 474	160 673	158 749	167 148
T-bills	52 925	80 532	85 373	76 138	81 280	97 517
CNB bills	158 770	201 900	236 300	240 593	244 135	234 374
Credits granted (net)	1 000 111	943 881	951 294	948 029	962 626	952 435
of which: to clients	972 366	910 714	914 294	905 940	906 345	886 386
to state and local authorities	27 745	33 167	37 000	42 090	56 280	66 049
Trading securities	95 152	75 336	69 599	43 223	41 066	92 787
of which: bonds	91 320	72 409	61 609	38 227	32 589	38 518
equity securities	3 832	2 927	7 990	4 995	8 476	54 270
Long-term financial investments	92 759	122 221	150 752	187 332	191 999	197 375
Tangible and intangible assets	62 309	62 782	62 037	61 681	61 536	60 633
Other assets	102 620	142 606	140 729	141 396	159 229	171 323
Total assets	2 349 254	2 513 221	2 600 438	2 584 102	2 713 146	2 722 448
	per cent					
Cash	1.12	1.47	1.07	1.16	1.13	1.28
Deposits and credits with CNB	11.32	10.91	11.22	11.26	11.01	10.64
of which: required reserves	3.65	1.11	1.12	1.14	1.12	1.04
Deposits and credits with banks	20.95	22.79	22.48	21.86	23.65	21.73
of which: current accounts	0.77	0.92	0.32	0.54	0.92	0.29
time deposits	16.46	16.21	15.18	15.10	16.88	15.30
credits granted	3.72	5.66	6.98	6.22	5.85	6.14
T-bills	2.25	3.20	3.28	2.95	3.00	3.58
CNB bills	6.76	8.03	9.09	9.31	9.00	8.61
Credits granted (net)	42.57	37.56	36.58	36.69	35.48	34.98
of which: to clients	41.39	36.24	35.16	35.06	33.41	32.56
to state and local authorities	1.18	1.32	1.42	1.63	2.07	2.43
Trading securities	4.05	3.00	2.68	1.67	1.51	3.41
of which: bonds	3.89	2.88	2.37	1.48	1.20	1.41
equity securities	0.16	0.12	0.31	0.19	0.31	1.99
Long-term financial investments	3.95	4.86	5.80	7.25	7.08	7.25
Tangible and intangible assets	2.65	2.50	2.39	2.39	2.27	2.23
Other assets	4.37	5.67	5.41	5.47	5.87	6.29
Total assets	100.00	100.00	100.00	100.00	100.00	100.00

Liabilities

(for banks with licences as of 31 December 2000)

	31 Dec. 1998	31 Dec. 1999	2000			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
	in CZK millions					
Funds from CNB	52 843	33 764	17 920	19 310	16 549	18 342
Deposits and credits from banks	504 005	492 039	512 122	476 457	536 591	488 213
of which: current accounts	12 196	10 017	13 966	11 710	16 806	7 717
time deposits	341 946	303 586	283 599	260 336	332 453	308 450
credits received	149 863	178 436	214 557	204 411	187 331	172 046
Deposits received	1 205 317	1 314 557	1 332 201	1 325 675	1 365 549	1 408 063
of which: from clients	1 148 550	1 256 719	1 265 195	1 261 530	1 303 754	1 355 005
from state and local authorities	54 803	54 597	63 129	60 569	58 934	50 828
deposit certificates	1 964	3 242	3 877	3 576	2 861	2 231
Bond issues	92 588	98 495	99 812	93 440	100 605	102 094
Subordinated financial liabilities	19 370	21 921	22 048	22 165	22 400	21 482
Liabilities of foreign bank branches to head offices	2 776	2 750	2 998	3 007	2 982	3 449
Reserves	40 416	45 326	48 478	51 767	53 163	64 768
Reserve funds	73 931	67 105	67 496	60 319	60 401	60 260
Capital funds	33 967	12 958	13 023	7 242	7 384	17 650
Equity capital	69 754	86 914	89 665	90 330	89 756	89 111
Other liabilities	254 288	337 392	394 675	434 390	457 766	449 014
Total liabilities	2 349 254	2 513 221	2 600 438	2 584 102	2 713 146	2 722 448
	in per cent					
Funds from CNB	2.25	1.34	0.69	0.75	0.61	0.67
Deposits and credits from banks	21.45	19.58	19.69	18.44	19.78	17.93
of which: current accounts	0.52	0.40	0.54	0.45	0.62	0.28
time deposits	14.56	12.08	10.91	10.07	12.25	11.33
credits received	6.38	7.10	8.25	7.91	6.90	6.32
Deposits received	51.31	52.31	51.23	51.30	50.33	51.72
of which: from clients	48.89	50.00	48.65	48.82	48.05	49.77
from state and local authorities	2.33	2.17	2.43	2.34	2.17	1.87
deposit certificates	0.08	0.13	0.15	0.14	0.11	0.08
Bond issues	3.94	3.92	3.84	3.62	3.71	3.75
Subordinated financial liabilities	0.82	0.87	0.85	0.86	0.83	0.79
Liabilities of foreign bank branches to head offices	0.12	0.11	0.12	0.12	0.11	0.13
Reserves	1.72	1.80	1.86	2.00	1.96	2.38
Reserve funds	3.15	2.67	2.60	2.33	2.23	2.21
Capital funds	1.45	0.52	0.50	0.28	0.27	0.65
Equity capital	2.97	3.46	3.45	3.50	3.31	3.27
Other liabilities	10.82	13.42	15.18	16.81	16.87	16.49
Total liabilities	100.00	100.00	100.00	100.00	100.00	100.00

Off-balance-sheet assets

(for banks with licences as of 31 December 2000)

	31 Dec. 1998	31 Dec. 1999	2000			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
	in CZK millions					
Credit commitments provided	154 738	177 425	188 458	214 618	267 795	284 130
Receivables from guarantees	110 748	108 491	131 442	103 598	249 616	227 094
Receivables from letters of credit	15 453	13 673	8 822	7 899	7 976	8 228
Receivables from spot transactions	138 205	39 710	313 259	238 965	173 778	109 326
Receivables from forwards	609 729	672 387	760 348	744 465	649 549	843 138
Receivables from futures	31 342	26 052	47 958	84 743	89 676	4 394
Receivables from swaps	721 903	917 230	835 022	964 732	1 027 645	1 227 050
Receivables from other forward transactions	22 214	28 918	73 936	96 824	117 018	41 657
Receivables from options transactions	84 508	85 578	108 901	104 962	102 668	81 200
Total off-balance-sheet assets	1 888 839	2 069 465	2 468 145	2 560 805	2 685 722	2 826 218
	in per cent					
Credit commitments provided	8.19	8.57	7.64	8.38	9.97	10.05
Receivables from guarantees	5.86	5.24	5.33	4.05	9.29	8.04
Receivables from letters of credit	0.82	0.66	0.36	0.31	0.30	0.29
Receivables from spot transactions	7.32	1.92	12.69	9.33	6.47	3.87
Receivables from forwards	32.28	32.49	30.81	29.07	24.19	29.83
Receivables from futures	1.66	1.26	1.94	3.31	3.34	0.16
Receivables from swaps	38.22	44.32	33.83	37.67	38.26	43.42
Receivables from other forward transactions	1.18	1.40	3.00	3.78	4.36	1.47
Receivables from options transactions	4.47	4.14	4.41	4.10	3.82	2.87
Total off-balance-sheet assets	100.00	100.00	100.00	100.00	100.00	100.00

Off-balance-sheet liabilities

(for banks with licences as of 31 December 2000)

	31 Dec. 1998	31 Dec. 1999	2000			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
	in CZK millions					
Credit commitments accepted	34 125	41 068	48 031	57 276	54 583	51 504
Payables from guarantees	250 178	287 876	275 669	287 654	347 984	356 333
Payables from letters of credit	758	801	834	890	778	698
Payables from spot transactions	137 886	41 240	313 013	242 590	175 269	109 761
Payables from forwards	583 321	675 210	759 887	742 794	656 802	845 127
Payables from futures	28 543	23 346	46 799	85 249	89 301	4 139
Payables from swaps	721 486	916 793	827 191	956 364	1 019 991	1 225 345
Payables from other forward transactions	24 001	25 042	65 756	88 449	114 719	43 098
Payables from options transactions	83 136	83 478	106 874	103 356	104 252	80 999
Total off-balance-sheet liabilities	1 863 434	2 094 854	2 444 020	2 564 621	2 563 679	2 717 003
	in per cent					
Credit commitments accepted	1.83	1.96	1.97	2.23	2.13	1.90
Payables from guarantees	13.43	13.74	11.28	11.22	13.57	13.11
Payables from letters of credit	0.04	0.04	0.03	0.03	0.03	0.03
Payables from spot transactions	7.40	1.97	12.81	9.46	6.84	4.04
Payables from forwards	31.30	32.23	31.09	28.96	25.62	31.11
Payables from futures	1.53	1.11	1.91	3.32	3.48	0.15
Payables from swaps	38.72	43.76	33.85	37.29	39.79	45.10
Payables from other forward transactions	1.29	1.20	2.69	3.45	4.47	1.59
Payables from options transactions	4.46	3.98	4.37	4.03	4.07	2.98
Total off-balance-sheet liabilities	100.00	100.00	100.00	100.00	100.00	100.00

Income and expenses

(for banks with licences as of 31 December 2000, excluding Konsolidační banka; in CZK millions)

	31 Dec. 1998	31 Dec. 1999	2000			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Interest income	206 711	153 550	33 451	66 713	99 944	132 390
Interest expenses	141 316	96 858	20 733	40 641	60 371	79 008
Interest profit	65 395	56 692	12 718	26 071	39 573	53 382
Income from fees and charges	16 949	19 959	5 154	10 712	16 080	22 853
Expenses from fees and charges	4 130	5 320	1 295	2 860	3 825	5 614
Profit from fees and charges	12 819	14 639	3 859	7 853	12 255	17 240
Interest profit including fees and charges	78 214	71 331	16 577	33 924	51 828	70 621
Profit from securities	3 105	5 735	1 007	-674	-1 022	-583
Profit from foreign exchange transactions	10 784	10 080	2 968	4 507	7 910	10 436
Profit from derivatives transactions	1 593	1 773	-748	657	-257	-1 228
Profit from other banking transactions	2 813	1 351	314	471	595	867
Profit from banking activities	96 510	90 271	20 118	38 886	59 053	80 113
General operating expenses	47 519	51 067	11 453	24 988	37 629	52 601
Creation of reserves and provisions (net)	14 067	87	-13 583	-42 104	-39 556	-37 426
Other operating income (+) / expenses (-)	-42 048	-46 304	-16 912	-22 894	-25 052	-27 174
Gross operating profit	-7 125	-7 187	5 336	33 108	35 928	37 764
Extraordinary income (+) / expenses (-)	2 967	2 700	-746	-26 654	-25 506	-24 960
Pre-tax gross profit	-4 158	-4 487	4 590	6 454	10 423	12 804
Taxes	3 072	1 085	2 104	2 287	2 993	-2 108
Net profit (loss)	(7 230)	(5 572)	2 486	4 167	7 429	14 912

Profitability and efficiency

(for banks with licences as of 31 December 2000, excluding Konsolidační banka)

	31 Dec. 1998	31 Dec. 1999	2000			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Profit from banking activities/assets in per cent	4.55	3.90	3.43	3.30	3.31	3.33
Gross profit/assets in per cent	(0.19)	(0.19)	0.78	0.55	0.58	0.53
Net profit/assets in per cent	(0.33)	(0.24)	0.42	0.35	0.42	0.62
Net profit/Tier 1 capital in per cent	(5.22)	(4.32)	7.54	6.61	7.82	11.98
Total interest income/interest earning assets in per cent	11.71	7.81	6.84	6.86	6.84	6.73
Total interest expenses/interest bearing liabilities in per cent	8.17	5.17	4.44	4.37	4.30	4.17
Interest rate spread in per cent	3.53	2.63	2.40	2.49	2.54	2.56
Net interest margin in per cent	3.44	2.65	2.35	2.40	2.42	2.43
Number of employees in banking sector	51 079	48 924	48 700	48 162	45 632	44 932
Per employee in CZK thousands:						
total assets	43 231	47 369	48 777	48 840	54 402	55 822
profit from banking activities	1 889	1 845	1 652	1 615	1 725	1 783
net profit	-142	-114	204	173	217	332
operating expenses	930	1 044	941	1 038	1 099	1 171
personnel expenses	255	297	69	152	237	333
General operating expenses/assets in per cent	2.15	2.21	1.95	2.12	2.11	2.18

Credits

(for banks with licences as of 31 December 2000; credits granted in the Czech Republic; in CZK millions)

	31 Dec. 1998	31 Dec. 1999	2000			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Total credits	1 105 885	1 075 220	1 069 937	1 063 533	1 063 220	1 050 831
of which: short-term	448 975	414 472	404 031	401 634	398 549	383 209
medium-term	248 051	236 034	205 980	199 833	200 819	205 684
long-term	408 860	424 714	459 927	462 065	463 852	461 938
Total credits	1 105 885	1 075 220	1 069 937	1 063 533	1 063 221	1 050 831
of which: to public sector	120 548	100 521	89 243	82 364	94 330	96 785
to private sector	771 284	742 107	745 662	743 307	727 042	697 589
to government sector	28 259	32 970	36 787	43 428	46 529	53 804
to small businesses	43 155	34 884	30 575	29 271	29 240	27 476
to households	63 242	77 550	79 592	83 968	86 754	99 168
other	79 397	87 189	88 078	81 195	79 326	76 009
of which: agriculture and forestry	28 769	27 438	24 854	25 409	25 150	22 831
manufacturing	315 990	288 138	264 039	266 491	265 348	246 680
construction	31 414	28 266	25 493	22 925	22 562	20 301
financial intermediation, incl. insurance	73 456	65 377	103 743	98 706	79 916	104 640
transport	29 496	27 983	27 182	26 578	27 074	27 639
trade, hotels and restaurants	220 228	201 074	185 166	187 683	185 493	175 220
other	406 532	436 945	439 460	435 740	457 678	453 520

Deposits

(for banks with licences as of 31 December 2000; deposits accepted in the Czech Republic; in CZK millions)

	31 Dec. 1998	31 Dec. 1999	2000			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Total deposits	1 138 703	1 167 351	1 236 832	1 233 645	1 267 241	1 221 144
of which: demand	367 647	389 390	390 450	413 544	434 638	437 637
time	771 056	777 961	846 382	820 102	832 604	783 507
of which: short-term	553 822	570 894	645 863	616 429	629 629	570 941
medium-term	107 032	91 621	87 347	84 308	82 535	83 006
long-term	110 204	115 447	113 016	119 366	120 440	129 560
Total deposits	1 138 703	1 167 351	1 236 832	1 233 645	1 267 241	1 221 144
of which: public sector	44 358	41 127	44 549	37 366	37 670	34 820
private sector	267 975	263 703	291 740	278 066	292 045	262 353
government sector	36 895	41 038	54 121	66 743	65 506	55 751
small businesses	36 209	37 012	43 804	47 582	52 323	40 453
households	727 701	761 991	783 729	782 694	798 071	808 079
other	25 566	22 480	18 889	21 195	21 626	19 688
of which: agriculture and forestry	9 883	9 747	9 973	11 182	11 171	10 998
manufacturing	62 032	60 528	61 178	63 727	72 117	62 100
construction	21 924	19 317	17 006	17 576	20 280	20 301
financial intermediation, incl. insurance	63 636	68 296	65 929	58 519	54 956	49 501
transport and storage	10 512	9 745	11 422	13 255	15 183	11 406
trade, hotels and restaurants	69 211	62 971	69 643	74 880	78 924	71 984
other	901 506	936 748	1 001 682	994 507	1 014 611	994 853

Capital, capital requirements and capital adequacy

(for banks with licences as of 31 December 2000, excluding Konsolidační banka and banks under conservatorship; in CZK millions and per cent)

	31 Dec. 1998	31 Dec. 1999	2000			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Tier 1	138 407	128 866	131 918	110 504	111 172	109 962
Tier 2	34 818	36 857	37 073	26 915	26 959	26 552
Deductible items	47 178	32 567	32 047	14 521	11 405	12 253
Total capital	126 047	133 155	136 944	122 898	126 725	124 260
Total capital requirement	-	-	-	59 306	60 637	66 850
Capital requirement A - banking portfolio	-	-	-	55 345	56 700	61 953
Capital requirement B - trading portfolio	-	-	-	3 962	3 936	4 897
Capital adequacy	12.10	13.59	14.02	16.58	16.72	14.87

Reserve resources

(for banks with licences as of 31 December 2000, excluding Konsolidační banka and banks under conservatorship; in CZK millions)

	31 Dec. 1998	31 Dec. 1999	2000			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Provisions	93 933	88 552	72 250	69 554	70 972	59 133
Reserves	34 145	37 946	41 099	37 688	39 083	51 798
Reserve funds	42 499	35 719	36 110	27 759	27 841	27 703
Capital funds	33 967	12 958	13 022	7 096	7 238	6 821
Total reserve resources	204 544	175 174	162 480	142 096	145 134	145 454

Quick assets

(for banks with licences as of 31 December 2000, excluding Konsolidační banka and banks under conservatorship; in CZK millions)

	31 Dec. 1998	31 Dec. 1999	2000			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Cash	26 385	36 894	27 844	29 872	30 723	34 777
Deposits and credits with the CNB	264 548	270 439	283 831	285 123	289 771	285 784
of which: required reserves	85 289	27 754	28 818	29 289	29 981	28 103
Current accounts with banks	11 088	22 053	5 906	8 310	7 625	5 030
T-bills	50 825	80 331	87 704	79 324	84 407	109 126
CNB bills	157 770	201 400	231 245	238 049	241 180	234 412
Total quick assets	510 616	611 116	636 531	640 677	653 707	669 129
Trading securities	94 878	74 941	69 449	42 436	40 773	92 492
of which: bonds	90 962	71 609	61 094	35 412	30 075	37 959
equity securities	3 832	2 927	7 990	4 995	8 476	54 270
Total liquid assets	605 494	686 057	705 980	683 112	694 479	761 621
Percentage share in total assets						
quick assets	23.12	26.37	26.80	27.43	26.51	26.85
liquid assets	27.42	29.60	29.72	29.24	28.16	30.56

Classified credits

(for banks with licences as of 31 December 2000, excluding Konsolidační banka and banks under conservatorship)

	31 Dec. 1998	31 Dec. 1999	2000			
			31 Mar.	30 Jun.	30 Sep.	31 Dec.
Classified credits in CZK millions	258 004	291 061	246 147	243 927	243 302	256 047
as a percentage of total credit volume	26.45	32.15	28.55	28.48	28.07	29.63
of which: watch credits	58 721	92 124	89 683	88 368	84 292	85 341
substandard credits	33 427	39 379	32 556	36 787	36 788	54 064
doubtful credits	35 538	38 433	31 894	32 367	33 387	27 488
loss credits	130 318	121 125	92 014	86 406	88 835	89 154
Classified credits taking into account collateral, in CZK millions	143 997	170 174	149 511	114 609	105 978	118 717
as a percentage of total credit volume	14.76	18.80	17.34	13.38	12.23	13.74
Weighted classification in CZK millions	157 708	152 823	118 685	114 353	117 099	118 222
as a percentage of total credit volume	16.17	16.88	13.76	13.35	13.51	13.68
Weighted classification taking into account collateral, in CZK millions	88 779	98 817	81 369	52 674	52 604	61 451
as a percentage of total credit volume	9.10	10.91	9.44	6.15	6.07	7.11
Reserves and provisions in CZK millions	107 995	103 783	93 180	91 260	93 713	77 144
Surplus(+)/shortfall(-) of reserves, provisions and collateral, in CZK millions	19 216	4 966	11 811	38 586	41 109	15 693
as a percentage of total credit volume	1.97	0.55	1.37	4.50	4.74	1.82

Assets and liabilities by residual maturity as of 31 December 1999

(for banks with licences as of 31 December 2000; in CZK millions)

	Total	of which								
		under 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 5 years	more than 5 years	non-specified
Total assets	2 513 221	392 812	353 818	283 787	206 094	237 036	113 426	223 435	148 118	554 696
Total liabilities	2 513 221	853 126	384 430	242 162	146 207	134 764	149 578	200 309	93 127	309 517
Net balance sheet position	x	(460 314)	(30 612)	41 625	59 887	102 272	(36 153)	23 125	54 991	245 179
Cumulative net balance sheet position	x	(460 314)	(490 927)	(449 302)	(389 415)	(287 143)	(323 295)	(300 170)	(245 179)	(0)
as a percentage of total assets	x	(18.32)	(19.53)	(17.88)	(15.49)	(11.43)	(12.86)	(11.94)	(9.76)	(0.00)
Liabilities taking into account demand deposit liquidity	2 513 221	429 501	426 793	284 525	230 932	198 307	213 122	263 853	156 671	309 517
Net balance sheet position	x	(36 689)	(72 975)	(737)	(24 838)	38 728	(99 696)	(40 418)	(8 553)	245 179
Cumulative net balance sheet position	x	(36 689)	(109 664)	(110 401)	(135 240)	(96 511)	(196 208)	(236 626)	(245 179)	(0)
as a percentage of total assets	x	(1.46)	(4.36)	(4.39)	(5.38)	(3.84)	(7.81)	(9.42)	(9.76)	(0.00)

Assets and liabilities by residual maturity as of 31 December 2000

(for banks with licences as of 31 December 2000; in CZK millions)

	Total	of which								
		under 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 5 years	more than 5 years	non-specified
Total assets	2 722 448	511 274	295 841	235 778	181 322	239 289	115 511	315 038	185 739	642 656
Total liabilities	2 722 448	1 063 835	388 573	186 155	150 637	154 114	150 554	192 163	101 238	335 180
Net balance sheet position	x	(552 560)	(92 732)	49 624	30 685	85 174	(35 043)	122 875	84 501	307 477
Cumulative net balance sheet position	x	(552 560)	(645 292)	(595 669)	(564 984)	(479 809)	(514 853)	(391 978)	(307 477)	(0)
as a percentage of total assets	x	(20.30)	(23.70)	(21.88)	(20.75)	(17.62)	(18.91)	(14.40)	(11.29)	(0.00)
Liabilities taking into account demand deposit liquidity	2 722 448	596 328	435 324	232 905	244 138	224 240	220 680	262 289	171 364	335 180
Net balance sheet position	x	(85 053)	(139 483)	2 873	(62 816)	15 048	(105 169)	52 749	14 375	307 477
Cumulative net balance sheet position	x	(85 053)	(224 536)	(221 663)	(284 480)	(269 431)	(374 600)	(321 852)	(307 477)	(0)
as a percentage of total assets	x	(3.12)	(8.25)	(8.14)	(10.45)	(9.90)	(13.76)	(11.82)	(11.29)	(0.00)

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