

2001

BANKING
SUPERVISION
2001

CNB CZECH
NATIONAL
BANK

BANKING
SUPERVISION
2001

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METHODOLOGICAL NOTE

All data used in this publication are for banks with a licence as of 31 December 2001, unless stated otherwise in the chapter heading or relevant passage. Data are always taken for the bank as a whole, including its foreign branches, with the exception of the data on the structure of credits by sector and economic activity, which comprise the activities of banks in the Czech Republic only.

The data for 2001 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 from that used in publications issued up until 1999. The ongoing process of privatisation 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 banks 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

In the interests of enhancing the transparency of banking business, CNB Banking Supervision has, as in previous years, prepared a wide-ranging report documenting its activities over the past year and describing the development of the banking sector in terms of its efficiency, orientation and compliance with the prudential rules. The aim of this publication is to provide both professionals and the public with information that will foster greater understanding of the developments in what is a key part of the Czech financial sector.

In its own activities last year, CNB Banking Supervision focused on further harmonising the Czech regulations with European Community law. The Czech Republic's expected and approaching accession to the European Union is not only placing heavy demands on compliance with EC directives, but is also putting increasing emphasis on the practical conduct of supervision and on the need to improve its efficiency and effectiveness. These aspects are increasingly being assessed by EU authorities and other international institutions. Last year, this issue was addressed in particular by an IMF/World Bank mission as part of the Financial Sector Assessment Programme and by an EC mission as part of the Peer Review project. Both assessments praised the significant progress made by CNB Banking Supervision in the past period. Their recommendations and comments chiefly concerned consolidated banking supervision, expanding the co-operation between domestic and foreign regulators, and focusing banking supervision on qualitative assessment of banks, and in particular on the inspection of risk management systems and internal control systems. CNB Banking Supervision is devoting considerable attention to all these areas in order to achieve the fastest possible harmonisation with practices in advanced nations.

An important aspect of banking supervision at present is active international co-operation. The major influence of foreign shareholders in the Czech banking sector resulting from the completion of the privatisation of key banks in 2001 will place heavy demands on co-operation with foreign regulators. We are also becoming increasingly actively involved in the preparation of new regulatory recommendations by way of participation in the working groups of the Basle Committee on Banking Supervision. This makes it possible for us to keep up with new trends in banking regulation and, in particular, to apply the experience and knowledge we have acquired in these areas.

The Czech banking sector is steadily becoming increasingly stable, thanks in particular to the completion of the privatisation process accompanied by the clear-out of problem credits from the loan portfolios of the large banks. We expect the presence of major foreign banks in the key banks in the Czech Republic to engender a further strengthening of the sector, not only in terms of its efficiency, but in particular as regards greater prudence, improved quality management, a wider range of services and greater credibility. The primary banking risk in the Czech Republic is credit risk, owing to the banks' persisting orientation towards classic banking products. This risk is gradually decreasing, thanks not only to improvements to the lending process in individual banks, but also to the improving state of the Czech economy. The expected launch this year of a business credit register operated by the Czech National Bank and of a commercial register for natural persons should provide the banks with better information on the quality of prospective clients and help to curb credit risk.

This report is just one of the channels for informing the public about the activities of CNB Banking Supervision and about the results of the banking sector. More and more up-to-date information is being disclosed not only on the CNB website (www.cnb.cz), but also on individual banks' websites in conformity with a CNB regulation on information disclosure. This drive to foster openness and transparency should help to bolster confidence in the Czech banking sector and improve the understanding of the activities and capabilities of CNB Banking Supervision.

Pavel Racoča
Chief Executive Director and Bank Board Member
Czech National Bank

A. BANKING SUPERVISION IN 2001

In 2001, CNB Banking Supervision focused chiefly on making further progress with harmonising the Czech regulations with European Community law and with implementing international standards into banking supervisory practice. The development of the banking regulations is also being determined by the ongoing trends in banking and financial services in the Czech Republic and around the world, including the increasing regulatory demands.

Numerous events have occurred in the Czech banking sector in the recent past that have significantly affected the future development and orientation of banking supervision. These include in particular:

- the structure of the Czech banking sector has changed radically (with predominantly foreign ownership of the banks in the Czech Republic, changes in management and control, and a strengthening of the position of financial groups);
- new financial products (e.g. credit derivatives) and technology (e.g. electronic banking) and new methods for risk management and control (e.g. the development of sophisticated risk measurement models) are gradually being introduced onto the Czech banking market;
- the domestic legislation is undergoing constant revision, new laws are under preparation (e.g. the Commercial Code, the Insolvency Act and the Act on the Pursuit of Business on the Capital Markets), and the laws governing the other regulators on the Czech financial market and regulated entities are being amended (the Insurance Act, the Securities Commission Act, the Anti-Money Laundering Act, etc.);
- a qualitative shift in regulation is apparent at international level toward the monitoring, measurement and control of risks using more sophisticated methods than before and focusing in particular on disclosure of information by banks and regulators (the Basle Committee on Banking Supervision is drafting an entirely new capital adequacy concept – the New Basle Capital Accord – which will subsequently be issued in the form of a directive by the European Community, and is also publishing further recommendations concerning sound practices in all the banking risk areas);
- great emphasis has recently been placed on involving regulators in combating money laundering;
- at international level, co-operation between regulators is increasing and international institutions are stepping up their efforts to monitor and regulate supervisory control and practice in a unified fashion.

CNB Banking Supervision is endeavouring to respond quickly to current developments and to amend and supplement the existing regulatory base and its supervisory activities to include new components that correspond to global trends and enhance the effectiveness and quality of banking supervision.

1. CHANGES TO THE BANKING REGULATIONS

One of the most important changes affecting not just the banking sector, but the economic environment as a whole, was the revision of the Act on the Czech National Bank. The Czech Parliament initially passed an amendment to this Act with effect from 1 January 2001. This significantly curbed the independence of the central bank (laying down, for example, the duty for the CNB to agree with the government on monetary policy issues, the approval of the operating and investment part of the CNB budget by the lower house of the Czech Parliament, and the tying of CNB salaries to

civil service pay scales) and which was at variance with the Statute of the European System of Central Banks. Subsequently, the Constitutional Court – petitioned by the President of the Republic – rescinded some of the problematic passages of the Act, ruling that they were unconstitutional.

Then, with effect from 1 January 2002 and 1 May 2002 respectively, two amendments (Act No. 482/2001 Coll. and Act No. 127/2002 Coll.) were passed which should ensure full compatibility of the CNB's legislative status with the requirements of Community law, including a new definition of the primary objective of the central bank, namely to maintain price stability (the CNB's primary objective was also changed in the Constitution itself).

The fundamental law governing banking regulation is the Act on Banks. A key amendment to this Act, known as the "harmonisation amendment", had been in the legislative process since the end of 1999. After having been rejected by Parliament in 2000, it was submitted again in 2001 in a slightly altered form. Revised by numerous motions in Parliament, this amendment was passed and promulgated as Act No. 126/2002 Coll. The Act took effect on 1 May 2002, save for a number of harmonisation provisions which will take effect when the Treaty of Accession of the Czech Republic to the European Union enters into force. The amendment brought the Czech banking legislation into compliance with EC law and with other international standards relating to banking regulation. Among other things, it provides for tighter and more transparent licensing proceedings and proceedings to grant prior consent to the acquisition or increasing of a qualifying holding in a bank; it places greater emphasis than the previous legislation on the quality and transparency of the relations between a bank, its major shareholders and related entities; and it introduces consolidated supervision not only of bank holding companies, but also of financial and mixed-activity holding companies that include a domestic bank. It also allows the Central Register of Credits administered by the CNB to be put into operation.

Furthermore, a revision to the deposit guarantee scheme in the Czech Republic was adopted in September 2001. This increased the upper limit for coverage of insured deposits to the equivalent of EUR 25,000 in the event of insolvency of a bank. The guarantee remains limited to 90% of the insured deposit. At the same time, the deposit insurance was expanded to include foreign currency deposits, and branches of foreign banks were given the right to opt out of the Czech deposit guarantee scheme where they can demonstrate that the scheme in which they do participate ensures eligible persons a level of protection at least the same as that offered by the Czech scheme. Simultaneously with this amendment, Parliament decided to compensate retroactively the depositors of Pragobanka, Universal banka and Moravia banka, which failed in 1998 and 1999 (all of these former banks are now in bankruptcy), with amounts of up to CZK 4 million per person.

In the area of accounting, CNB Banking Supervision played an active part in the comments procedure of the amendment to the Accounting Act, which was passed with effect from 1 January 2002. Among the main changes introduced by the amendment are an extension of the applicable valuation methods to include fair value and the option of preparing consolidated financial statements in accordance with international accounting standards. Also important is the concept of maintaining accounts as systems of accounting records – the Accounting Act is one of the first Czech laws to regulate electronic documents. The CNB made a significant contribution to the drafting of related Ministry of Finance regulations. It drew up the

background documents for a regulation stipulating the chart of accounts and the accounting procedures for banks and other financial institutions, into which international accounting standards – especially in the area of financial instruments – have been incorporated to the maximum possible extent. The CNB was also involved in work on the text of a regulation governing solo and consolidated financial statements and defining the scope of the information to be disclosed. Among other things, this regulation should foster transparency and market discipline in the banking sector. One very positive development is that these regulations unify the charts of accounts, the accounting procedures and the essential elements of the solo and consolidated financial statements of banks, credit unions, securities dealers, investment companies, and pension, investment and mutual funds. In connection with these regulations, the CNB is drafting a new regulation on disclosure of information by banks.

As regards the secondary legislation falling within the purview of CNB Banking Supervision, decrees and regulations (known as “provisions”) implementing the aforementioned harmonisation amendment to the Act on Banks were drafted during the course of 2001. Their adoption and promulgation was dependent solely on the promulgation and entry into effect of the amendment. They consisted of the following:

- a decree stipulating prudential rules for parent companies on a consolidated basis (decree on consolidated supervision),
- a provision on the capital adequacy of banks and other prudential rules on a solo basis,
- a decree stipulating the essential elements of a banking licence application, the essential elements of an application for the consent of the Czech National Bank to acquire or increase a qualifying holding in a bank, and the essential elements of a notification of a reduction of a qualifying holding in a bank,
- a decree on the terms and conditions of access to information in the CNB database – the Central Register of Credits.

In connection with the preparation and operation of the Central Register of Credits database, the CNB issued a provision stipulating the methodology for submission of selected data by banks and foreign bank branches to the Czech National Bank. This allows information on banks’ debtors to be entered into the register.

A new CNB provision on liquidity management standards applies to banks with effect from 1 July 2001. This is based on a new recommendation of the Basle Committee on Banking Supervision in this area. Unlike the previous regulation, this focuses on each bank’s own strategy for managing liquidity and on the minimum standards that each bank must comply with. Newly stipulated are requirements for the bank’s internal rules and for separate management of liquidity in each major currency individually. Explicit emphasis is placed on the need for sets of limits on the size of liquidity risk and the obligation when managing liquidity to take account of alternative scenarios for the conditions affecting the bank’s liquidity. Finally yet importantly, the requirements for banks’ internal control systems and information policies with respect to liquidity have been formulated in more detail. The provision contains only qualitative requirements for banks. Owing to the wide diversity of the Czech banking sector, the setting of quantitative requirements in the form of limits has been left to the banks themselves, or more specifically to their senior officers.

CNB Banking Supervision also devoted considerable attention to the issue of outsourcing, which is an increasingly common phenomenon in the economy, the banking sector being no exception. CNB Banking Supervision does not wish to prevent the effective use of outsourcing by banks. However, it is emphasising the need for management of the risks associated with the outsourcing of banking and ancillary activities and for observance of banking secrecy and information security in general. To this end, two official information documents were issued defining the regulator's basic views concerning prudent and safe outsourcing in the banking sector.

This account of the newly adopted banking legislation would not be complete without mentioning the new Act No. 321/2001 Coll., on Certain Terms and Conditions for Arranging Consumer Credit. This law concerns not only banks, but also other entities providing this type of credit (including deferred payment for goods and services) and is aimed at aligning the procedures for offering and concluding consumer credit agreements (in particular it introduces the duty to provide information on the "annual percentage rate of charge" for consumer credit). It enacts certain preferential treatment of the consumer relative to the credit provider so that the economic superiority of the professional is at least partially eliminated. The application of this law should lead not only to enhanced consumer protection, but also to better market discipline and greater competition between the businesses operating in this area.

2. BANKING REGULATION – THE CURRENT SITUATION

Bank regulation on a solo basis is almost fully compatible with European law and other key international standards.

In addition to the general legal regulations applicable to other businesses, banks are specifically subject to the Act on Banks, which in some parts is supplemented with provisions (regulations) of the Czech National Bank. In the banking supervision area, the following CNB regulations were in force in 2001 (full wordings of the decrees and provisions currently in force are available on the CNB website <http://www.cnb.cz/>):

- CNB Provision No. 3 of 28 June 1999, on the Capital Adequacy of Banks Including Credit and Market Risk, as amended (this provision also stipulates limits for credit exposure and open foreign exchange positions),
- CNB Provision No. 2 of 8 July 1999 stipulating Terms and Conditions for Performing Supervision on a Consolidated Basis, as amended,
- CNB Provision No. 2 of 27 April 2001, on Standards for Managing Liquidity in Banks,
- CNB Provision No. 193/1998 Coll. stipulating the Principles for Classifying Loan Receivables and for Provisioning for these Receivables,
- 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. 3 of 13 July 2000 stipulating the Minimum Requirements for Disclosure of Information by Banks and Foreign Bank Branches, as amended,
- CNB Decree No. 32/1999 Coll. stipulating the Essentials for an Application for Prior Consent from the Czech National Bank to Acquire Voting Shares in a Bank and the Essentials of Notification about Decreasing a Holding of Voting Shares in a Bank,

- CNB Provision No. 33/1999 Coll. stipulating the Essentials for a Banking Licence Application,
- CNB Provision No. 5 of 1 August 2001 stipulating the Methodology for the Submission of Selected Data by Banks and Foreign Bank Branches to the Czech National Bank.

In line with world trends in banking regulation, the CNB intends to focus its banking regulation and supervisory work in future to a much greater extent on the qualitative aspects of banks' activities, and in particular on inspecting their risk measurement and management systems and internal control systems. The first step in this direction is the aforementioned CNB Provision on Standards for Managing Liquidity in Banks. Standards for the management of each specific financial risk are under preparation. The basic parameter of these standards is the setting of minimum requirements, adherence to which is a condition for limiting the risks concerned.

3. COMPLIANCE OF THE CZECH BANKING REGULATIONS WITH EUROPEAN DIRECTIVES

The approaching accession of the Czech Republic to the European Union is increasingly generating the need for assessments of the compliance of the banking regulations and supervisory work with European directives and international standards. Such assessments are conducted chiefly as part of the projects of international institutions and the European Commission. At the turn of 2000/2001, a Financial Sector Assessment Program (FSAP) was conducted in the Czech Republic by a joint mission of the IMF and the World Bank. A "Peer Review" subsequently took place at the end of 2001. This programme – co-ordinated by experts from the European Commission – focused on the one hand on verifying and evaluating the progress made in harmonising Czech law with European law in the areas of banking and financial markets and transactions, and, on the other hand, on the success with which the law is being implemented in the practical supervision of banks and other subsystems of the Czech financial system.

The FSAP project resulted, among other things, in an overall assessment of the regulatory framework for banking business, which in turn gave rise to a series of recommendations for raising the quality of banking supervision in the Czech Republic. The assessment also included a review of compliance with the *Core Principles for Effective Banking Supervision* issued by the Basle Committee on Banking Supervision. These principles express the best international practices in the area of banking regulation and supervisory work. At the time of the assessment, the Czech Republic was assessed as compliant with 20 of the 25 principles.

The FSAP assessment praised the progress made by CNB Banking Supervision in the recent past and made the following recommendations:

- to enlarge the scope of supervision on a consolidated basis to include financial and mixed-activity holding companies, which in practice means (in connection with the amendment to the Act on Banks): drafting a decree on consolidated supervision and the relevant statements and internal rules for off-site and on-site supervision, including a method for appraising the quality of the consolidated home-country supervision of the banks operating in the Czech Republic; drawing up a concept for the consolidated supervision of foreign branches and subsidiaries; and formulating and implementing an effective method of co-operation between regulators. The CNB should also be given

powers to assess whether the management of financial holding companies of banking groups are fit and proper, to seek and verify information from holding companies and other entities within the group, and to undertake on-site inspections in the financial holding companies of banks and, if necessary, in their subsidiaries;

- to focus the regulations and supervisory work on the qualitative aspect of banks' activities, i.e. on inspecting systems for measuring and managing banking risks, internal control systems, etc. To this end, it is necessary to draw up basic prudential standards in the areas of credit and market risk, country and transfer risk and the principles of internal control systems, and to focus the CNB's supervision on this area. The frequency of the inspections should also be increased, with a strengthening of the interface between on-site and off-site supervision to curb the negative effects of delayed detection of problems. CNB Banking Supervision should be given the statutory power to set individual capital ratios for each bank based on the risk profile of the bank and holding company;
- to strengthen the staffing levels for conducting supervision. Despite the general satisfactory supervisory performance and clear growth in professionalism and understanding of international regulatory standards, the level of expertise in assessing market risks and information system and management system risks remains inadequate. The intention to maintain and further develop experience and expertise in risk measurement and management will require targeted training and professional development of CNB supervisors;
- to introduce a system for appraising the quality and effectiveness of supervision, i.e. the correctness of judgements of a bank's condition based on off-site analyses, decisions to conduct on-site examinations in the light of information on a bank, assessments of the results of on-site examinations, the timeliness and appropriateness of any action taken against a bank, and so on;
- to harmonise the information disclosure requirements for banks with the recommendations of the Basle Committee on Banking Supervision;
- to give the CNB wider powers as regards the range of remedial actions it can apply when the safety and soundness of the banking sector is endangered, e.g. the power to order the sale of an ownership interest of a bank, the power to require closure of a foreign branch, and the power to restrict the bank's activities or require it to forfeit ownership interests if it is not managing its risks properly;
- to formulate a process for suspending shareholders' voting rights, a methodology for assessing a bank's management, and so on;
- to allow external auditors to discuss with the supervisor issues relating to their findings in banks without their having to obtain the prior consent of the bank concerned;
- to incorporate a system of managed liquidation of banks into the Act on Banks.

The Peer Review arrived at similar conclusions. Its concluding report states that following the adoption of the amendment to the Act on Banks, banking supervision in the Czech Republic is up to an internationally acceptable standard, both in terms of the legislation and the quality of supervisory work. The CNB has sufficient means and professional staff for its supervisory duties, is independent and is working towards the implementation of modern methodologies and concepts. In the area of regulation and supervisory work, the mission recommended that the CNB should focus on consolidated supervision, including open and effective co-operation with other (national and international) financial market regulators, and on further development in key areas of modern supervision, in particular the methodology for assessing banks' risk profiles.

CNB Banking Supervision is devoting considerable attention to all these areas. An "Action Plan" has been drawn up responding to all the aforementioned recommendations and specifying individual tasks and a schedule for executing them. Within the amendment to the Act on Banks and the CNB's provisions and decrees, the groundwork has been laid for compliance with several of the recommendations, especially in the area of consolidated supervision.

4. SUPERVISION ON A CONSOLIDATED BASIS

Supervision on a consolidated basis means the monitoring and regulation of the risks to which a bank is exposed by virtue of its membership of a group of related entities, the aim of such supervision being to limit these risks. It does not mean supervision of the individual entities belonging to a consolidated group, nor does it substitute for banking supervision on a solo basis, i.e. supervision of the bank standing alone.

Monitoring the risks to which a bank is exposed as a member of a group has become standard supervisory practice in other countries. In order to align the supervisory procedures in the Czech Republic with international practices, and also to achieve compliance with the relevant EC directives, CNB Provision No. 2 of 8 July 1999 Stipulating Terms and Conditions for Performing Supervision on a Consolidated Basis, as amended, was implemented in 1999. However, this applies only to financial groups headed by a bank. The Provision defines the consolidated group structure, consolidation methods and prudential rules for banking groups. It sets a minimum capital adequacy ratio – incorporating credit risk only – as well as limits on credit exposure.

The limited scope of the CNB's consolidated supervision led to a negative assessment of its compliance with European directives and the Core Principles for Effective Banking Supervision. Consequently, one of the main ideas behind the amendment to the Act on Banks was to lay the groundwork for further enlarging the concept of consolidated supervision to include groups controlled by financial holding companies and mixed-activity holding companies, as required by the relevant EC directive. This amendment requires the CNB to set forth in a decree the prudential rules for parent companies on a consolidated basis.

So, following the adoption of the amendment to the Act on Banks, banks will be subject to supervision on a consolidated basis, i.e. supervision with respect to their membership of groups of related entities (consolidated groups). Three types of consolidated groups are envisaged:

- a) parent bank groups, i.e. groups comprising a parent bank and its subsidiaries and affiliated companies,
- b) financial holding company groups, i.e. groups in which a bank is controlled by a financial institution (other than an insurance company) the subsidiaries of which are mainly other financial institutions (such a parent financial institution being referred to as a "financial holding company"),
- c) mixed-activity holding company groups, i.e. groups in which a bank is controlled by an entity other than a bank or a financial holding company (such an entity being referred to as a "mixed-activity holding company"); the group also includes the other subsidiaries of the mixed-activity holding company.

Banking supervision on a consolidated basis, however, does not mean supervision of the individual members of the group, but supervision of the group as a whole with

respect to the bank's membership of that group (i.e. business, financial and personal interrelations and associated risks). The CNB will not exercise supervision on a consolidated basis over groups subject to comparable consolidated supervision by other domestic or foreign supervisory authorities, including groups which form part of wider groups supervised by the CNB itself. It will, however, exercise supervision of every group controlled by a bank which has its head office in the Czech Republic (i.e. domestic banks and their subsidiaries and affiliate companies).

The related CNB decree, which will take effect on 1 August 2002, stipulates the rules for the delimitation of consolidated groups subject to banking supervision; lays down the criteria for exempting entities from banking supervision on a consolidated basis; stipulates the scope, manner and frequency of the information duty of the members of a consolidated group to the CNB; sets forth data consolidation methods; and provides for the delimitation of regulated consolidated groups, which are bound by the prudential rules for the parent undertakings stipulated in this decree.

Each parent bank, financial holding company and mixed-activity holding company will be required to delimit a consolidated group composed of the parent undertaking itself and its subsidiaries and affiliates. Each parent bank and financial holding company will furthermore delimit a regulated consolidated group comprising its subsidiaries and joint ventures that are either banks, financial institutions other than insurance companies, or ancillary banking services undertakings. A subsidiary or joint venture need not be included in the regulated consolidated group where one of the following criteria is met:

- a) if the subsidiary or joint venture is situated in a country where there are legal impediments to the transfer of the necessary information or impediments to the transfer of profits,
- b) if the balance-sheet total of the subsidiary or joint venture is less than the smaller of the following two amounts: CZK 300 million or 1% of the balance-sheet total of the parent undertaking. If, however, the sum total of the balance-sheet totals of such subsidiaries and joint ventures is equal to or greater than CZK 300 million or 1% of the balance-sheet total of the parent undertaking, they must be included in the regulated consolidated group,
- c) if the holding in the subsidiary or joint venture is being held with the intention of sale in the near future. If the sale is not made within one year of the date of acquisition of the holding, this exemption will not apply and the subsidiary or joint venture must be included in the regulated consolidated group,
- d) if the subsidiary or joint venture is in bankruptcy or liquidation.

The parent bank, financial holding company or mixed-activity holding company will be required to provide the Czech National Bank with a chart showing the structure of the consolidated group and a list of subsidiaries and affiliates, giving for each of these entities the information needed to assess the links between them, the potential risks, etc. In addition to basic identification data and ownership interests, this information will include the names of members of the statutory body and supervisory board and any other control body; the activities entered in the Commercial Register and the activities actually carried on; an overview of the services provided to the parent bank, financial holding company or mixed-activity holding company; a list of any other persons that have qualifying holdings in the subsidiary or affiliate (giving their percentage share of the capital or voting rights or the manner in which such persons exercise a controlling or significant influence over the subsidiary or affiliate); the foreign supervisory authority which exercises supervision of the financial activities of

the subsidiary or affiliate; and whether an audit is to be performed and, if so, by which auditor or auditing company.

The parent bank, financial holding company or mixed-activity holding company will also be required to provide similar information about itself. In addition, it will have to give information on the consolidation method used for each subsidiary and joint venture; a list of any subsidiaries and joint ventures not included in the regulated consolidated group, together with a valid justification for exempting them; a list of the persons that have qualifying holdings in the parent undertaking (giving their percentage share of the capital or voting rights or the manner in which such persons exercise a controlling or significant influence over the parent undertaking); an overview of the services provided by the parent undertaking to the other members of the consolidated group; and an overview of the services that the members of the consolidated group provide to each other.

Parent banks, financial holding companies and mixed-activity holding companies will be required to provide the aforementioned information (corresponding to the position valid as of 31 December 2002) for the first time by 31 January 2003. Thereafter, information corresponding to the position valid as of 31 December of the previous year will be provided regularly by 31 January of the current year. Parent banks, financial holding companies and mixed-activity holding companies will also be required to notify the Czech National Bank at the earliest opportunity of any changes to data subject to the information duty. Financial holding companies and mixed-activity holding companies will submit the information for the members of a consolidated group either themselves or through a bank which is a member of that group.

The prudential rules applying to parent companies that establish a regulated consolidated group (i.e. parent banks and financial holding companies) cover capital adequacy and credit exposure on a consolidated basis.

The methodology for the prudential rules is based on the current CNB Provision No. 3 of 28 June 1999, on the Capital Adequacy of Banks Including Credit and Market Risk, as amended, and is compliant with European law.

The capital of the regulated consolidated group is derived from the consolidated balance sheet of the parent undertaking and comprises paid-up capital, share premium, statutory reserve funds, retained profits, subordinated debt, etc., less deductible items such as accumulated losses, losses of the current financial year and holdings in other banks and financial institutions that are not consolidated.

The need for capital corresponding to the risks taken on by the members of a regulated consolidated group is expressed by capital requirements for the banking and trading portfolios. Parent companies categorise the financial and commodity instruments recorded in the accounts (e.g. deposits, loans, shareholdings and derivatives) into the trading or banking portfolio in compliance with the conditions set by decree, which also include the valuation method. To compute the capital requirements for the trading portfolio and selected positions of the banking portfolio of a regulated consolidated group, either the full consolidation method or the proportional consolidation method may be used under stipulated conditions. Otherwise, the aggregation plus method is applied. The minimum capital ratio for regulated consolidated groups is set at 8%.

The gross exposure of the banking portfolio represents all the instruments (e.g. loans provided, guarantees and shareholdings) that are recorded in the accounts on the assets side. If a loan, for example, is collateralised in a manner permitted in the decree, the credit exposure of the original debtor may be transferred, for the purposes of the prudential rules, to the credit exposure of the collateral provider. A “group of connected entities” means entities linked by a control relationship and other entities so interconnected that, if one of them were to experience financial problems, at least one of the others would be likely to encounter repayment difficulties (the Decree sets out the cases upon which it is necessary to focus when assessing interconnections). The credit exposure limit for the banking portfolio is set at 25%, or 20% for persons having a special relation to the bank, of the capital of the regulated consolidated group.

With the approval of the legal basis for exercising consolidated supervision and with the practical implementation of consolidated supervision at the start of 2003, full compliance will have been achieved with the recommendations of the IMF/WBG’s FSAP and the EU’s Peer Review in the area of consolidated supervision.

5. PRACTICAL EXERCISE OF BANKING SUPERVISION

Banking supervision in the Czech Republic in practice takes the form of off-site supervision and on-site supervision. Off-site supervision includes licensing and authorisation activities – in particular assessing prospective new shareholders – and monitoring and analysing the activities of banks (appraising financial statements and prudential reports for banking supervision). On-site supervision, namely the examination of a bank’s activities directly in the institution itself, is the basic tool for assessing the qualitative aspects of a bank’s activities, in particular its management and control mechanisms.

5.1 OFF-SITE SURVEILLANCE

The CNB’s activities in the area of off-site surveillance focused largely on processes linked with the restructuring of the banking sector, which in 2001 meant chiefly the completion of the privatisation of large banks and the further concentration of the banking sector by way of mergers and sales of businesses. CNB Banking Supervision assessed these changes in detail and issued relevant decisions within the framework of administrative proceedings.

In conformity with its legal powers, CNB Banking Supervision issued a total of 17 administrative decisions in 2001 (chiefly concerning changes in banking licences, acquisitions of holdings in banks and sales of businesses or parts thereof) and opened two other administrative proceedings. It also issued 89 decisions outside the framework of administrative proceedings (opinions on proposed bank auditors; approvals of shareholder structure prior to general meetings; consent to the inclusion of subordinated debt in capital; and approvals of consolidated bank groups). CNB Banking Supervision issued 30 opinions on persons nominated for management positions in banks based on assessments of relevant documents and, in most cases, on interviews conducted. A total of 17 standard remedial measures were applied in 13 banks, most of them requiring the elimination of shortcomings in activities.

The regular monitoring of banks’ activities is based upon quarterly analyses of their financial situation, reviews of compliance with the prudential rules and limits, and on

the monitoring of changes in each bank within a standardised structure. To detect any negative tendencies, monthly signal information on each bank is regularly appraised for the management of CNB Banking Supervision, with proposals being made as regards further supervisory action in banks showing negative trends.

Off-site surveillance centres around the automated Banking Supervision Information Centre, which collects the data from all the reports and statements for banking supervision and generates standard outputs giving a quick overview of the basic indicators of each bank's financial situation and its compliance with the prudential rules.

The recommendations of international organisations in the area of off-site supervision stress the importance of the analysis and assessment of each bank's risk profile, which constitutes the interface between the quantitative and qualitative aspects of assessing a bank's activities. Correct assessment of a bank's risk profile is very important for the targeting of specific supervisory activities vis-à-vis the bank and also for the optimal use of supervisory capacity.

5.2 ON-SITE EXAMINATIONS

On-site examinations are an important means of identifying present and future risks in banks and for taking timely corrective action where necessary. In line with global trends, on-site examinations are focusing increasingly on the assessment of banks' internal management and control systems. The quality and integrity of such systems have a major effect on the estimated level of risk presented by banks to the sector as a whole, and without an appraisal of these systems the prudential level and stability of particular banks cannot be assessed. CNB Banking Supervision is focusing increasingly on verifying and assessing the adequacy, effectiveness and stability of the systems used to identify, measure, monitor and manage the risks to which each bank is exposed.

Another important aspect of on-site supervision is the verification and assessment of the trueness and fairness of reporting to the regulator. Most of the data used in off-site supervision comes from the banks themselves. Periodic verification of the trueness and fairness of this data is therefore of key importance for deciding to what extent the supervisor can rely on the data from the bank itself and on its audited data. The primary verification of the banks' accounting is conducted by external auditors as part of the auditing process. During on-site examinations, CNB Banking Supervision therefore concentrates on verifying and assessing whether the aggregate primary data are correct and whether the integrity of that information is preserved when the reports for the regulator are compiled. Another important area of on-site control is information systems and information technology. The quality, security, reliability and adequacy of IS/IT are a key factor underlying the quality of reporting to the regulator and the functionality of the banks' internal management and control systems.

As part of its inspection work, CNB Banking Supervision carried out twelve on-site examinations, nine of which were in-depth and three were directed at specific banking risks. Such inspections focus increasingly on evaluating the quality of risk management systems and internal management and control systems. In 2001, informative visits took place in eleven banks (19 visits in total), focusing chiefly on strategy, business plans and financial results, partial inspections of loan portfolios, implementation of remedial measures, and preparation of on-site examinations.

Likewise, discussions were held with senior bank management; in the case of problems these were held on a regular basis.

Discussions on points of contention were held following the publication of the banks' annual financial statements and auditors' opinions. These were either bilateral (between the CNB and the auditor, when dealing with general professional issues) or trilateral (including the bank concerned, when discussing its specific situation). 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. Information from the meetings with auditors was used, among other things, during the revision of the relevant passages of the draft amendment to the Act on Banks.

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 presentations allowed auditors and supervisors to establish informal professional contacts and to reach agreement on numerous points of contention.

The tragic events of 11 September 2001 heightened the worldwide perception of the threat of terrorism and led to numerous measures being adopted in the area of the war on terrorist financing. CNB Banking Supervision contributed to this activity (along with the fight against money laundering). In addition to inspecting compliance with Act No. 61/1996 Coll., on Certain Measures Against Money Laundering and on the Amendment of Related Acts, as amended, by banks and branches of foreign banks, it acted as co-ordinator between the Financial Analytical Unit of the Ministry of Finance, the Ministry of Foreign Affairs and banks and branches of foreign banks in the adoption of measures to identify the accounts of suspicious persons and financial transactions subject to UN Security Council sanctions under its anti-terrorism resolutions (against the Taliban etc.).

6. CO-OPERATION WITH OTHER REGULATORS AT DOMESTIC AND INTERNATIONAL LEVEL

The banking sector's key position in the Czech financial system, the existence and growth of financial groups, and the crucial role of foreign capital in domestic banking are together increasing the need for the Czech National Bank to communicate and co-operate effectively with the other domestic regulators and with regulators in other countries.

The qualitative shift in the approach to regulation and the preparations for introducing consolidated supervision, which will focus on monitoring and controlling the risks in the group as a whole, requires not only the drafting and issuance of appropriate regulations, but also systematic co-operation with other regulators on the domestic and foreign market. In 2001, CNB Banking Supervision started work on a new tripartite co-operation agreement between the CNB, the Securities Commission and the Ministry of Finance. This should define more clearly the forms of co-operation, especially as regards supervision of consolidated groups. Consolidated supervision, which is expected to start in 2003, will chiefly concern banking groups, which currently predominate in the Czech Republic.

Co-operation with regulators from other countries is based on agreements (known as Memoranda of Understanding) defining principal areas of co-operation, such as exchange of information and common procedures for supervision of subsidiaries and branches of foreign banks. An agreement on supervisory co-operation was signed with the National Bank of Slovakia in 1999, and a similar agreement was signed with the Austrian Ministry of Finance in 2001 (and is available on the CNB's website). Analogous documents are also being prepared with the supervisory authorities in France, Belgium, the Netherlands and Germany, i.e. the countries which have banks operating in the Czech Republic through subsidiary banks or branches.

The year 2001 saw continuing informal practical co-operation with banking supervisors in other countries, chiefly by way of providing information on shortcomings detected in the activities of foreign banks and their branches operating on the Czech market to foreign regulators (in Germany, Austria, France and Slovakia) or in the form of consultations during informative visits by foreign regulators to such banks (for example regulators from the USA in the case of GE Capital Bank and Citibank, and the Belgian regulator in the case of ČSOB). One special case was the CNB's co-operation with foreign regulators in clarifying commercial bank IPB's transactions with funds on the Cayman Islands, which involved communicating with regulators in the United Kingdom, Japan, the Netherlands and the Cayman Islands.

The EU Institution-Building Programme (known as "twinning") was completed in 2001. This programme has been set out to align the Czech banking supervision regulations and supervisory methods and procedures with practices in the EU. Implemented in the banking area by the German Federal Ministry of Finance in co-operation with the National Bank of Greece, the project generated a wealth of valuable information in the areas of market risk management, supervision on a consolidated basis, analyses of the financial position of banks, general methods for on-site examinations and specific on-site examination procedures (manuals) for particular areas, including information technology. In addition to many face-to-face consultations and discussions on these topics, the project encompassed a series of seminars, for example on financial products, internal models employed by banks for setting capital requirements, and on consolidated supervision.

CNB Banking Supervision was also actively involved in the preparation of the New Basle Capital Accord. In January 2001, the Basle Committee on Banking Supervision published the second version of the draft Accord. The existing Accord has made a major contribution to the stability and soundness of banking systems, but in an environment of rapidly developing financial markets it has become out of date and is no longer considered adequate. The newly proposed rules adopt a more sensitive approach to credit risk measurement and management. For the first time the rules address operational risks. On the other hand, they bring no major changes in the area of market risk. Other new features include the use of ratings from rating agencies in order to assign risk weights to receivables, an individualised approach by regulators to each bank, and increased demands regarding the disclosure of information by banks and regarding the setting of capital requirements on a consolidated basis. Overall, this is a comprehensive system of regulations that should improve the methodology for measuring banking risk.

Co-operation is also being developed with the professional organisations active in the banking sector (in particular the Czech Banking Association and the Chamber of Auditors of the Czech Republic) in the areas of the methodology and practical conduct of banking supervision. New draft regulations are being discussed with the

Czech Banking Association, and in particular with its new Commission for Banking Regulation. The centre of attention at the moment is the aforementioned New Basle Capital Accord, which is expected to be introduced in 2006. This will be a very demanding process, so, to smooth the path, the CNB, the Czech Banking Association and the Chamber of Auditors are preparing a common strategy.

Following the terrorist attacks in the USA and the subsequent heightened international efforts to crack down on terrorist financing, other global criminal activity and money laundering, CNB Banking Supervision intensified its co-operation with other authorities involved in these issues (in particular the Financial Analytical Unit at the Czech Finance Ministry). To prevent such criminal activity, the CNB is preparing a new regulation for banks which is based on the "know-your-customer" principle.

Co-operation is also continuing within the regional group of banking supervisors from Central and Eastern Europe. In 2001, the group's regular conference was held in Vilnius. The conference focused on the New Basle Capital Accord and on co-operation between regulators. In collaboration with the Financial Stability Institute at the BIS, special seminars were organised in 2001 for experts from Central and Eastern Europe. A seminar on the theme of credit risk, attended by 32 representatives from 12 nations, took place in Prague in May 2001.

7. MAIN TASKS FOR THE PERIOD AHEAD

At the start of 2002, a new medium-term banking supervision conception was approved for the period 2002–2004, i.e. the run-up to the Czech Republic's expected accession to the European Union. The main tasks for this period thus focus on the completion of full harmonisation with European Community law and on raising the quality of supervisory work to internationally recognised standards.

The main objectives of the medium-term plan, which is based not only on the recommendations ensuing from the assessment programmes of international institutions, but also on the CNB's own endeavours to improve the quality and effectiveness of its supervision, are as follows:

- to establish a comprehensive regulatory framework for banks and consolidated groups containing banks that will steer them towards prudential business yet will not curb fair competition. This framework must be clear and transparent, meet the criteria of EC directives and the recommendations of the Basle Committee and other international institutions, and be in line with best international practices;
- to systematically monitor and study the latest world trends in banking and regulation, to analyse their possible implementation in the Czech Republic, and to engage more actively in co-operation with international institutions in the supervision of financial markets;
- to create a comprehensive system for a new approach to supervision taking the form of monitoring of the risk profiles of banks;
- to monitor and appraise the effectiveness of banking supervision;
- to develop 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 the other regulators in the Czech Republic (the Securities Commission and the Ministry of Finance), to standardise gradually the rules for regulated entities and the procedures and methods used to supervise them;

- to initiate more effective co-operation with the Czech Banking Association and the Chamber of Auditors of the Czech Republic;
- to develop information support for supervisory work;
- to develop analysis of the banking sector, not only with regard to the prudential indicators, but also with regard to the effect of macroeconomic factors on the development of the sector and its competitiveness and stability;
- to further enhance the transparency of supervisory activities, this being one of the key prerequisites for proper public understanding of the banking supervisor's function;
- to exercise high-quality, highly professional supervision of banks and consolidated groups, harmonised with international standards and based on the particular risk profile of each bank or consolidated group.

To meet these objectives, CNB Banking Supervision will base its activities on the following principles:

- the regulation of banks and branches of foreign banks will be developed in harmony with EC law and international standards;
- the regulations will respond to the development of new banking products and technology in the banking sector;
- the supervisory work will respond immediately to changes in the regulatory environment and implement internationally recognised standards;
- the supervisory work will be based on a combination of off-site surveillance, on-site examinations and the use of bank auditors' findings;
- the supervisory work will focus on the primary risks of the banking sector, or, to be more specific, on the primary risks of each bank and consolidated group;
- the supervisory work will be based on open and constructive working relations between the CNB and banks, consisting chiefly in regular and systematic verification of the banks' financial results and other relevant data and information on their activities;
- CNB Banking Supervision will communicate openly and co-operate with other regulators in the Czech Republic and in other countries;
- CNB Banking Supervision will endeavour to be as open as possible to the public as regards its plan of activities, the regulations under preparation and the publication of studies, aggregate analyses of the banking sector, etc.

B. THE BANKING SECTOR IN 2001

1. THE ECONOMIC ENVIRONMENT IN 2001

The year 2001 confirmed the gradual recovery of the Czech economy, a trend which emerged during 2000. The generally improving economic situation – characterised by the positive development of key macroeconomic indicators, economic success in the corporate sector and the growing purchasing power of the population – is feeding through into the banking sector, which is an inseparable part of any economy. The banking sector is affected not just by the real economy, but to a large extent by the legal environment as well, which in 2001 saw further significant progress in alignment with the European legislation (see Section A.1.).

In 2001, gross domestic product recorded a second consecutive year of growth. The fact that the slackening of the economic boom abroad led to an only modest slowdown in the growth rate of the Czech economy during the year testifies to the robustness of this recovery. GDP growth of 3.6% was recorded in 2001, an increase of 0.7 points on a year earlier. Gross domestic product amounted to CZK 1,499.2 billion at constant prices in 2001.

Domestic demand growth and inflation abroad exerted no upward pressure on consumer price inflation. Except for a deviation in the summer months, inflation was subdued. Inflation was 4.1% in December 2001 and fluctuated within the 4%-6% range throughout the year. In December 2001, net inflation was 2.4%, which meant that the end-2001 inflation target range of 2%–4% was hit. In 2001, the CNB conducted monetary policy under a regime of inflation targeting for the fourth consecutive year. With inflation and interest rates having been brought down to a relatively low level (close to that in the EU) the previous year, in 2001 the objective of maintaining macroeconomic stability and thus establishing the right conditions for continuing economic recovery was successfully achieved.

One of the anti-inflationary factors was an appreciation of the koruna's exchange rate against the euro. The appreciation trend of the koruna strengthened at the end of the year on the back of market expectations of an increase in the inflow of privatisation proceeds into the Czech Republic and their conversion (to a relatively large extent) on the foreign exchange market. From an annual average of CZK 35.61 to the euro in 2000, the koruna strengthened to CZK 34.08 to the euro in 2001. The koruna's average exchange rate against the dollar firmed from CZK 38.59 to CZK 38.04 in the same period.

Compared with 2000, the unemployment rate was lower throughout the first half of 2001, but increased slightly in the second half of the year. By December 2001 it had reached 8.9%, which was 0.1 points higher than a year earlier. The ongoing economic recovery thus failed to generate a decrease in the unemployment rate, and the adequate supply of labour prevented any excessive growth in unit wage costs. The average nominal wage increased by 8.5% and the average real wage by 3.6% in 2001.

The slowdown in economic growth abroad partially affected Czech foreign trade. The annual growth rate of exports and imports declined during the course of the year. On average, import growth was higher than export growth, meaning that the contribution of net exports to GDP growth was negative throughout 2001. The trade deficit in 2001 was CZK 119.0 billion. The current account deficit of CZK 101.0 billion was fully offset by a surplus of CZK 153.3 billion on the financial account.

Short-term interest rates rose at the beginning of July 2001 after the announcement of unfavourable inflation figures. This was followed by a rise in interest rates at all

maturities. A turnaround in domestic interest rates occurred in August amid signs of slackening demand in the USA and the EU. This led to expectations of a lowering of interest rates in the USA and the eurozone. Domestic interest rates continued declining (with minor fluctuations) until the end of the year. During 2001, the discount rate fell from an initial 5.0% to 3.75%, the Lombard rate from 7.5% to 5.75% and the two-week repo rate from 5.25% to 4.75%.

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

2.1 NUMBER OF BANKS

(for banks with licences as of the given date)

As of 31 December 2001, the Czech banking sector was made up of 38 banks and foreign bank branches. This is the smallest number of entities with banking licences operating in the Czech Republic since 1993. Of the 63 licences granted since 1989, a total of 25 have been terminated, 17 of them because of the poor financial condition of the bank concerned and its non-compliance with prudential rules (as a rule at the initiative of CNB Banking Supervision and sometimes at the request of the bank themselves). Six banking licences have been terminated because of sales and mergers, one bank failed to start operating within the mandatory deadline, and one bank has been transformed by law into a specialised agency.

The number of banks in the Czech banking sector peaked in 1994 and 1995, at 55. Since then, the number has fallen by several banks each year owing to the consolidation of the sector. The largest decrease occurred in 1998, when, as in 1997 and 1999, several banks closed down as a result of their poor financial condition. In 2000 and 2001, the decline was primarily due to bank mergers, a phenomenon seen throughout the world. In the Czech economy, the mergers were mainly between foreign-owned banks and reflected changes affecting parent banks abroad.

As in 2000, the number of banks fell by two in 2001 because of the merger of HypoVereinsbank CZ and Bank Austria Creditanstalt Czech Republic on 1 October 2001 (to form HVB Bank Czech Republic a.s.) and the conversion of Konsolidační banka into Česká konsolidační agentura (Czech Consolidation Agency). On 31 August 2001, Konsolidační banka ceased operations and all of its business was transferred to the new agency.

TABLE 1
NUMBER OF BANKS BY OWNERSHIP
for banks carrying on activities for clients

| | BANKS TOTAL | OF WHICH: | | | | | | | | UNLICENSED BANKS |
|--------------|----------------|------------------------|------------------------------------|--------------------------|-------------------------------|--|--------------------------|---------------------------------|-----------------------------|---------------------|
| | | CZECH-CONTROLLED BANKS | | | | | FOREIGN-CONTROLLED BANKS | | | |
| | | TOTAL | STATE FINANCIAL INSTITUTIONS | STATE- OWNED BANKS | CZECH- CONTROLLED BANKS | BANKS UNDER CONSER- VATORSHIP | TOTAL | FOREIGN- CONTROLLED BANKS | FOREIGN BANK BRANCHES | |
| 1 Jan. 1990 | 5 | 5 | 4 | 1 | 0 | 0 | 0 | 0 | 0 | x |
| 31 Dec. 1990 | 9 | 9 | 4 | 1 | 4 | 0 | 0 | 0 | 0 | x |
| 31 Dec. 1991 | 24 | 20 | 4 | 1 | 15 | 0 | 4 | 4 | 0 | x |
| 31 Dec. 1992 | 37 | 26 | 1 | 4 | 21 | 0 | 11 | 9 | 2 | x |
| 31 Dec. 1993 | 52 | 34 | 1 | 4 | 28 | 1 | 18 | 12 | 6 | x |
| 31 Dec. 1994 | 55 | 34 | 1 | 4 | 28 | 1 | 21 | 13 | 8 | 2 |
| 31 Dec. 1995 | 55 | 32 | 1 | 6 | 25 | 0 | 23 | 13 | 10 | 5 |
| 31 Dec. 1996 | 53 | 30 | 1 | 6 | 18 | 5 | 23 | 14 | 9 | 7 |
| 31 Dec. 1997 | 50 | 26 | 1 | 6 | 15 | 4 | 24 | 15 | 9 | 11 |
| 31 Dec. 1998 | 45 | 20 | 1 | 5 | 14 | 0 | 25 | 15 | 10 | 18 |
| 31 Dec. 1999 | 42 | 15 | 1 | 4 | 10 | 0 | 27 | 17 | 10 | 21 |
| 31 Dec. 2000 | 40 | 14 | 1 | 4 | 8 | 1 | 26 | 16 | 10 | 23 |
| 31 Dec. 2001 | 38 | 12 | 0 | 3 | 8 | 1 | 26 | 16 | 10 | 25 |

Since 1998, the majority of banks in the Czech banking sector have been foreign-controlled. Their share of the total has been rising since that year and as of 31 December 2001 was totally dominant.

The most significant group of banks as classified in terms of the amount of their total assets remains the group of large banks, which comprised three banks at the end of 2001. These are mostly banks with a universal orientation in terms of both type of business and type of client. However, the share of retail clients and corporate clients varies in each bank. Owing to the conversion into a non-bank agency of Konsolidační banka, which in 2001 was the only bank having the form of a state financial institution, the number of large banks fell by one. Given the size of this bank (which had considerable total assets and a correspondingly large credit portfolio), the consequences of its removal from the banking sector are mainly visible in the financial indicators relating to the balance sheet indicators, both in the banking sector as a whole and (even more so) in the group of large banks itself.

The largest bank groups in terms of the number of banks they contain were the medium-sized banks and foreign bank branches. Both groups consisted of 10 banks at the year-end. More than two thirds of the medium-sized banks were controlled by foreign owners as of 31 December 2001, and many of them have been under foreign ownership for some time. These banks (and foreign bank branches) therefore clearly tend to focus on foreign banks and foreign non-bank institutions and execute more foreign exchange transactions as a share of the total than do the other groups. Most of the medium-sized banks and foreign bank branches are geared mainly towards corporate clients (although there are some exceptions) and the interbank market. They are also heavily involved in derivatives transactions.

Building societies have been operating in the Czech Republic since 1994. There are six of them. In addition to the Act on Banks, building societies (unlike other banks) are subject to an additional law regulating building savings schemes in the Czech Republic. Eight banks belonged to the small banks group as of 31 December 2001. The orientation of the individual banks in this group is very diverse, both from the point of view of preferred types of business and with regard to their attitude to the latest electronic banking technology. Although foreign entities are continuing to increase their equity holdings in the group of small banks, the ratio between foreign and Czech owners as of 31 December 2001 was almost 1:1. The same goes for building societies. IP banka was the only bank under conservatorship as of 31 December 2001, the same as at the end of 2000.

2.2 OWNERSHIP STRUCTURE

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

In 2001, the share of foreign owners in the equity capital of the banks in the Czech banking sector continued to grow sharply. The main factor underlying the changes in the ownership structure of the banking sector in 2001 was the completion of Komerční banka's privatisation through the sale of the state's controlling interest to Société Générale of France. Komerční banka had been the last of the large banks in state ownership. The new shareholders of the large banks are foreign banks based in Belgium, France and Austria.

Foreign capital also plays a major role in the equity capital of the other groups of banks. As of the end of the year, foreign capital predominated in seven medium-sized

banks, four small banks and two building societies. The number of banks controlled by foreign capital remained unchanged compared with the end of 2000, because in parallel with the privatisation of Komerční banka, HypoVereinsbank CZ merged with Bank Austria Creditanstalt Czech Republic, causing one foreign-owned bank to go out of existence. Another four banks are controlled by foreign owners indirectly via their parent companies, which despite being legal entities based in the Czech Republic are majority-owned by foreign capital.

Foreign entities held a 70.0% stake in the total equity capital of the Czech banking sector as of 31 December 2001, an increase of 15.5 points on a year earlier. An increasingly large share of the foreign capital is concentrated in European Union member states; at the end of 2001 this share surpassed the 50% mark for the first time.

The share of Czech private entities in the equity capital of domestic banks increased in 2001. However, this increase is not due to growth in the volume of their ownership interests, but to a decline in the overall volume of capital following the conversion of Konsolidační banka into a non-bank agency.

The state and municipalities are involved in only three banks, which specialise in government programmes in the areas of exports, support for small businesses and municipal policy.

The growing predominance of foreign capital in the activities of the Czech banking sector is also apparent when one looks at its share in total assets. As of 31 December 2001, foreign shareholders (i.e. those owning more than 50% of the equity capital, including all foreign bank branches operating in the Czech Republic) controlled 90.1% of the total assets of the sector. This is 23.7 points more than as of 31 December 2000. Including banks owned indirectly by foreign entities through subsidiaries operating in the Czech Republic, the figure increases to 94.2%.

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

The year 2001 saw a continuing downward trend in the number of banking employees, at about the same rate as in 2000. At the end of 2001, there were 40,871 people working in the Czech banking sector, 9.0% less than a year earlier. However, the reductions occurred only in large banks and foreign bank branches. The medium-sized banks and building societies, on the contrary, strengthened their workforces.

The trend in the number of banking units is closely related to the trend in the number of employees. The number of banking units as of 31 December 2001 was 1,751, a 3.1% decline compared with a year earlier. On the one hand, the downsizing of branch networks in the Czech Republic represents a reduction in the quantitative level of service in the Czech Republic. On the other hand, the availability of banking services is being re-directed towards alternative distribution channels of direct banking. This is increasing the quality of services, because clients do not need to visit the bank and in many cases have access to accounts 24 hours a day. The large banks recorded the biggest decline in the number of branches: a decrease of 45 banking units to 1,257 as of 31 December 2001. As the large banks are planning further restructuring of, and reductions in, branch networks simultaneously with reductions in workforce, the number of employees per branch can be expected to remain at approximately same level as at the close of 2001.

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

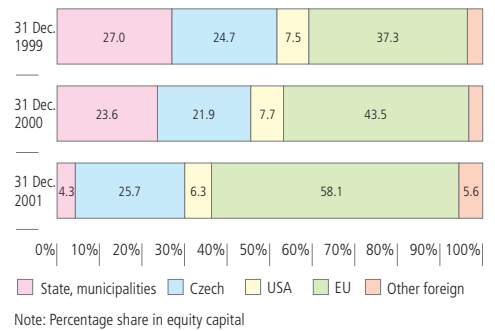


CHART 2
STRUCTURE OF TOTAL ASSETS BY OWNER
AS OF 31 DECEMBER 2001
for banks with licences as of 31 December 2001

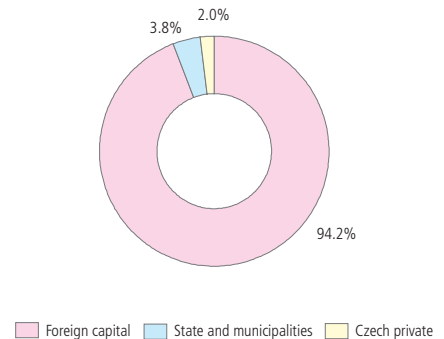


CHART 3
STRUCTURE OF BANKING UNITS AND EMPLOYEES
BY BANK GROUP
for banks with licences as of 31 December 2001

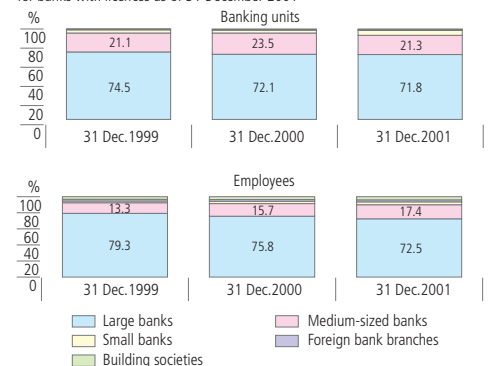


TABLE 2
NUMBER OF EMPLOYEES AND BANKING UNITS IN THE
BANKING SECTOR

for banks with licences as of the given date

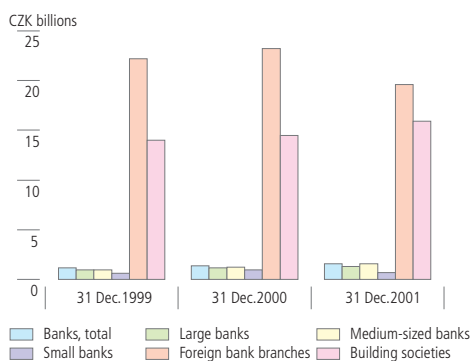
| | 31 DEC. 1996 | 31 DEC. 1997 | 31 DEC. 1998 | 31 DEC. 1999 | 31 DEC. 2000 | 31 DEC. 2001 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Number of employees (thous.) | 60.1 | 54.0 | 52.8 | 49.4 | 45.5 | 40.9 |
| Number of banking units (thous.) | 3.2 | 2.5 | 2.2 | 2.0 | 1.8 | 1.8 |
| Number of employees per bank (thous.) | 1.1 | 1.1 | 1.2 | 1.2 | 1.1 | 1.1 |
| per banking unit | 19.0 | 21.9 | 23.8 | 24.6 | 25.2 | 23.3 |
| Number of citizens per bank (thous.) | 194.5 | 206.0 | 228.7 | 244.7 | 256.7 | 270.3 |
| per banking unit (thous.) | 3.3 | 4.2 | 4.6 | 5.1 | 5.7 | 5.9 |
| per employee | 171.4 | 190.8 | 195.0 | 208.2 | 225.6 | 251.3 |

The number of employees and banking units, and in particular the productivity indicators, are developing differently within the individual bank groups. These trends depend on two main factors. The biggest factor is the type of transaction the bank prefers, which is closely related to the market segment the bank is geared towards. Retail banking puts higher demands on numbers of employees and branches, and always will do. The development of electronic forms of banking in the Czech Republic is having a positive effect as regards the operating costs of banking activities.

In the period under review, in addition to the falls in workforce and banking units, the number of banks operating in the Czech banking sector decreased. Consequently, the decline in workforce and banking units per bank is not as significant as the drop in workforce and banking units alone. As of 31 December 2001, there were 1,076 employees per bank on average, a fall of 5.5% from 2000, and 23 employees per banking unit, a fall of 7.5%.

As for the demographic trend in the Czech Republic, the population size is stable. There were 10,269,700 citizens at the end of 2001. The productivity of the banking sector measured in terms of the number of citizens per bank, banking unit or employee therefore depends solely on developments within the sector. As of 31 December 2001, there were 270,300 citizens per bank, 5.3% more than a year earlier, and 5,900 citizens per banking unit, 3.5% more than in 2000. At the close of the year, each banking employee was serving 251 citizens on average, a rise of 11.4% compared with a year earlier.

CHART 4
TOTAL ASSETS MANAGED PER BANKING UNIT
for banks with licences as of 31 December 2001



Apart from the one exception of a decline in the group of small banks in 2001, average total assets per employee has shown an upward trend in all bank groups over the last three years. At the end of 2001, the figure was CZK 68.1 million on average. This indicator was highest in foreign bank branches (almost five times higher, in fact) and lowest in the small banks.

Average total assets per banking unit have been growing in recent years. However, the trends within the individual bank groups have been less balanced than in the case of total assets per employee. As of 31 December in 2001, each banking unit administered assets of CZK 1.6 billion on average. This figure was most affected by the large banks with their extensive branch networks. Medium-sized banks were closest to the average. In the groups of foreign bank branches and building societies, the total assets managed per banking unit were several times higher than in other bank groups. The relatively high figure in the building societies group was due to the fact that the building societies that are subsidiaries of large banks also use the branch networks of their parent companies.

The new technology in banking is facilitating reductions in the number of bank employees and branch networks without any decrease in the scope and quality of services. The development of direct banking and the rise in the number of payment cards continued in 2001 in all clientele segments. However, the growth in the number of payment cards, most notably cash withdrawal cards and debit cards, is gradually slowing as the market becomes increasingly saturated.

At the moment, the use of credit cards, be they debit cards or credit cards, does not correspond sufficiently to their desired purpose, namely payment for goods and services. Such cards are mostly used for withdrawing cash from ATMs. The proportion of cards with this function is increasing year by year and had reached 99.7% by the end of 2001. The number of ATMs at which such cards can be used stood at almost

2,000 at the year-end and has been growing continuously since 1996. There are four ATM networks at present, each having a different operator.

The number of card withdrawals per year is increasing continuously, as is the volume of cash withdrawn by clients each year using ATMs. The number of such transactions reached 100.7 million in 2001, with an annual turnover of CZK 232.7 billion. The average amount per withdrawal in 2001 was CZK 2,311, representing a rise of 13.0% on 2000. Despite the continuing upward trend, the growth in the number of transactions and in the relevant annual volumes is gradually slowing. This is due mainly to rising fees for using ATMs as well as to a continuing upward trend in non-cash payments (i.e. the use of various forms of direct non-cash payment for goods and services).

There were 4,516,300 debit cards at the end of 2001. The number of debit cards is rising constantly, as is the number of terminals through which such cards can be used to make payments. The upward tendency in both the number of debit cards and the number of relevant terminals slowed in 2001. The same can be said for card use and transaction turnover.

The number of credit cards had reached 53,200 by the end of 2001, which is a very small amount compared with the number of debit cards. However, they are growing at a much faster pace than debit cards. Credit cards recorded a particularly large increase in 2000, surging almost sevenfold in number.

Of the total of 920.1 million non-cash payments made in 2001, transactions carried out in person predominated. Alternative forms of payment making use of the various possibilities of electronic banking together made up just 7.4% of the total number of payments. Payments received by banks via the new technology accounted for 20.3% of the total volume of such transactions (which reached CZK 84,633.5 billion).

A total of 92.6% of all payment instructions and 79.7% of the monetary volumes thereof were executed in person. Telephone banking also accounted for a major proportion of non-cash payments, with 5.3% of the number of transactions and 14.4% of the total volume. Altogether, 1.7% of the transactions and 5.9% of the volumes transferred were executed via a PC or other terminal. Mobile telephones, despite their enormous expansion in 2000 and 2001, did not play a significant role in such transactions.

2.4 CONCENTRATION

(for banks with licences as of the given date)

The process of concentration of the banking sector witnessed in recent years continued into 2001, reflecting to a certain extent the similar trend abroad. The concentration process is not confined to the banking industry, but is affecting the entire economy. In the banking sector, as in other areas of the economy, the number of market participants offering particular goods and services has been decreasing. Weaker entities are becoming targets for takeovers. Other companies are merging and the newly established organisations are several times bigger than the original ones. In the Czech Republic, the concentration process in the banking sector relates mainly to the privatisation of the banks co-owned by the state. Such privatisations are usually accompanied by a merger with a subsidiary bank or branch of the new investor, if it operates in the Czech Republic. Another important factor is the merger of foreign-owned Czech banking institutions when their foreign owners merge.

TABLE 3
SELECTED TYPES OF PAYMENT CARDS, ATMS AND ATM NETWORKS

| for banks with licences as of the given date | | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 31 DEC. 1996 | 31 DEC. 1997 | 31 DEC. 1998 | 31 DEC. 1999 | 31 DEC. 2000 | 31 DEC. 2001 |
| Cash withdrawal cards (thous.) | 569.9 | 408.9 | 1 590.2 | 2 784.5 | 3 976.6 | 4 556.3 |
| Number of ATM networks | 4 | 4 | 5 | 4 | 4 | 4 |
| Number of ATMs | 1 169 | 1 322 | 1 463 | 1 499 | 1 602 | 1 923 |
| Annual number of transactions (millions) | 38.6 | 49.4 | 59.1 | 70.0 | 85.8 | 100.7 |
| Annual transaction turnover (CZK billions) | 48.9 | 67.3 | 91.3 | 128.0 | 175.5 | 232.7 |
| Debit cards (thous.) | 1 288.3 | 1 478.7 | 1 881.8 | 2 790.0 | 3 960.4 | 4 516.3 |
| Number of terminals | 1 100 | 2 985 | 6 628 | 8 962 | 13 187 | 17 931 |
| Annual number of transactions (millions) | 0.9 | 1.4 | 2.8 | 6.0 | 14.5 | 26.6 |
| Annual transaction turnover (CZK billions) | 2.4 | 3.9 | 8.4 | 14.0 | 27.0 | 44.7 |
| Credit cards (thous.) | 0.0 | 1.7 | 3.6 | 5.6 | 38.7 | 53.2 |

Note: Cards issued by banks only

CHART 5
METHODS OF SUBMITTING INSTRUCTIONS TO BANKS IN 2001
for banks with licences as of 31 December 2001

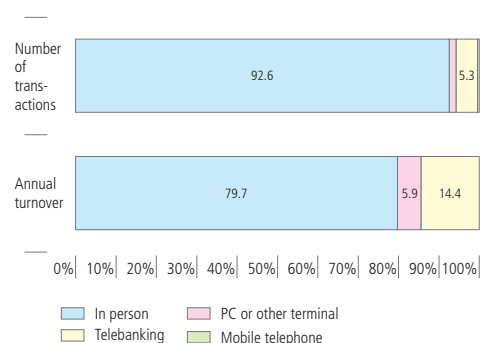


TABLE 4
BREAKDOWN OF BANKS BY SIZE OF EQUITY CAPITAL
for banks with licences as of the given date

| CZK BILLIONS | 31 DEC. 1996 | 31 DEC. 1997 | 31 DEC. 1998 | 31 DEC. 1999 | 31 DEC. 2000 | 31 DEC. 2001 |
|--------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| over 5 | 5 | 5 | 6 | 6 | 6 | 5 |
| 2.5 to 4.9 | 1 | 4 | 1 | 0 | 0 | 0 |
| 1 to 2.4 | 14 | 13 | 13 | 13 | 12 | 12 |
| 0.5 to 0.9 | 7 | 9 | 7 | 6 | 6 | 6 |
| 0.5 | 14 | 8 | 8 | 7 | 6 | 5 |
| under 0.5 | 3 | 2 | 0 | 0 | 0 | 0 |

CHART 6
EQUITY CAPITAL DISTRIBUTION OF BANKS
AS OF 31 DECEMBER 2001
for banks with licences as of 31 December 2001

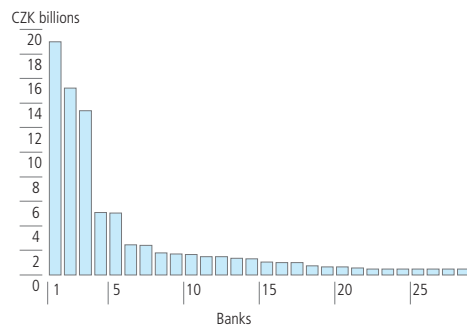
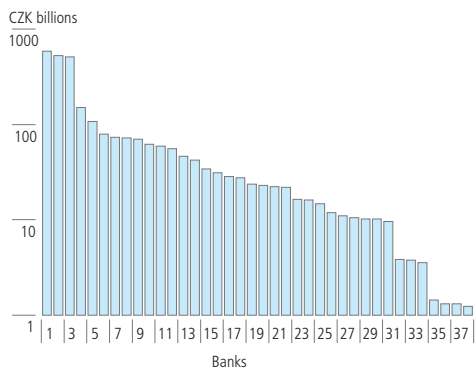


TABLE 5
BREAKDOWN OF BANKS BY SIZE OF TOTAL ASSETS
for banks with licences as of the given date

| CZK BILLIONS | 31 DEC. 1996 | 31 DEC. 1997 | 31 DEC. 1998 | 31 DEC. 1999 | 31 DEC. 2000 | 31 DEC. 2001 |
|--------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| over 100 | 5 | 5 | 5 | 5 | 5 | 5 |
| 50 to 99 | 2 | 2 | 4 | 6 | 6 | 7 |
| 25 to 49 | 5 | 11 | 11 | 10 | 8 | 6 |
| 10 to 24 | 15 | 15 | 10 | 8 | 9 | 12 |
| under 10 | 26 | 17 | 15 | 13 | 12 | 8 |

CHART 7
TOTAL ASSET DISTRIBUTION OF BANKS AS OF 31 DECEMBER 2001
for banks with licences as of 31 December 2001



The concentration process in the Czech Republic continued during 2001 with the merger of HypoVereinsbank CZ and Bank Austria Creditanstalt Czech Republic. The size of the banking sector was also significantly affected by the transformation of Konsolidační banka, which, since 1 September 2001, has been administering assets as a specialised non-bank institution (called the Czech Consolidation Agency). At the beginning of 2002, Komerční banka merged with the Czech branch of Société Générale, which is the new majority owner of Komerční banka. The concentration and consolidation of the banking sector is therefore continuing into 2002.

The situation as regards equity capital was unchanged compared with the end of 2000. The fall in the number of banks with capital exceeding CZK 5 billion is linked with the conversion of Konsolidační banka into non-bank institution.

As of 31 December 2001, average equity capital per bank amounted to CZK 2.9 billion, with total equity capital being CZK 82.6 billion and number of banks being 28 (excluding foreign bank branches). Following a period of continuous growth, this represented the first-ever annual decline (albeit only slight), caused by the removal of Konsolidační banka from the banking sector. 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 2001, five banks were at the minimum acceptable limit of CZK 500 million.

The total assets of the average bank stood at CZK 73.2 billion as of 31 December 2001. Unlike average equity capital, total assets thus recorded growth again in 2001, albeit slower than in 2000. Annual growth in average total assets per bank had been 13.8% in 2000, but was only 7.3% in 2001. Five banks exceeded the CZK 100 billion mark at the end of 2001. Konsolidační banka had belonged into this group at the end of 2000, but no longer had a banking licence as of 31 December 2001. The new HVB Bank entered the large banks group in 2001 by way of merger. The same as at the end of 2000, one foreign bank branch ranked among the largest banking entities. The group of the smallest banks (i.e. those with total assets of less than CZK 10 billion) remains relatively strong (at eight banks) even though four banks left this group during 2001, moving mainly into the group of banks having total assets of between CZK 10 billion and CZK 24 billion.

2.5 COMPETITIVENESS

(for banks with licences as of the given date)

The market environment in the banking sector – as in all other areas of economy – remains the driving force for further development with respect to innovation of products and services, new technology and greater convenience for existing and potential clients. An important direct consequence of any functioning market is an appropriate price for goods and services. The developments over the past three years demonstrate clearly that the near monopoly position (until recently) of the large banks as regards the two most interesting products from the point of view of clients – deposits and credits – is continuing to wane as the positions of the other bank groups strengthen.

The large banks group accounted for 58.2% of the overall total assets of the banking sector at the end of 2001. This is the smallest figure in the entire period under review, the decline being linked with the removal of Konsolidační banka from the banking sector. Virtually all the other bank groups meanwhile enjoyed rising shares of the total.

As of 31 December 2001, the large banks had a 54.6% share of the credit market, representing a year-on-year weakening of their position of 6.0 points. The reason for this drop is the privatisation of the large banks, which has been accompanied by the transfer of poorer-quality credits to Konsolidační banka and, more recently, to the Czech Consolidation Agency. Conversely, as in 2000, all the other bank groups strengthened their shares in total client credits in 2001. The group of medium-sized banks, with its share of almost one quarter of the credits, is another important bank group.

The situation is similar as regards the distribution of the client-deposit market among the individual bank groups. Here too, the importance of the large banks is gradually receding. Nevertheless, their share of the total deposits received by the banking sector remains completely dominant, amounting to 69.8% as of 31 December 2001. The large banks' share of client deposits was 2.3 points lower than a year earlier, but was 15.2 points stronger than that of client credits. The medium-sized banks were in second place with regard to client deposits received, as they were with credits. However, comparing the relevant shares it is clear that the medium-sized banks specialise more in credit transactions than in deposit transactions. Besides the large banks, the small banks were the only group to record a year-on-year decline on the client-deposit market. Client deposits in building societies continue to grow and are steadily strengthening their share in total deposits received from clients by the banking sector as a whole. By the end of 2001, they had reached almost one tenth of all deposits received.

While the small banks and building societies showed only minor deviations of their market shares in credits granted and deposits received from their market shares in overall total assets as of 31 December 2001, the corresponding deviations in the groups of large banks, foreign bank branches and, to a lesser extent, medium-sized banks were more marked, particularly in the case of deposits. As of 31 December 2001, the large banks' share of deposits was 11.6 points higher than it should have been according to their share of total assets. Conversely, for the branches of foreign banks the corresponding share was 8.2 points lower. The difference between the large banks' percentage share of total assets and their percentage share of total client credits demonstrates the lower credit exposure of the large banks.

The share of the large banks in deposits with banks is 14.9 points lower than their share in assets, while the same share of the foreign banks is 15.2 points higher.

TABLE 6
PERCENTAGE SHARES OF INDIVIDUAL BANK GROUPS IN TOTAL ASSETS

for banks with licences as of the given date

| | 31 Dec. 1996 | 31 Dec. 1997 | 31 Dec. 1998 | 31 Dec. 1999 | 31 Dec. 2000 | 31 Dec. 2001 |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Banks, total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| of which: | | | | | | |
| large banks | 68.1 | 65.6 | 66.0 | 65.0 | 61.9 | 58.2 |
| medium-sized banks | 12.6 | 16.4 | 16.9 | 17.4 | 19.6 | 21.2 |
| small banks | 6.9 | 4.1 | 3.4 | 1.7 | 2.0 | 2.3 |
| foreign bank branches | 6.4 | 7.8 | 9.5 | 11.4 | 11.1 | 12.0 |
| building societies | 2.0 | 3.0 | 4.2 | 4.5 | 4.8 | 5.7 |
| banks under conservatorship | 4.0 | 3.1 | 0.0 | 0.0 | 0.6 | 0.6 |

CHART 8

MARKET SHARES OF BANK GROUPS IN SELECTED PRODUCTS IN PER CENT

for banks with licences as of 31 December 2001

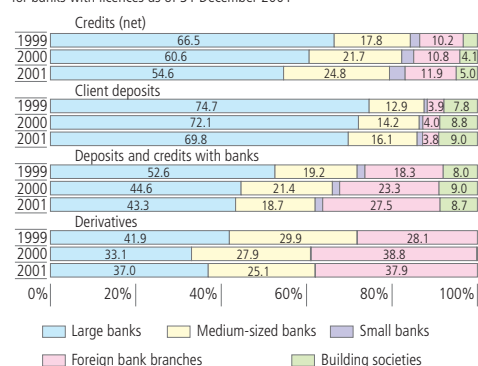


CHART 9

MARKET SHARES OF BANK GROUPS IN SELECTED PRODUCTS IN PERCENTAGE POINT DEVIATIONS FROM MARKET SHARES IN ASSETS AS OF 31 DECEMBER 2001

for banks with licences as of 31 December 2001

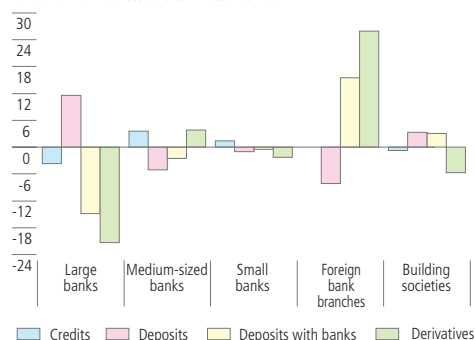
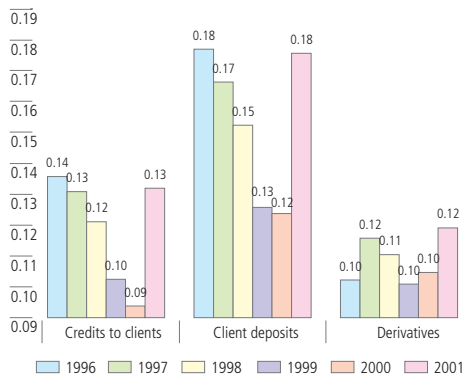


CHART 10
HERFINDAHL INDICES OF MARKET COMPETITION
for banks with licences as of the given date



Similar features were recorded in the area of derivatives. As of 31 December 2001, the large banks were 21.2 points less involved in such transactions than would correspond to their share in assets; foreign bank branches, on the other hand, were 25.9 points more involved.

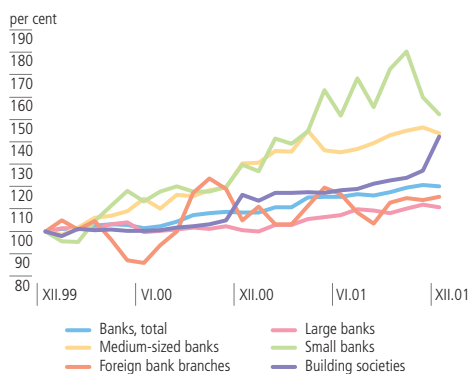
The Herfindahl index of market competition¹ for selected groups of banking transactions reflects the most significant changes in the structure of the Czech banking sector in 2001: the merger of HypoVereinsbank CZ and Bank Austria Creditanstalt Czech Republic and the conversion of Konsolidační banka into a non-bank institution. Whereas the aforementioned merger affected the indexes in all three areas monitored (credits, deposits and derivatives), the transformation of Konsolidační banka chiefly affected the credit area. On the client-credit and client-deposit markets, the Herfindahl indices climbed back up to near their 1996 levels after several years of gradual decline. On the derivatives market, the index rose for the third consecutive year. As of 31 December 2001, the least competitive market remained that for non-bank client deposits, owing to the limited number of banks engaged in retail banking. The situation is opposite in the area of derivatives transactions, where the index attained the lowest value among the monitored activities.

2.6 ASSETS AND LIABILITIES

(for banks with licences as of 31 December 2001)

As of 31 December 2001, the total assets of the Czech banking sector amounted to CZK 2,783.2 billion, an increase of CZK 273.7 billion, or 10.9%, on a year earlier. The growth rate was 2.6 points higher than in 2000. All the groups of banks contributed to the overall growth in total assets. The biggest rise (22.3%) was recorded in the building societies group. However, this group does not have a very significant share in the overall assets of the banks operating in the Czech Republic. Conversely, the lowest growth rate of total assets was recorded by large banks (10.2%). The growth in total assets is fairly uniform across most of the banks, although the assets of foreign bank branches, despite showing a long-term growth trend, have recorded sizeable fluctuations over the past two years.

CHART 11
GROWTH OF TOTAL ASSETS
for banks with licences as of 31 December 2001



Credits have long been the most important item in the asset structure of the Czech banking sector. This is linked with Czech corporations' conservative approach towards financing, as their principal source of financial flows is bank credits. The Czech Republic is consequently a country with a high ratio of credits to GDP. The economic recession in recent years, which has taken its toll on the banking sector, was replaced in 2000 by a modest recovery which continued into 2001. Right up until the end of 2000, the reduced lending activity – resulting from the shortage of creditworthy projects and from the cautious approach of banks (which are still struggling with the consequences of difficult-to-enforce credits granted at the beginning of the 1990s) – had led to a persistent decline in credits as a percentage of total assets. However, the results from the end of 2001 suggest a modest recovery in lending related to the upward trend of the Czech economy.

As of 31 December 2001, 33.1% of the total assets of the average bank consisted of credits granted, a rise of 0.9 points compared with the end of 2000. Most of these are client credits; less than 20% are credits to state and local authorities, which newly

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

include credits to the Czech Consolidation Agency. In second place were securities, with a share of 26.7% as of 31 December 2001. The securities portfolio grew at a faster pace than total assets in 2001. Banks invested their free liquidity chiefly in treasury bills and long-term government bonds. Deposits with banks were the third-biggest component of total assets with a share of 20.2% as of 31 December 2001. Deposits with banks recorded a year-on-year drop as a percentage of total assets, despite rising in volume in annual terms. Deposits with central banks maintained their share at the end-2000 level, accounting for 11.3% of total assets. A moderate fall in the share of fixed assets relates largely to the downsizing of the branch networks of many banks. Despite a long-running downward trend, the percentage share of fixed assets in total assets is one of the highest in Europe.

The liabilities side of the balance sheet describes the banking sector's main sources of financing. Client deposits are the dominant source. Their share increased by 2.7 points compared with the end of 2000 to 53.0% as of 31 December 2001. Households tend to deposit their free funds at banks, although other forms of saving such as pension schemes, life insurance and mutual funds are gradually gaining in importance. Deposits accepted from state and local authorities play an even smaller role in total assets received than is the case with credits. Client deposits minus deposits from state and local authorities alone make up more than 50% of total assets. At 13.2%, deposits received from banks are the second-largest item on the liabilities side of the balance sheet, despite dropping by 1 point compared with a year earlier. One of the causes of the fall in the share of bank deposits is the growing volume of primary deposits and falling lending activity, and the ensuing decline in the need to replenish funds on the interbank market.

The own funds of the banking sector amounted to CZK 198.8 billion as of 31 December 2001, a rise of 2.7% compared with the end of 2000. The long-running upward trend in own funds – recorded in all bank groups except foreign bank branches – demonstrates the emphasis being placed on the importance of own funds, which banks need to cover the risks they undertake. As of 31 December 2001, own funds made up 7.1% of total assets.

With a share of 41.6%, equity capital contributed the most to the structure of own funds as of 31 December 2001. However, compared with the end of 2000, its share in own funds was down by 1.4 points, representing an absolute decline of CZK 0.6 billion. Reserves and reserve and capital funds fell by CZK 3.9 billion in the same period. Profit of the current year and retained earnings increased by CZK 9.8 billion, thereby becoming a key factor affecting total own funds in 2001. The banking sector recorded an overall profit for the second consecutive year, after three straight years of losses.

CHART 12
ASSETS STRUCTURE
for banks with licences as of 31 December 2001

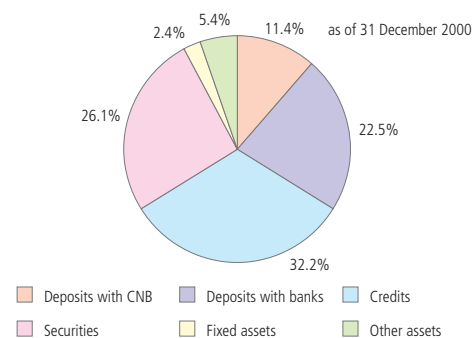


CHART 13
LIABILITIES STRUCTURE
for banks with licences as of 31 December 2001

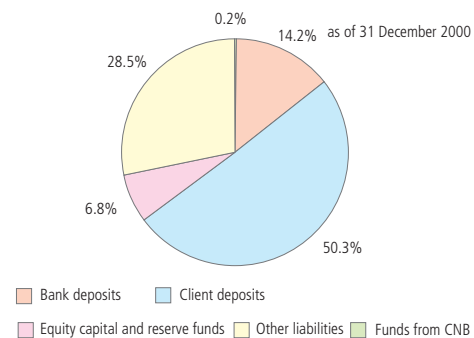
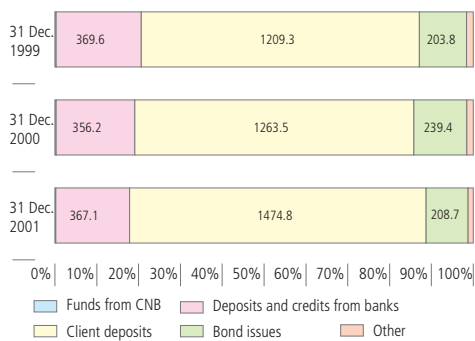


CHART 14**BANKS' EXTERNAL FUNDS**

for banks with licences as of 31 December 2001



The banking sector's external funds totalled CZK 2,055.3 billion as of 31 December 2001 and accounted for 73.9% of total assets, which is a rise of 10.2% on a year earlier. This growth rate is 7.5 points faster 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 in the Czech Republic. Client deposits totalled CZK 1,474.8 billion at the end of 2001, accounting for 71.8% of total external funds. This share was 4.0 points higher than a year earlier. All other external funds items recorded a year-on-year decline in their shares. The share of deposits and credits from banks was down by 1.2 points as of 31 December 2001, despite growth in this item in absolute terms. Bond issues fell by 12.8% in 2001, their share at the year-end being one tenth of total external funds, representing a year-on-year decline of 2.8 points.

3. RISKS IN BANKING

Banks – like all other corporations – are confronted with a whole range of risks arising from the external environment and from the specific nature of their business. Regardless of its line of business, every corporation faces common risks arising from the current situation and from expectations relating chiefly to the economic and legal environment in which it carries on its business. The specific risks in banking relate directly to banking activities and therefore arise from the internal climate of the industry, or even of the bank itself where it concentrates on only certain selected types of business, clientele segments, types of technology, etc. The primary risks associated with banking activities are credit risk, market risk (comprising foreign exchange risk, interest rate risk, equity risk and commodity risk), liquidity risk and country risk. Banking transactions face further risks, which are, however, difficult to quantify and regulate, even though the ensuing losses can sometimes be very large. These additional risks include, for example, reputational risk (which in several cases in the past led to the loss of a bank's liquidity in the Czech Republic), legal risk, risk from unforeseen events and operational risk (which has altered considerably with the development of payment cards and is continuing to change and grow with the new types of alternative distribution channel).

In accordance with practices in the most advanced nations, the regulations issued by CNB Banking Supervision stipulate fundamental rules and limits that are intended to limit the risks undertaken and to ensure sufficient funds to cover potential losses. However, prudential internal procedures for the overall management of the bank and for specific transactions remain an essential precondition for the successful functioning of a bank. The decisive factor for limiting banking risks will always be a bank's ability to identify, monitor and manage each individual risk.

3.1 CREDIT RISK

Credit risk is the typical risk associated with one of the most common and traditional banking activities: the providing of credits. This type of risk can be defined as the risk of non-repayment of a loan or part thereof, or of default on the contractual terms and conditions, leading to delayed repayments. The high ratio of credits to total assets in the banking sector in the Czech Republic implies a high level of this type of risk. This state of affairs is being exacerbated by poor recoverability of claims under the current legislation, despite several amendments. Credit risk remains the greatest threat to the banks operating in the Czech Republic. The high ratio of classified

credits to overall credits is evidence of the banks' experience with debtors, this having been the main cause of a reduction in the volume of new credits granted by banks. The more prudent approach of banks coincided with a period of overall economic slowdown, characterised, among other things, by a shortage of good-quality projects requiring credit. Banks limit credit portfolio risk primarily by verifying in detail the specific business plans and overall financial situation of prospective loan partners, by requiring appropriate collateral and by hedging using credit derivatives (a newer development).

Credit transactions are a major component of off-site surveillance and also a frequent and regular subject of on-site examinations in banks. Clear conditions for classifying credits according to their quality and the obligation to create reserves and provisions are laid down in a CNB regulation and in the accounting procedures issued by the Ministry of Finance of the Czech Republic.

3.1.1 CREDIT STRUCTURE AND CREDIT TRENDS (for banks with licences as of 31 December 2001)

As of 31 December 2001, the total volume of net credits was CZK 922.1 billion. This represents a year-on-year increase of 14.0%, almost 14 points higher than in 2000, chiefly due to the conversion of Konsolidační banka into a non-bank agency (as all the credits granted to it were transformed into credits granted to non-banks).

In connection with the ongoing privatisation and restructuring of the economy, the non-financial sector (consisting primarily of private corporations) was the largest recipient of credit at the end of 2001, accounting for 56.0% of all credits granted, a fall of 10.3 points from the previous year. The second-largest recipient was the government sector with 17.2%, owing to the inclusion of the credits of the Czech Consolidation Agency in the government sector. As the credit growth rate in the government sector was much higher than the annual rise in total credits, it was achieved at the expense of some other areas, mainly recipients from the non-financial sector and small businesses.

Another group in which a year-on-year rise in credits was recorded – both in total volume and as a percentage of the total – was credits granted to households. This marked rise can be attributed to the extraordinary development of consumer credit, which is becoming increasingly widely available as the banks relax the conditions for granting such loans and raise the upper limits applying to them. Another factor underlying the rise in consumer credits is a change in the behaviour of bank clients, who are gradually getting used to this new method of financing their needs. Credits to households rose by more than one fifth on the previous year, and compared with the situation two years previously they were up by more than one half (as discernible growth in consumer credit was recorded as early as in 2000). As of 31 December 2001, credits to households accounted for 12.3% of total credits granted, a rise of 1.2 points on a year earlier. Credits to the financial sector were flat, representing 6.4% of the total volume of credits at the year-end. Credits to small businesses (i.e. people using a trading licence) fell by 0.4 points over the same period to 2.4%. The banks' preference for providing consumer credit and mortgages to households derives from households' low level of risk relative to the corporate sector. Building societies are also making a large contribution to the development of household credit.

CHART 15
CREDIT STRUCTURE BY SECTOR
for banks with licences as of 31 December 2001

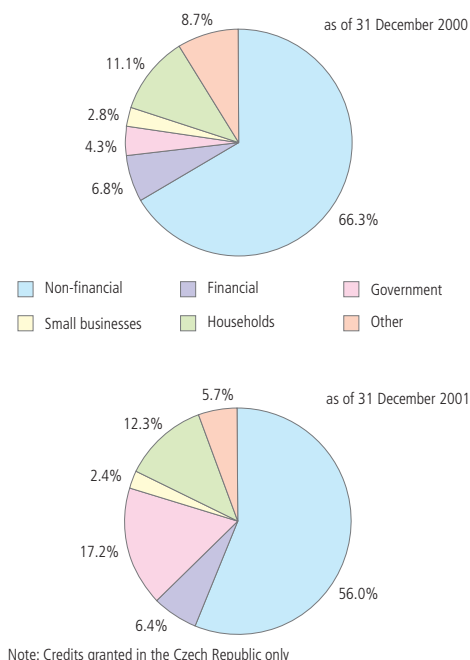
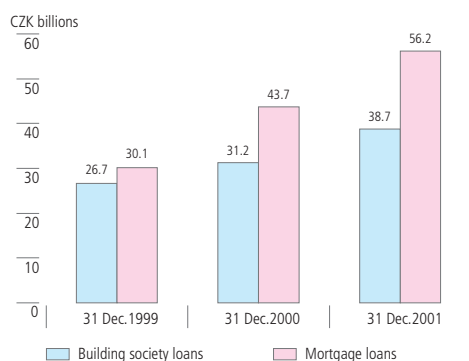
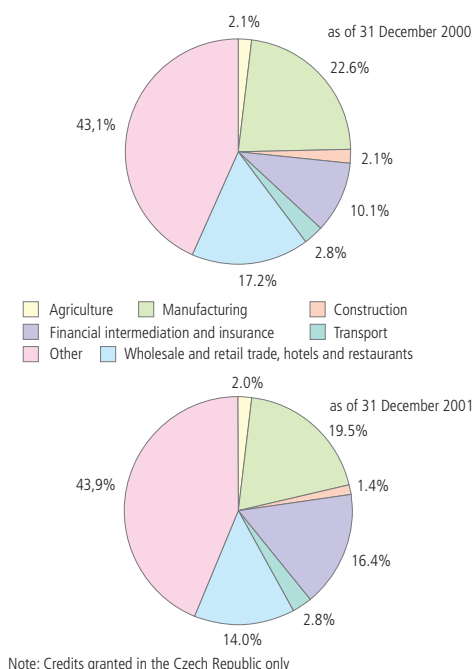


CHART 16
MORTGAGE LOANS AND BUILDING SOCIETY LOANS
for banks with licences as of 31 December 2001



Consumer credit, which is becoming increasingly widely available, is being targeted at retail banking clients. The banks stipulate various limits for special-purpose and general loans and for cash and non-cash loans, together with the option of deferred repayment. Building society loans and mortgage loans are also becoming more widely available to the public. The year 2001 was a year of strong competition among the eight banks licensed to issue mortgage loans. These banks tried to attract clients mainly by lowering their interest rates and by offering benefits such as subsidised credit, fixed rates for a certain period and the option of lump-sum repayment. The terms and conditions for granting and repaying mortgage credits vary considerably from one bank to another. In combination with certain benefits provided by the state (e.g. tax-deductible interest payments), mortgage loans have become a highly marketable banking product which has expanded considerably in recent years, not only in absolute terms, but also as a percentage of total credits granted. At the close of 2001, mortgage loans amounted to CZK 56.2 billion, a rise of 28.5% compared with the previous year. They accounted for almost 6.0% of the total credits granted by the banking sector, compared with 5.1% at the end of 2000 and 3.3% at the end of 1999. Of all the banks providing mortgage loans, only one specialises exclusively in this activity; the others are universal banks.

CHART 17
CREDIT STRUCTURE BY ECONOMIC ACTIVITY
for banks with licences as of 31 December 2001



Loans from building societies have been showing a similar trend to mortgage credits in recent years. These loans are more common, but tend to be provided in lower amounts. The group of building societies consists of six banks specialising solely in construction savings. Unlike the banking sector as a whole, credits within the building societies group have been growing constantly. Building society loans and mortgage loans compete with each other only in one specific area of clients' needs: in obtaining funds to purchase (or settle the relevant commitments) of a flat, house or land for residential purposes. Mortgage loans may be used for purchasing any real estate, regardless of whether it is to be used for residential purposes, whereas building society loans are strictly fixed in terms of purpose. However, the latter are also often used for minor renovations and reconstructions without the need for collateral. Like mortgage loans, building society loans are strongly dependent on the state's policy of contributions and tax relief. Total building society loans amounted to CZK 38.7 billion as of 31 December 2001, a rise of 22.4% on a year earlier (i.e. 6.1 points less than the growth in mortgage loans).

With regard to economic activity, the largest volume of credits was again granted to manufacturing (with 19.5% of the total, a year-on-year drop of 3.1 points). Although manufacturing remains in first place, its lead over the other industries is gradually shrinking (at the end of 1999 credits granted to recipients in manufacturing had accounted for more than one quarter of the total). Credits to manufacturing are also gradually decreasing in absolute terms, although the pace of decline was slower in 2001 than in 2000. Financial intermediation and insurance, with 16.4%, overtook wholesale and retail trade, hotels and restaurants to occupy second place thanks to the inclusion of the Czech Consolidation Agency in the financial intermediation category. Wholesale and retail trade, hotels and restaurants were in third place at the end of 2001 (with 14.0%, down by 3.2 percentage points on a year earlier), recording a decline in the absolute volume of total credits granted. Credits to construction and agriculture fell as a proportion of the overall loan structure as of 31 December 2001 and are almost negligible as regards their volume (not exceeding 2% of total credits granted). Credits to transport and travel remained at the end-2000 level.

Long-term credits (i.e. those with a maturity of over 4 years) are generally issued for investment purposes. With regard to households, these are principally mortgage loans and loans from building societies to cover domestic renovation and refurbishment. This type of credit recorded a further expansion in 2001, as the share of long-term credits in the total rose by 6.8 points to reach 45.8% as of 31 December 2001. The total volume of long-term credits increased by more than one quarter during 2001, confirming the upward trend recorded in 2000. The growth in long-term credits is also linked with the conversion of Česká konsolidační banka into the Czech Consolidation Agency.

Long-term credits increased in volume chiefly at the expense of short-term credits (i.e. those with maturity up to 1 year). Not only did short-term credits decrease as a percentage of total credits (making up just over one third of the total as of 31 December 2001), but their absolute decline also continued (with a fall of 7.3% in 2001, again confirming the previous year's trend). Medium-term credits increased slightly in volume after a dip in 2000, but the growth was not sufficient to maintain their percentage of the total recorded at the end of 2000.

3.1.2 CLASSIFIED CREDITS AND THEIR COVERAGE

(for banks with licences as of 31 December 2001, excluding banks under conservatorship)

Credit portfolio quality remains one of the fundamental problems of the Czech banking sector, despite the growing prudence of banks when providing new credits (which has led to falling volumes of newly granted credits in past years). However, the share of classified credits in total credits fell for the second consecutive year in 2001. Another positive change is a shift in the structure of the classified credits, with the lowest quality credits, i.e. loss credits, occupying an ever-decreasing position. To a large extent, however, the persisting high volume of classified credits is due to the low level of write-offs of these receivables against provisions. This is linked with difficulties in recovering written-off receivables through the courts and in deriving tax-deductible provisions from the volume of classified credits, and with the low recovery rate of collateral on classified credits.

As of 31 December 2001, classified credits amounted to CZK 209.9 billion, a fall of 18.6% compared with end-2000 and of 27.9% compared with end-1999. The decline in classified credits continued throughout 2001, but the most marked decrease occurred in the second half of the year. In parallel with the decline in the volume of classified credits, there was also a drop in their share of total credits. The effect of the fall in classified credits alone was further multiplied by the rise in total credits resulting from the inclusion of the former bank loans provided to Konsolidační banka in the credits of non-bank clientele.

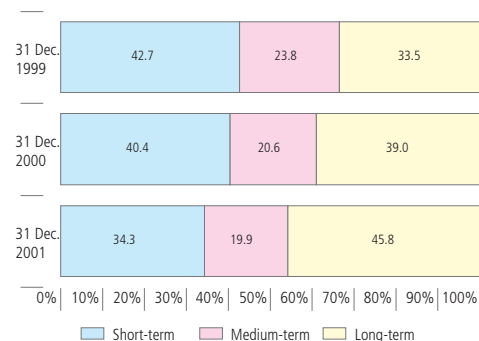
In the second half of 2001, classified credits were influenced by a one-off factor which was reflected in their volume, in their share of total credits and also in the internal structure of classified credits. This factor was the gradual transfer of the receivables of the former Investiční a Poštovní Banka from the portfolio of Československá obchodní banka to the Czech Consolidation Agency. This transfer has continued into 2002. However, even excluding these non-standard transactions, both the total volume of classified credits and their share of total credits are decreasing.

All the categories of classified credits recorded year-on-year declines except for doubtful credits, for which, however, the banking sector recorded only a moderate rise. The substandard credits category recorded the largest absolute and percentage

CHART 18

TIME STRUCTURE OF CREDITS

for banks with licences as of 31 December 2001



Note: Credits granted in the Czech Republic only

TABLE 7

STRUCTURE OF CLASSIFIED CREDITS

for banks with licences as of 31 December 2001, excluding banks under conservatorship

| | 31 DEC. 1999 | 31 DEC. 2000 | 31 MAR. 2001 | 30 JUN. 2001 | 30 SEP. 2001 | 31 DEC. 2001 |
|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Classified credits | | | | | | |
| in CZK millions | 291 061 | 257 762 | 252 463 | 243 096 | 228 362 | 209 866 |
| as percentage of total | 32.15 | 29.83 | 28.99 | 27.74 | 23.55 | 21.53 |
| of which: | | | | | | |
| | in CZK millions | | | | | |
| watch credits | 92 124 | 85 814 | 84 324 | 79 998 | 75 697 | 75 984 |
| substandard credits | 39 379 | 54 910 | 50 031 | 45 607 | 40 465 | 32 295 |
| doubtful credits | 38 433 | 27 276 | 33 660 | 33 214 | 30 299 | 29 725 |
| loss credits | 121 125 | 89 762 | 84 448 | 84 277 | 81 901 | 71 862 |
| of which: | | | | | | |
| | in per cent | | | | | |
| watch credits | 31.7 | 33.3 | 33.4 | 32.9 | 33.1 | 36.2 |
| substandard credits | 13.5 | 21.3 | 19.8 | 18.8 | 17.7 | 15.4 |
| doubtful credits | 13.2 | 10.6 | 13.4 | 13.6 | 13.3 | 14.2 |
| loss credits | 41.6 | 34.8 | 33.4 | 34.7 | 35.9 | 34.2 |

declines, falling by CZK 22.6 billion to just 60% of the end-2000 level as of 31 December 2001. Loss credits and watch credits showed very similar trends, falling by almost 20% and more than 10% respectively.

A positive shift was recorded in watch credits as a percentage of classified credits. The proportion of watch credits, which have the lowest degree of risk, rose by 2.9 points to 36.2% compared with a year earlier. Loss credits had almost the same percentage share of the total as in the previous year despite a decline in the absolute value of the credits included in this category. Substandard credits recorded a decrease in their share, as the rate of decline in their volume was greater than the rate of decline in total classified credits. On the other hand, doubtful credits saw an increased share of total credits in line with their overall growth.

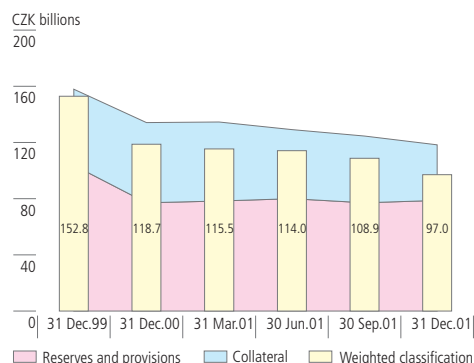
Non-performing credits, i.e. classified credits minus watch credits (which, owing to their minimal degree of risk, are not considered classified credits in many countries), amounted to CZK 133.9 billion as of 31 December 2001, or 13.7% of total credits granted.

The weighted classification indicator, which reflects the differential degrees of risk in the individual loan categories, amounted to CZK 97.0 billion as of 31 December 2001, representing 81.7% of the stock at the end of the previous year. The reduction was caused primarily by the overall decline in classified credits, reinforced by the positive change in structure (i.e. the increase in the proportion of watch credits).

Banks cover their potential losses from the credit portfolio chiefly by setting aside reserves and provisions. The total volume of reserves and provisions was CZK 78.9 billion as of 31 December 2001, i.e. approximately the same level as at the end of 2000. Credit risk as expressed by the weighted classification was 81.4%-covered by reserves and provisions as of 31 December 2001. Additional collateral was accounted for in the amount of CZK 39.5 billion.

The methodology for assessing the coverage of potential losses from the credit portfolio is very strict in the Czech Republic. In the banking sectors of some other countries, other items such as capital funds and retained profit may be included among the funds used to cover this type of risk. The level of credit risk coverage would be even greater if these funding sources were to be taken into consideration.

CHART 19
COVERAGE OF POTENTIAL LOSSES FROM CREDIT PORTFOLIO
for banks with licences as of 31 December 2001, excluding banks
under conservatorship



3.2 LIQUIDITY RISK

The risk arising from a bank's inability to meet its obligations to partners at the required time and in the required volume is termed liquidity risk. The overall stability and reputation of a bank, coupled with a constant and sufficient volume of quick assets, are the key factors for protecting a bank against liquidity risk. The bank must have adequate liquidity in relation to its size (measured in terms of the amount of its liabilities) to cover any unforeseen outflows of funds. Liquidity shortfalls can put banks in very serious danger of collapse. One of the main instruments for the management of bank liquidity is the optimisation of the time structure of assets and liabilities.

3.2.1 PRIMARY FUNDS

(for banks with licences as of 31 December 2001)

Primary client deposits constitute the main source of funding for the majority of banks in the Czech banking sector. The exception to this rule is the branches of foreign banks,

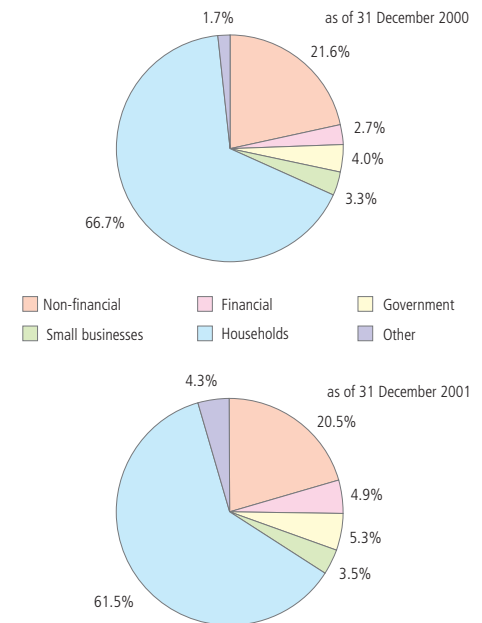
where funds obtained from the interbank market play the dominant role. In the Czech Republic, domestic clients tend to favour the traditional conservative approach of depositing their free liquidity in bank accounts, be they deposit accounts or current accounts, and do so even at times when real interest rates are negative. The new forms of saving, such as pension schemes, life insurance and collective investment, affect client deposits to a far lesser extent than is the case in advanced market economies. Consequently, despite this more recent trend, primary bank deposits recorded a further increase in 2001. Total client deposits amounted to CZK 1,474.8 billion as of 31 December 2001, a rise of 16.7% compared with a year earlier.

Non-bank client deposits rose by 14.5% in 2001, representing an increase in their pace of growth of 8.9 points compared with 2000. This item is of key importance for the trend in deposits as a whole, as it made up 94.5% of the total deposits accepted as of 31 December 2001. Deposits from state and local authorities are of far less significance, having a share of just 5.5% at the year-end. The volume of deposit certificates as of the same date was negligible. Unlike client deposits, which have been rising constantly over the past two years, deposits from state and local authorities declined in 2000 then almost doubled in 2001. Deposit certificates are declining steadily in volume in favour of other forms of deposit account. The total volume and the structure of client deposits were affected by the conversion of Konsolidační banka from a bank into a specialised agency in September 2001.

Standing at 61.5% of the total as of 31 December 2001, deposits from households have long had the largest share of total primary deposits. Such deposits rose by 7.5% in volume in 2001, despite the ever-expanding range of alternative forms of saving. The growth rate of household saving during 2001 nevertheless fell short of that of total deposits (being 9.0 points lower). This caused its share of the total to drop by 5.2 points. Another important component is deposits of the non-financial sector, whose share of 20.5% represents a modest decrease compared with the end of 2000. Nevertheless, in absolute terms the deposits of the non-financial sector, like those of households, continued rising. Financial sector deposits and government sector deposits saw a massive increase in 2001 (again partly because of conversion of Konsolidační banka into a non-bank institution). This notwithstanding, such deposits make up only a small share of the total. Government deposits rose by around a half, such that their share reached 5.3%. With just 3.5% of the total, deposits of small businesses became the smallest item despite a year-on-year increase in volume.

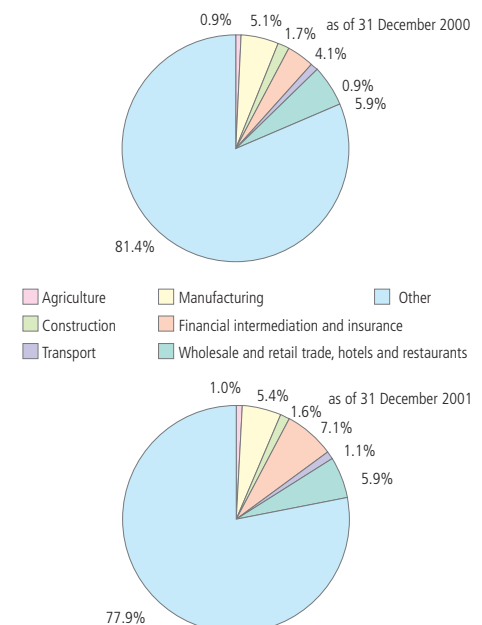
Excluding the other sectors category, which chiefly comprises deposits from households, the breakdown of primary deposits by economic activity recorded a switch in the top two positions. With 7.1% of the total, financial intermediation and insurance registered the largest deposits as of 31 December 2001 on the back of year-on-year growth of more than 100% (due in part to the inclusion of the deposits of the Czech Consolidation Agency). Pushed into second place was the category of wholesale and retail trade and hotels and restaurants, with 5.9%. The deposits of the other monitored industries also increased during 2001. The only one to record a fall in its share of the total was construction. The composition of deposits as regards economic activity is fairly evenly spread, with no single industry dominating. Deposits received from corporations in construction, transport and agriculture together make up 3.7% of total deposits, which is roughly the same as the end-1999 and end-2000 levels.

CHART 20
DEPOSIT STRUCTURE BY SECTOR
for banks with licences as of 31 December 2001



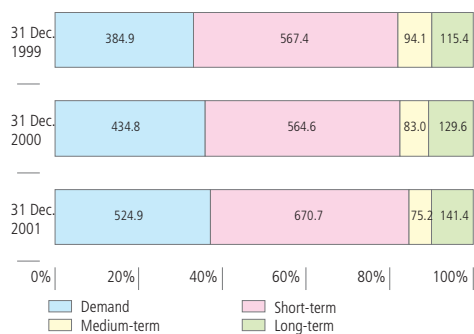
Note: Deposits accepted in the Czech Republic only

CHART 21
DEPOSIT STRUCTURE BY ECONOMIC ACTIVITY
for banks with licences as of 31 December 2001



Note: Deposits accepted in the Czech Republic only

CHART 22
TIME STRUCTURE OF DEPOSITS
for banks with licences as of 31 December 2001



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

The maturity structure of deposits recorded no major changes in 2001. Except for medium-term time deposits, all the items increased last year. Demand deposits, which comprise various types of current accounts, are used for making non-cash payments by all clientele types, be they households, corporations or state and local authorities. In the case of households, they also serve as a means of saving. This enduring conservative attitude is being fostered by the increasing number of employees who have their wages paid directly into their bank accounts rather than in cash. As of 31 December 2001, client demand deposits amounted to CZK 524.9 billion, representing annual growth of 20,7% and a share of 37.2% in total client deposits. Relative to the end of 2000 the share of demand deposits was up by 1.3 points.

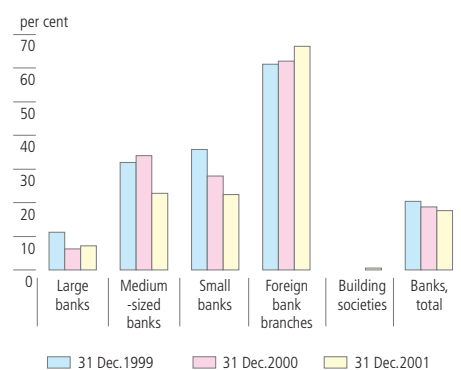
Short-term deposits comprise all deposits maturing within one year. Medium-term deposits have maturities of one to four years, while long-term deposits consist of all those with maturities in excess of four years. Short-term deposits – which increased in volume by 18.8% – have the biggest share of total time deposits, with 75.6%. The growth in short-term deposits is the main component of the overall growth in client deposits, accounting for more than half of it. As with demand deposits, clients' preference for short-term deposits is due to the general fall in interest rates, including those on funds deposited for long periods. The reduced liquidity of capital deposited for more than one year is not being sufficiently compensated for by a higher interest rate. The volume of medium-term deposits fell by 9.4% in 2001, taking their share in total deposits down by 1.5 points compared with the end of 2000 to 5.3%.

Long-term deposits, which are displaying steady growth, recorded a 9.1% increase in volume in 2001, largely thanks to the continuing expansion of building societies. As of 31 December 2001, they accounted for 10.0% of the total deposit volume.

3.2.2 SECONDARY FUNDS

(for banks with licences as of 31 December 2001)

CHART 23
SECONDARY FUNDS AS A PERCENTAGE OF EXTERNAL FUNDS
for banks with licences as of 31 December 2001



The proportion of banking activities financed by secondary funds varies significantly across individual banks, ranging between 0% and 87%. External funds from banks constitute a particularly important source of financing for foreign bank branches and certain medium-sized and small banks. The fact that foreign capital predominated in all the bank groups at the end of 2001 means that an increasing number of banks have easy access to secondary funds from their head offices or parent banks. At the same time, the banks with the highest level of funding through the interbank market are frequently those who do not have a sufficiently large branch network, either because this is not part of their business strategy or because they are expanding only gradually. An adequate branch network is still a necessary condition for contact with clients, especially in retail banking, and greatly facilitates the acceptance of deposits. The large banks – Česká spořitelna, Komerční banka and Československá obchodní banka (which has taken over the branch network of the former Investiční a Poštovní banka) – remain typical retail banks and have a lower level of financing from external funds. Union banka and GE Capital Bank also have large branch networks.

At the end of 2001, the total volume of deposits and credits received from other banks amounted to CZK 367.1 billion, representing renewed growth of 3.1% following a slight dip in 2000. Deposits and credits from banks constituted 13.2% of total assets as of 31 December 2001. Funds from the interbank market had fallen gradually during 1999 and 2000 because of reduced demand for additional funds

given the limited lending activity of the banking sector. But in 2001, with Czech economic growth picking up and the credit exposure of banks consequently rising moderately as well, the total volume of banks' secondary funds also recorded an increase.

The average ratio of secondary funds to external funds in banks operating in the Czech banking sector was 17.6% as of 31 December 2001. This figure has fallen by 2.7 points over the past two years. Building societies, with 0.5%, are far below the average, this being a logical consequence of their specialisation. Large banks, with a ratio of 7.2%, were 10.4 points below the sector-wide average as of 31 December 2001. Branches of foreign banks had the highest proportion of interbank funding at the year-end, with 66.4%, and are showing a constant upward trend in this respect. Medium-sized banks and small banks both recorded the opposite tendency in 2001, i.e. a fall in the proportion of interbank funding. These two groups had ratios of secondary funds to total external funds of 22.7% and 22.5% respectively at the year-end.

3.2.3 QUICK ASSETS

(for banks with licences as of 31 December 2001, excluding banks under conservatorship)

Liquid assets consist chiefly of those asset items which come in direct money form plus deposits with the CNB and positive current account balances that can be used with immediate effect. Another important item is bills, which can be encashed on the short-term bond market at very short notice. Trading securities are also liquid assets, although given the low liquidity of the Czech capital market at the moment, the possibility of selling such securities is limited to just a few domestic stocks and blue-chip foreign issues. Quick assets are liquid assets less trading securities, in other words those liquid asset items which can be fully converted into cash almost instantly, as well as cash itself.

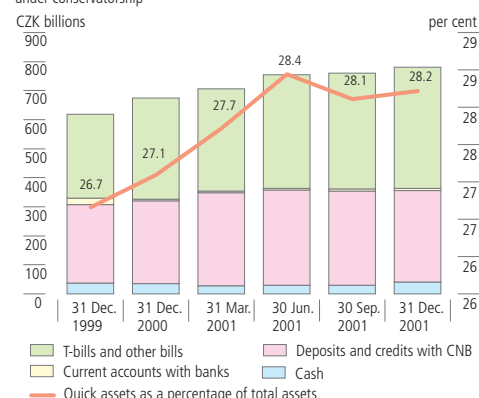
Quick assets amounted to CZK 780.7 billion as of 31 December 2001, or 28.2% of the total assets of the banking sector. Over the past two years the volume of quick assets and their share in total assets have both been rising. In comparison with 2000, their growth rate has picked up in both absolute and relative terms. The ongoing growth in quick assets is connected with an excess of funds for investing, which cannot be channelled into lending area owing to a lack of projects with an acceptable degree of risk for banks.

At CZK 417.8 billion, T-bills and CNB bills made up 53.5% of the total volume of quick assets as of 31 December 2001. Deposits and credits with the CNB (at CZK 315.1 billion) had a share of 40.4%. Banks maintain their cash holdings at the minimum necessary level. At the end of 2001, cash accounted for 5.3% of total quick assets. Current accounts maintained with other banks (used for non-cash payments) are also kept to a minimum and are the smallest component of quick assets. As of 31 December 2001, current accounts with banks totalled CZK 6.5 billion, making up less than 1% of the total.

At the end of the year, total liquid assets including trading securities stood at CZK 832.3 billion, or 30.1% of total assets. Trading securities made up 6.2%. The share of liquid assets in total assets remains flat at approximately 30%.

CHART 24

QUICK ASSETS
for banks with licences as of 31 December 2001, excluding banks under conservatorship



3.2.4 MATCHING OF ASSET AND LIABILITY MATURITIES (for banks with licences as of 31 December 2001)

The main instrument that banks can use to manage their liquidity is the matching of maturities between asset and liability items of the balance sheet. The basic prerequisite for an ongoing sound liquidity position is to balance the residual maturities of assets and liabilities within specific time bands. For fixed-term transactions the maturity date is stated clearly in the relevant contract, be it a credit or deposit transaction with whatever type of partner (in particular other banks or clients). With items whose maturity date is very short or is not stated at all, banks are able to estimate the balances (asset and liability) available to them at any given time with a fair degree of accuracy.

Management of short-term liquidity up to 3 months is of prime importance. As of 31 December 2001, liabilities maturing within 3 months (taking into account the effect of demand deposits) exceeded payable assets. The cumulative balance sheet position to 3 months as a percentage of total assets amounted to -3.69% (taking into account the invariability of demand deposits). This figure fluctuated between -3% and -5.6% during the course of 2001.

As of 31 December 2001, the net balance sheet position recorded its highest figures for residual maturities of less than 1 week (CZK -97.2 billion), followed by maturities of 1 to 2 years (CZK -87,2 billion). The most closely balanced were positions with maturities of 6 months to 1 year. With maturities of up to and including 2 years, liabilities exceed assets in all the individual bands, except for maturities of 1 week to 1 month. The difference between balance-sheet assets and liabilities as a proportion of total assets is below the 5% mark in all of the aforementioned maturity categories. This ratio has never been exceeded in previous years either. The structure of the assets and liabilities of the banking sector as a whole is therefore in a state of long-term relative equilibrium.

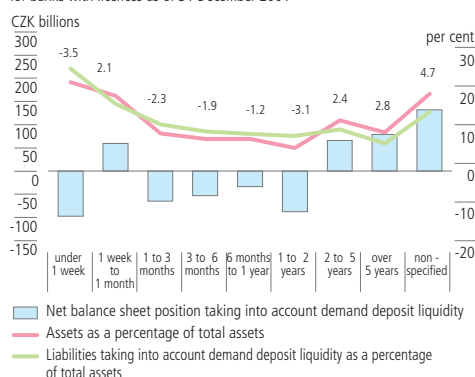
Another particularly important indicator of short-term liquidity is the asset coverage of liabilities with maturities of up to 1 month. This indicator rose by 11.3 points in 2001 to reach 65.9% at the year-end. This figure can be regarded as sufficient, as short liabilities are made up largely of demand deposits, which are relatively stable. As far as longer-term liquidity is concerned, the financing of long-term assets with short-term funds remains evident from the preponderance of assets over liabilities.

3.3 COUNTRY RISK

The fact that a certain proportion of the assets of the Czech banking sector are invested in other countries or are held by non-residents means that Czech banks are also exposed to country risk. This risk is associated chiefly with the amount of such assets, and also with their share of total assets and with their structure. Country risk derives from potential changes in the political and legislative environments of the country or region in which banks carry on their business, and also covers the possibility of an economic downturn in the region. Country risk is very difficult to quantify; each bank assesses it individually within its own internal risk management system. The nature of country risk is such that it can vary considerably between different countries.

Country risk can manifest itself in a complete or partial cessation of repayments of liabilities by entities based in one or more of the risk countries, or in deferrals of such

CHART 25
ASSETS AND LIABILITIES BY RESIDUAL MATURITY
AS OF 31 DECEMBER 2001
for banks with licences as of 31 December 2001



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

TABLE 8
MATCHING OF ASSET AND LIABILITY MATURITIES
for banks with licences as of 31 December 2001; percentages

| | 31 DEC. 2000 | 31 MAR. 2001 | 30 JUN. 2001 | 30 SEP. 2001 | 31 DEC. 2001 |
|--|--------------|--------------|--------------|--------------|--------------|
| Cumulative net position: | | | | | |
| to 3 months as a percentage of assets ¹⁾ | -9.05 | -3.83 | -2.95 | -5.54 | -3.69 |
| to 1 month as a percentage of assets ^{1), 2)} | -6.15 | -0.05 | -0.47 | -3.29 | -0.96 |
| Assets/liabilities maturing: | | | | | |
| within 1 month | 54.59 | 64.26 | 64.07 | 61.29 | 65.87 |
| in more than 1 year | 168.77 | 166.29 | 178.97 | 185.73 | 197.07 |
| in more than 5 years | 247.60 | 197.42 | 221.54 | 232.31 | 388.17 |

1) Minus 80% of demand deposits

2) Including off-balance sheet

repayments. Banks minimise their potential losses from country risk by reducing their exposure to risk countries according to the degree of risk associated with future political and economic developments. They do so in particular by setting volume limits for particular regions. They also apply stricter conditions to the provision of the relevant assets by setting differential interest rates and maturities and also by requiring the assets to be secured by a third party.

3.3.1 ACTIVITIES VIS-À-VIS NON-RESIDENTS (for banks with licences as of 31 December 2001)

At present, there are no restrictions on banks from the Czech banking sector carrying on business with foreign banks and non-banks. The exposure of banks in this respect is rising steadily, mainly because of the growing influence of foreign capital both in the Czech banking sector directly and in the Czech economy as a whole. These activities can be expected to grow in importance given the preparations for the Czech Republic's accession to the European Union.

As of 31 December 2001, the assets of the whole banking sector vis-à-vis non-residents amounted to CZK 606.3 billion, which constitutes a year-on-year increase of 15.7% and a 21.8% share of total gross assets. This share was 0.9 percentage points higher than a year earlier, compared with a modest fall the previous year. Whereas non-resident assets have long stood at around one fifth of total assets, the share of the banking sector's liabilities vis-à-vis non-residents in total liabilities is significantly lower, fluctuating in the long run between 11% and 15%. At the end of 2001, total non-resident liabilities (CZK 319.6 billion) formed 11.5% of total liabilities.

Banking transactions recorded in the off-balance sheet are oriented far more toward non-resident partners than are transactions recorded in the balance sheet. On the assets side of the off-balance sheet, non-resident transactions accounted for 59.6% (CZK 2,337.8 billion) of the total as of 31 December 2001. On the liabilities side of the off-balance sheet, the analogous figure was meanwhile 61.4% (CZK 2,396.7 billion).

Transactions with non-resident banks are the single largest item in the overall structure of both assets and liabilities. Asset deposits and credits to non-resident banks amounted to CZK 368.3 billion as of 31 December 2001, or 60.7% of the total volume of non-resident assets and 65.6% of total gross deposits and credits with banks. This high proportion is due to a shortage of alternative forms of resource allocation. In the case of non-bank clients, the share of non-resident credits is not very significant. The banks operating in the Czech Republic had provided non-residents with just CZK 56.5 billion as of 31 December 2001, or 9.3% of non-resident assets and 5.8% of the total volume of gross credits provided. Unlike deposits and credits with banks, which recorded considerable year-on-year increases both in volume and as a share of the total, credits to non-residents fell in 2001 both in absolute terms and in terms of their share in total non-resident assets and their share of total gross client credits granted. Foreign securities also make up a significant proportion of total non-resident assets. As of 31 December 2001, banks had CZK 125.9 billion invested in such securities, which is 20.8% of the total volume of non-resident assets and 16.8% of total gross securities. The year-on-year growth rate of non-resident securities was lower than the growth rate of total gross securities, and also lower than the growth rate of non-resident assets as a whole. This led to a decline in the relevant ratios compared with the end of 2000.

CHART 26
NON-RESIDENT ASSETS AND LIABILITIES AS A PERCENTAGE OF TOTAL ASSETS AND LIABILITIES
for banks with licences as of 31 December 2001

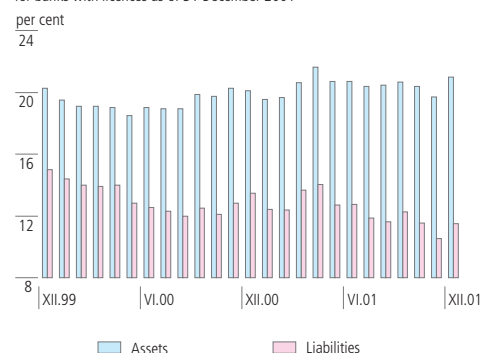


CHART 27
STRUCTURE OF ASSETS VIS-À-VIS NON-RESIDENTS
for banks with licences as of 31 December 2001

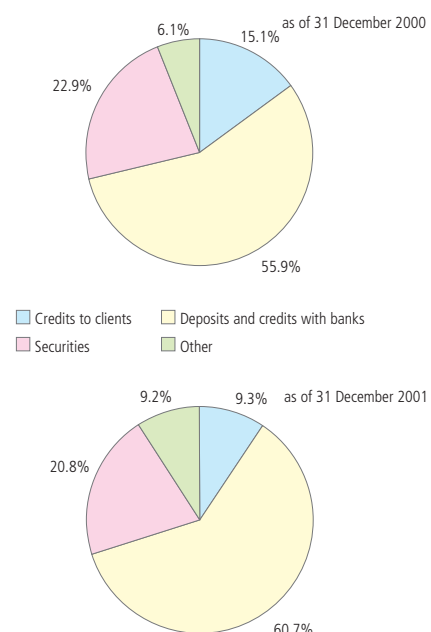
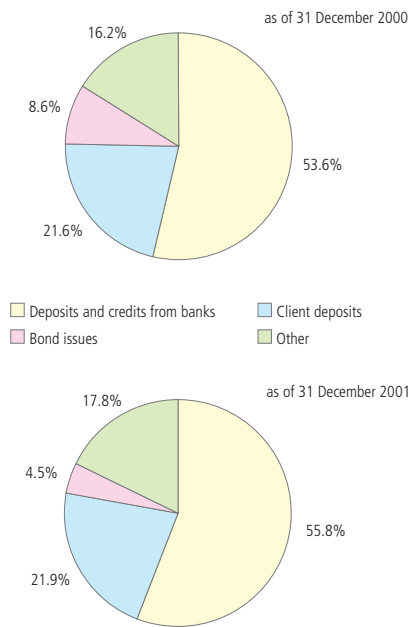


CHART 28
STRUCTURE OF LIABILITIES VIS-À-VIS NON-RESIDENTS
for banks with licences as of 31 December 2001

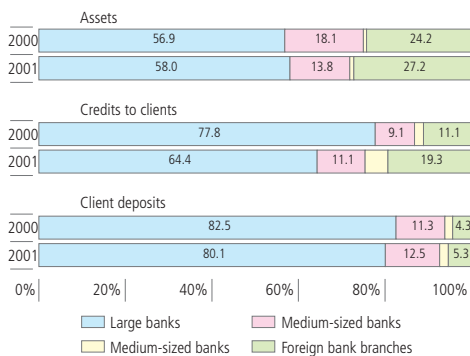


Non-resident deposits and credits from banks, which amounted to CZK 178.3 billion as of 31 December 2001, made up 55.8% of the total volume of non-resident liabilities and 48.6% of total deposits and credits accepted from banks as of the same date. As was the case on the assets side of the balance sheet, transactions with non-bank clients were less significant. Non-resident client deposits, which amounted to CZK 70.0 billion as of 31 December 2001, accounted for 21.9% of total non-resident liabilities and just 4.7% of total client deposits. Issues of non-resident bonds currently have only a very small share of the total. The total volumes of deposits from non-resident banks and clients both fell slightly during the course of 2001. This was counter to the trend shown by total deposits, meaning that in both cases their share of the total was lower than at the end of 2000.

Derivatives contracts are the largest item in off-balance-sheet non-resident transactions. As of 31 December 2001, non-resident receivables from derivatives amounted to CZK 2,256.2 billion, or 96.5% of non-resident off-balance-sheet assets and 64.7% of total derivatives receivables at the end of 2001. Asset-side non-resident derivatives transactions recorded growth of 82.3% in 2001. The significance of classic off-balance-sheet transactions vis-à-vis non-residents is almost negligible.

Given their size, large banks generally outweigh the other bank groups with respect to the absolute volumes of individual transaction types. Nevertheless, foreign bank branches and medium-sized banks display greater international exposure in relative terms. The particular types of transactions with non-residents vary considerably from one bank group to another.

CHART 29
MARKET SHARES OF BANK GROUPS IN ASSETS AND SELECTED
PRODUCTS VIS-A-VIS NON-RESIDENTS IN PER CENT
for banks with licences as of 31 December 2001



The shares of the large banks and foreign bank branches in total assets vis-à-vis non-residents rose modestly during the course of 2001, mainly at the expense of the medium-sized banks. As of 31 December 2001, the large banks had the largest share of the total (58.0%), recording year-on-year growth of 1.1 points. The bulk of non-resident assets are invested on the interbank market. Also significant are non-resident deposits with foreign bank branches, which have close ties with their head offices. Such deposits represented more than 80% of total non-resident assets at the end of 2001 in this group. Branches of foreign banks increased their share of total non-resident assets by 3.0 points to 27.2% in 2001. As regards their share in banking sector assets vis-à-vis non-residents the medium-sized banks were in third position, the same as at the end of 2000. However, their share fell by 4.3 points to 13.8%.

The leading position of the large banks in non-resident transactions is even more marked for client credits and deposits. As of 31 December 2001, the large banks accounted for 64.4% of client credits and 80.1% of client deposits. In both cases, however, the position of the large banks weakened during 2001, as their share of credits fell by 13.4 points and their share of deposits decreased by 2.4 points. This also implies a gradual narrowing of the difference compared with the basic breakdown expressed by the shares in total non-resident assets. In the area of credits provided to non-bank clients, as in the case of assets, foreign bank branches are the second-strongest market participant (with 19.3%), followed by medium-sized banks (with 11.1%). The shares of both these groups increased in 2001. The situation is similar in the case of client deposits, although the market-share ranking of foreign bank branches and medium-sized banks is the reverse of that for credit transactions. Here too, the shares of the two groups rose in 2001.

3.3.2 ACTIVITIES VIS-À-VIS INDIVIDUAL REGIONS AND COUNTRIES (for banks with licences as of 31 December 2001)

The exposure of the Czech banking sector as a whole to individual groups of countries varies according to the type of banking product. As regards total assets, the Czech banks' principal partner is the European Union. The proportion of assets heading into EU member states (70.6% as of 31 December 2001, with the United Kingdom and the Netherlands receiving most of that figure, and deposits and receivables from banks accounting for a major share of the total) rose by 12.2 points in 2001. The significance of EU countries stems from their regional proximity and (in particular) from the fact that most of the foreign capital invested in the ownership of Czech banks comes from the European Union. Conversely, Central and Eastern European countries saw their influence in the Czech banking sector weaken from 14.5% at the end of 2000 to 11.7% at the end of 2001. In this case, the Czech Republic's key partner is Slovakia, which accounts for 87.0% of the assets of this group as a whole and has a major share of overall client deposits and bonds. On the client deposit market, Slovak entities accounted for 40.7% of the total loans provided outside the Czech Republic.

European Union countries account for 93.0% of deposits and credits with banks. This share rose by 10 points in 2001. The involvement of other regions in the secondary market is very small. As regards asset-side transactions, Central and Eastern European countries have a dominant position only on the client deposit market, where their share exceeded 50% as of 31 December 2001 despite the rising influence in this case too of the EU (in whose favour – and also in the favour of the countries of the former Soviet Union – the share of Central and Eastern European credits fell in 2001). In the case of securities, other countries predominate.

On the liabilities side, too, bank deposits are the principal products with regard to non-residents. Banks from European Union countries accounted for most of the total volume of non-resident deposits in Czech banks (88.5%). The EU's constantly rising share is in this case 17.1 points higher than its share in total non-resident liabilities. The shares of other groups of countries were far lower. Non-resident client deposits in Czech banks came mainly from Central and Eastern European countries (which accounted for 59.3% of total foreign client deposits, a year-on-year increase of 14.7 points). At CZK 37.4 billion, deposits from Slovakia are the biggest component, with 2.5% of total deposits and 53.4% of non-resident deposits. Deposits from EU clients accounted for 19.6% of total non-resident client deposits, while those from clients in the countries of the former Soviet Union accounted for 9.1%.

The derivatives transactions of domestic banks recorded in the off-balance sheet as of 31 December 2001 were oriented predominantly toward European Union countries (86.4%). This share remains approximately at the end-2000 level. The major trading partners of domestic banks are located in the United Kingdom, Germany, Belgium and Austria. Of the remaining regions, only the United States is worthy of note, with 5.5% of the total foreign derivatives receivables. As regards classic banking transactions (i.e. guarantees, commitments and letters of credit), the EU accounted for 30.6% of foreign activities, which is less than half the figure recorded a year earlier. The shares of other regions were of little importance.

3.4 MARKET RISK

Market risk arises out of the action of supply and demand on financial markets. With certain financial instruments, the effects of individual markets can compound one

CHART 30
INTERNATIONAL ASSET EXPOSURE OF THE BANKING SECTOR
for banks with licences as of 31 December 2001

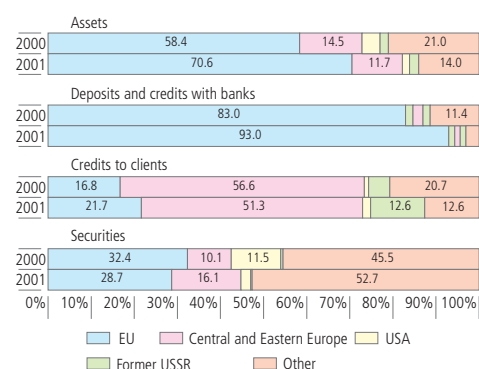


CHART 31
INTERNATIONAL LIABILITY EXPOSURE OF THE BANKING SECTOR
for banks with licences as of 31 December 2001

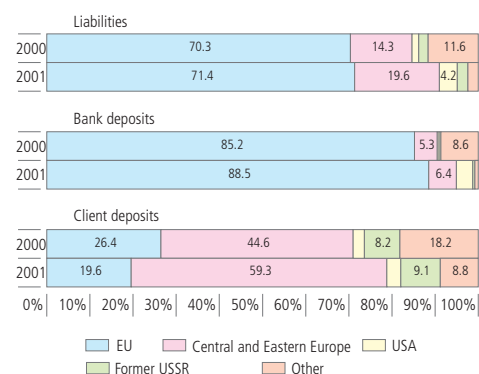


TABLE 9
INTERNATIONAL OFF-BALANCE-SHEET EXPOSURE OF THE
BANKING SECTOR IN PER CENT
for banks with licences as of 31 December 2001

| | RECEIVABLES FROM DERIVATIVES | | RECEIVABLES FROM GUARANTEES, COMMITMENTS AND LETTERS OF CREDIT | |
|----------------------------|------------------------------|------|--|------|
| | 2000 | 2001 | 2000 | 2001 |
| European Union | 85.6 | 86.4 | 62.2 | 30.6 |
| Central and Eastern Europe | 1.4 | 0.8 | 8.6 | 9.3 |
| USA | 7.8 | 5.5 | 6.7 | 4.2 |
| Former USSR | 0.0 | 0.0 | 1.2 | 11.2 |
| Other | 5.2 | 7.3 | 21.3 | 44.7 |

another. For instance, the risk of a drop in share prices (and to an extent also in commodity prices) is linked not only to expected trends in the relevant financial flows, but also to movements in market interest rates and – with foreign exchange assets – to changes in exchange rates. With assets located, issued or acquired abroad, or distributed from abroad, country risk also comes into play. Market risk covers interest rate risk, foreign exchange risk, equity risk and commodity risk. Trading in receivables is at present of only marginal concern to banks, usually involving the sale of poor-quality assets to specialised entities; market valuation of these assets is therefore not possible.

Banks are currently required to maintain sufficient capital to cover all the aforementioned risks, in line with the degree of risk and the volume of transactions conducted. The relevant requirements for banks are set out in the applicable CNB regulation on banking supervision, which addresses the issue of capital adequacy. Since sufficiently detailed statistics relating to foreign exchange risk and equity risk are available, it is possible to evaluate these risks from the wider perspective, not just from that of capital requirements. Commodities transactions, however, are infrequent in the Czech Republic, and for this reason other sources of data are very limited. As regards interest rate risk, in 2001 there was a gradual, and fairly constant, drop in interest rates. CNB Banking Supervision deals with the question of interest rate risk mainly during on-site inspections, whereas banks themselves generally assess their exposure to interest rate risk on the basis of knowledge of how their assets and liabilities are distributed into time bands, using the gap or duration method.

CHART 32
FOREIGN EXCHANGE ASSETS AND LIABILITIES AS A PERCENTAGE OF TOTAL ASSETS AND LIABILITIES
for banks with licences as of 31 December 2001

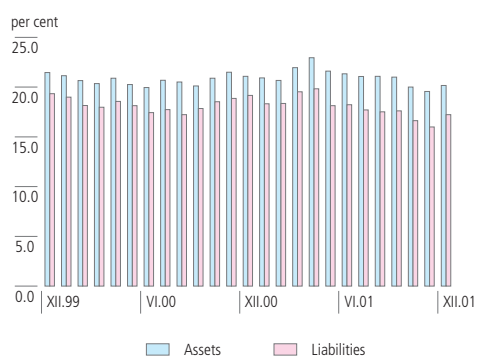
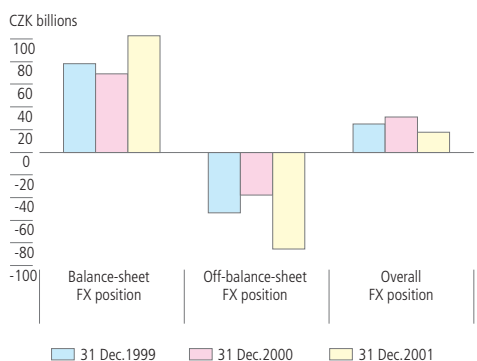


CHART 33
FOREIGN EXCHANGE POSITION OF THE BANKING SECTOR
for banks with licences as of 31 December 2001



3.4.1 FOREIGN EXCHANGE RISK

(for banks with licences as of 31 December 2001)

At present, the principal foreign exchange risk to which Czech banks are exposed is chiefly linked with the value of the US dollar and the euro, and accordingly derives from changes in the exchange rate between the Czech koruna and these currencies, as well as from the dollar/euro rate. As the Czech banking sector is geared mainly towards providing services to private customers and businesses on the domestic market, the bulk of transactions are in koruna, and the key factor in foreign exchange risk consists in rates of exchange to the koruna.

Not all banks are exposed to the same degree of foreign exchange risk, and there are also marked differences between the individual bank groups. The biggest proportion of foreign exchange transactions are conducted at branches of foreign banks, a fact that reflects their close ties to the country in which their head office is located; 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 headquartered in the bank's home country and to their subsidiaries, the interbank market, etc.). Foreign exchange risk, however, extends to Czech banks as well, and the growth of foreign exchange assets has been affected by the pace of growth in the share of equity capital held by foreign owners in banks operating in the Czech Republic. The various types of asset-side and liability-side foreign exchange transactions are not, however, developing uniformly.

By the end of 2001, foreign exchange assets had reached CZK 582.1 billion and foreign exchange liabilities CZK 479.6 billion. During that year, foreign exchange assets grew by 5.8%, while foreign exchange liabilities fell by 0.3%. At the year-end, foreign exchange assets made up 20.2% of total gross assets, while foreign exchange liabilities made up 17.2% of total liabilities. No significant changes in these ratios

have been recorded over the past few years. The relatively stable share of foreign exchange transactions in total gross assets indicates that the growth rate of such transactions is about the same as that of total gross assets.

As of 31 December 2001, the foreign exchange positions of the banking sector as a whole were comparable to those for the preceding periods. The balance-sheet position and (even more so) the off-balance-sheet position were even more significant at the end of 2001 than they had been in the two previous years. The upshot of this (i.e. the effect on the overall foreign exchange position) was that one factor cancelled out the other. As of 31 December 2001, the long balance-sheet foreign exchange position had reached CZK 102.5 billion and the short off-balance-sheet foreign exchange position CZK -85.2 billion, i.e. more than twice what it was at the end of 2000. The overall foreign exchange position on the last day of 2001 amounted to CZK 17.3 billion, which after the moderate growth recorded in 2000 represents another drop, this time to a level somewhat below that at the end of 1999. With total assets growing constantly, the drop in the overall foreign exchange position represents a reduction in foreign exchange risk in the banking sector as a whole. At the end of 2001, the overall foreign exchange position amounted to a mere 0.6% of total assets.

At the year-end, deposits and credits with banks formed the largest component of foreign exchange assets. Amounting to CZK 286.5 billion, they accounted for almost half of all foreign exchange assets. Their share of total foreign exchange assets rose by 5.9 points compared with the previous year. They also increased slightly in absolute terms. At 32.5%, credits to clients formed the second-largest component of foreign exchange assets. This figure conversely represents a downward trend: the ratio of client credits to total credits was down by 8.6 points from last year. This change in the structure of foreign exchange assets was brought about by the limited lending activities of banks, which continued to prefer placing liquid foreign exchange funds with other banks. Despite a slight year-on-year increase in volume, the share of securities in foreign exchange assets fell by 0.5 points to 9.3% as of 31 December 2001.

Client deposits make up the largest part of total foreign exchange liabilities. In 2001, the share of client deposits in total foreign exchange liabilities increased by a further 2.6 points to 48.3%. The share of deposits and credits from banks meanwhile fell by 1.8 points to 33.2% at the year-end. The changes in the shares of these, the two biggest components are linked to the absolute growth in client deposits, which was fostered by the narrowing gap between the banks' interest rates on deposit accounts in koruna and those in foreign currencies. A further positive factor is that, with the replacement of most Western European currencies by the single European currency, foreign currency accounts are now easier for clients to operate. The introduction of the euro and the consequent imminent obsolescence of national currencies compelled even Czech entities to deposit their cash in these old currencies in bank accounts, since this was the cheapest and most profitable way of converting those currencies. The lower growth rate of foreign exchange deposits from banks stems from the reduced need for additional funds owing to their increasing sources of primary foreign exchange. Bond issues in foreign currencies continue to be of only peripheral interest, even though their share of total liabilities increased slightly by 1.9 points to 7.2% as of the end of 2001. Foreign exchange funds from the central bank make up a negligible proportion of the total volume of foreign exchange funds.

CHART 34
STRUCTURE OF FOREIGN EXCHANGE ASSETS
for banks with licences as of 31 December 2001

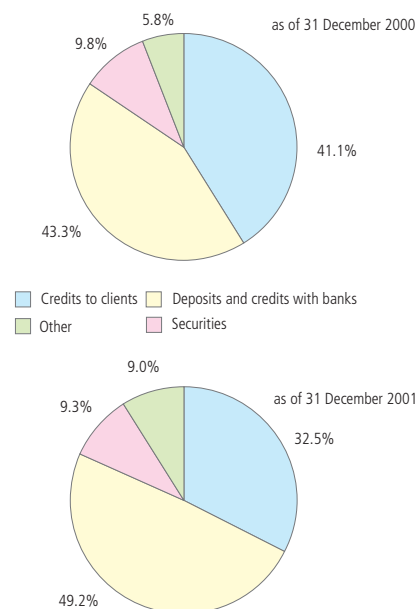


CHART 35
STRUCTURE OF FOREIGN EXCHANGE LIABILITIES
for banks with licences as of 31 December 2001

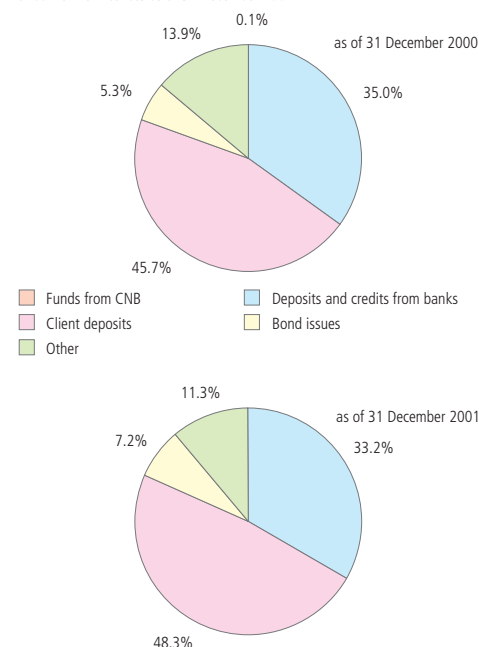
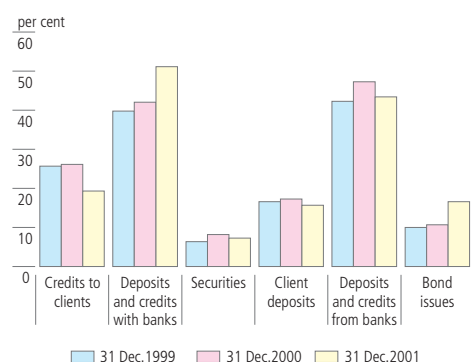


CHART 36
SHARE OF FOREIGN EXCHANGE IN SELECTED PRODUCTS
for banks with licences as of 31 December 2001



The development of the share of foreign exchange in specific banking products and transactions cannot be characterised as a clear trend. In certain cases, the rate of growth or decline for a particular type of foreign exchange transaction is slower than the overall rate; in other cases, the rate is faster than that for the whole once koruna items have been taken into account. When assessing foreign exchange activities, one must also take into account the impact of changes in exchange rates, specifically the strengthening of the koruna against the US dollar and the euro during 2001. The importance of foreign exchange varies quite a lot according to the type of transaction. The highest proportion is found in interbank transactions; this applies to both the assets and the liabilities side of the balance sheet. Foreign exchange transactions represented more than half of total gross asset-side deposits and credits with banks, with their share increasing by 8.9 points compared with the previous year. The reverse was true for liability-side foreign exchange deposits and credits, which in 2001 fell by 3.8 points to 43.4%. In 1999 and 2000, foreign exchange had still formed a markedly higher share of total liability-side deposits and credits than it did of asset-side deposits and credits. Foreign exchange accounts for a much lower proportion of the total volume of gross credits (19.4% at the year-end); after moderate growth in 2000, this proportion dropped significantly (by 6.7 points) during 2001. The foreign exchange component in securities portfolios remained below 10% of the total gross volume of securities in the banking sector as a whole. At the end of 2001, the figure was 7.2%.

Foreign exchange client deposits made up 15.7% of the total volume of client deposits as of 31 December 2001. This proportion grew in 2000, but in 2001 a drop to below the 1999 level was recorded (just as in the case of credits to clients). In 2001, issues of bank bonds in foreign currencies recorded a higher rate of growth than that for bonds in koruna; as of 31 December 2001, their share of the total was up by 6.0 points on the previous year to 16.6%.

Foreign exchange activities vary greatly, both among bank groups and among individual banks. In addition, a bank may undertake significant foreign exchange activity only in certain types of transaction. Foreign bank branches are still most heavily involved in such activity. The proportion recorded by building societies, on the other hand, is negligible, ranging from a fraction of a percent down to zero percent. With certain types of product, however, foreign bank branches have been overtaken by other groups, whose foreign exchange activities have been developing further thanks to the increased input of foreign capital.

At the end of 2001, foreign bank branches had foreign exchange assets amounting to 42.8% of total assets and foreign exchange liabilities totalling 40.1% of total liabilities. This makes them the group with the highest degree of total foreign exchange exposure. However, even though foreign bank branches have a level of foreign exchange activity approaching half of the total on the interbank market and in derivatives transactions, in these activities they have been overtaken by small banks (the volume of these transactions is nevertheless not significant). The share of foreign exchange in the interbank transactions of medium-sized banks is also of great significance. The proportion of foreign exchange in both credits and securities portfolios, however, is under 10% for all bank groups.

TABLE 10
SHARES OF FOREIGN EXCHANGE IN ASSETS, LIABILITIES
AND SELECTED TYPES OF BANKING TRANSACTIONS AS
OF 31 DECEMBER 2001 BY BANK GROUP
for banks with licences as of 31 December 2001

| IN PER CENT | LARGE BANKS | MEDIUM-SIZED BANKS | SMALL BANKS | FOREIGN BANK BRANCHES |
|---------------------------------|-------------|--------------------|-------------|-----------------------|
| Assets | 16.7 | 23.3 | 18.5 | 42.8 |
| Liabilities | 12.9 | 21.4 | 17.6 | 40.1 |
| Credits provided | 15.9 | 28.9 | 24.1 | 26.0 |
| Securities | 8.8 | 5.8 | 4.2 | 2.0 |
| Deposits accepted | 14.7 | 22.2 | 21.6 | 42.0 |
| Deposits and credits from banks | 28.6 | 46.3 | 54.8 | 48.9 |
| Derivatives | 17.2 | 26.4 | 49.6 | 45.3 |

The market shares of the individual bank groups in foreign exchange assets and liabilities, and in the individual components thereof, differ considerably in structure from the corresponding market shares once koruna items have been taken into account. The market share of the large banks in foreign exchange assets stood at 48.9% as of 31 December 2001, representing an increase of 3.9 points on the

previous year. Another bank group with a growing proportion of foreign exchange assets is foreign bank branches, which have just under one quarter of the total. Both the groups mentioned above increased their market share at the expense of medium-sized banks, which with 24.3% occupy third position among the groups in terms of foreign exchange assets, this following a drop of 6.8 points from the previous year. Medium-sized banks were the only group to show a year-on-year decline in total foreign exchange assets in absolute terms. The market share of small banks remained unchanged and is to all intents negligible. When comparing market shares in total assets with those in foreign exchange assets in 2001, there is a distinction to be made between large banks, whose overall asset position weakened and yet whose position in terms of foreign exchange assets strengthened, and medium-sized banks, where the share in total assets rose but that in foreign exchange assets fell.

As of 31 December 2001, the large banks had a significant majority (65.3%) of foreign exchange client deposits, a fact that is related to the highly developed retail orientation both of Česká spořitelna and of that part of ČSOB that was taken over from the former Investiční a Poštovní banka. The influence of the large banks increased over the course of the year, even though their share of total client deposits fell. Over one fifth of foreign exchange client deposits were at medium-sized banks, while the branches of foreign banks claimed more than one tenth.

The group of large banks also ranked first as regards client credits, with a share of 49.2% (a figure very close to the large banks' share in total assets). The position of the large banks on the credit market is 5.4% weaker in the case of foreign exchange than it is for credits as a whole. The downward trend, however, is the same in both cases. Over the last few years, the medium-sized banks' share in client credits has reached about one third of the total market, while the share of foreign bank branches has repeatedly exceeded 10%. Small banks are gradually strengthening their position; their share, however, is still the smallest.

3.4.2 EQUITY RISK

(for banks with licences as of 31 December 2001)

The risk of securities falling in value arises mainly from developments on the capital market. Price fluctuations are caused primarily by the financial results achieved and disclosed by issuers, as well as by expectations relating not only to the results of the issuers themselves but also to the relevant sector or region and to the overall global economy. The risk to which investors in securities are exposed also comprises changes in market interest rates and exchange rates. In the case of low-quality debt securities issued by companies with poor ratings, risk similar to credit risk may come to the fore.

The structure of the securities portfolio determines the degree of equity risk exposure and the impact of its individual components. 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, which are falling gradually. Running counter to this is the relative volatility of share prices on the capital market and the low volume of transactions, which increase equity risk. Further uncertainty has been brought to the securities market by a perceptible long-term decline in the number of traders on the Prague Stock Exchange, along with a drop in the number of issues by Czech companies traded on official markets, the uncertain future position of the OTC market RM-systém, wider opportunities for investing in securities issued abroad and securities in foreign currencies, and finally the constant revisions to the legislation relating to the capital market, which are continually altering the position and

CHART 37
MARKET SHARES OF BANK GROUPS IN ASSETS AND SELECTED PRODUCTS IN FOREIGN CURRENCIES IN PER CENT

for banks with licences as of 31 December 2001

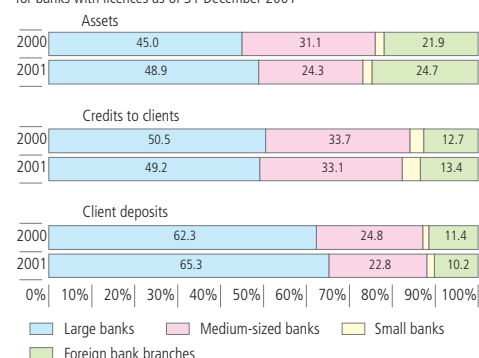


TABLE 11
STRUCTURE OF SECURITIES EXCLUDING T-BILLS AND
CNB BILLS

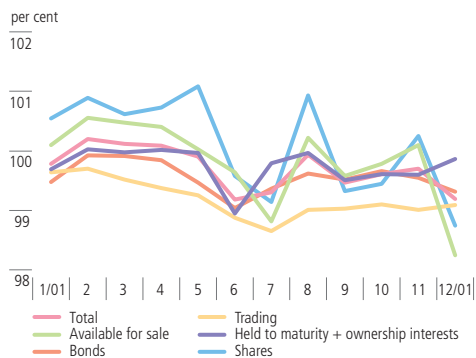
for banks with licences as of 31 December 2001

| | 31 DEC. 1999 | 31 DEC. 2000 | 31 MAR. 2001 | 30 JUN. 2001 | 30 SEP. 2001 | 31 DEC. 2001 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | in CZK billions | | | | | |
| Securities, total | 210.0 | 306.0 | 283.2 | 298.9 | 318.5 | 325.7 |
| of which: | | | | | | |
| trading securities | x | x | 39.3 | 43.4 | 50.3 | 51.7 |
| securities available for sale | x | x | 110.4 | 104.8 | 106.1 | 110.9 |
| securities held to maturity + ownership interests | x | x | 133.5 | 150.7 | 162.1 | 163.1 |
| of which: | | | | | | |
| bonds | 155.6 | 227.3 | 204.4 | 225.9 | 248.9 | 260.0 |
| shares | 54.4 | 78.7 | 78.8 | 73.0 | 69.6 | 65.7 |
| | in per cent | | | | | |
| Securities, total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| of which: | | | | | | |
| trading securities | x | x | 13.9 | 14.5 | 15.8 | 15.9 |
| securities available for sale | x | x | 39.0 | 35.1 | 33.3 | 34.1 |
| securities held to maturity + ownership interests | x | x | 47.1 | 50.4 | 50.9 | 50.0 |
| of which: | | | | | | |
| bonds | 74.1 | 74.3 | 72.2 | 75.6 | 78.2 | 79.8 |
| shares | 25.9 | 25.7 | 27.8 | 24.4 | 21.8 | 20.2 |

Note: The differences in the absolute figures and in the percentage shares of the individual portfolios for 2001 compared with previous years are due to the introduction of a new securities breakdown methodology on 1 January 2001. The change in methodology could not be applied retroactively to the preceding period with sufficient accuracy.

CHART 38

RATIO OF FAIR VALUE TO COST PRICE OF SECURITIES
for banks with licences as of 31 December 2001



Note: Excluding T-bills and CNB bills

obligations of all those participating in the capital market. The banking sector's low level of involvement in trading or holding shares and participation certificates in portfolios significantly limits its exposure to equity risk.

Securities – i.e. trading securities, securities available for sale, and securities held to maturity and ownership interests – amounted to CZK 743.5 billion as of 31 December 2001, which is 13.4% higher than a year earlier. They accounted for 26.7% of total assets, up by 0.6 points on the previous year.

At the end of 2001, more than half of all the securities (CZK 417.8 billion) consisted of T-bills and CNB bills, with CNB bills constituting the largest component. Bills are currently the banks' chief liquid asset.

Other types of security amounted to CZK 325.7 billion as of 31 December 2001, representing year-on-year growth of 6.4%. The most important element in securities portfolios across the banking sector comprised securities held to maturity and ownership interests, which were worth CZK 163.1 billion, i.e. 50.1% of all securities (excluding T-bills and CNB bills). Securities available for sale accounted for over a third of the total as of the same date; the smallest proportion was made up by trading securities. The breakdown by portfolio demonstrates that banks tend not to focus on securities trading. The volumes of the individual portfolios and their shares of the total were relatively stable over the course of the year; the moderate upward trend in trading securities is, however, worth noting.

As regards the degree of risk, the structure of securities by type is positive. Bonds amounted to CZK 260.0 billion as of 31 December 2001, meaning that this type of security made up 80% of total securities (excluding T-bills and CNB bills). One fifth of securities (excluding T-bills and CNB bills) were therefore shares; their proportion fell steadily during the course of the year, in favour of bonds.

A comparison of the fair value and cost price of each type of security illustrates the higher degree of risk associated with shares than with bonds. Whereas with shares there were considerable fluctuations in the ratio of their fair value to their cost price during 2001, with bonds this ratio remained just under 100%. From the individual portfolios, the best performers in 2001 were available-for-sale securities, which repeatedly exceeded 100%. The lowest ratio of fair value to cost price was to be found over the long term in trading securities. The profile of securities held to maturity and ownership interests to a certain extent matched that of securities as a whole; this type of security was the only portfolio item for which, as of 31 December 2001, the ratio of fair value to cost price had increased to close on 100%. The ratio of fair value to cost price for the total securities portfolio was 99.2% at the end of 2001.

The fair value of securities in Czech banks' portfolios was adversely affected in 2001 (and in particular during the second half of the year) by the economic problems in the USA and certain Western European countries. The impact was partly direct, in the case of banks that held securities issued in those countries experiencing the economic downturn; it was also partly indirect, since many firms in other countries recorded disappointing financial results as a consequence of worsening trade, most notably with US customers.

Domestic issuers were also hit by the unfavourable conditions in foreign economies; their securities form the bulk of Czech banks' portfolios (only 16.8% of all securities are non-residents' securities, and only 7.2% are denominated in foreign currencies). The

Prague Stock Exchange's official index, the PX50, was down by 17.5% to 394.6 as of 31 December 2001, and its annual average was down by 25.4% on the year to 411.5.

However, securities issued by financial intermediaries (and therefore by banks as well to a considerable extent) bucked the trend in 2001: the BI15 index, which characterises such issues, surged by 18.0% in 2001 to stand at 674.4 at the year-end. Shares in the privatised large banks enjoyed particularly buoyant growth in prices.

Under a CNB regulation, banks are required to create provisions to cover any negative difference between fair value and cost price. As of 31 December 2001, banks had created CZK 6.5 billion worth of these provisions to cover potential losses from securities portfolios, i.e. CZK 662.0 million more than was actually needed. All the individual portfolios were similarly covered.

3.4.3 DERIVATIVES RISKS

(for banks with licences as of 31 December 2001)

The involvement of banks in derivatives transactions has increased greatly in recent years. The risks from derivatives contracts have also increased, in proportion to the growing volumes of receivables and payables arising from such transactions. The risks attaching to financial derivatives are overwhelmingly market risks relating to movements in the market prices of their underlying assets. To a lesser extent, the risks derive from fluctuations in interest rates and exchange rates. In addition, credit risk arises in the case of transactions in credit derivatives, and in this case such risk also derives from the risk attaching to the underlying assets. Derivatives risk may in some cases be very high, and, when there is insufficient internal control, it may seriously threaten the bank's very existence. The high level of risk associated with derivatives operations is also linked to the potential for big losses on a minimal initial investment. These risks are many times higher than those associated with traditional banking transactions, as derivatives transactions may be very sophisticated.

The market risks attaching to derivatives transactions are dealt with in the Czech National Bank's banking supervision regulation concerning capital adequacy. Banks limit these risks mainly through hedging operations and by curbing speculative operations.

Receivables from derivatives transactions amounted to CZK 3,489.3 billion as of 31 December 2001, representing year-on-year growth of 58.7%. Derivatives accounted for 88.9% of off-balance-sheet assets. Receivables from derivatives transactions are showing much more dynamic growth than are total assets. As of 31 December 2001, derivatives were equivalent to 125.4% of total assets and so for the first time exceeded in volume those assets recorded in the balance sheet (at the end of 2000, derivatives amounted to 87.6% of total assets).

It is mainly medium-sized banks and branches of foreign banks that focus on derivatives transactions. Such transactions at small banks are negligible. Receivables from derivatives transactions have long had the largest ratio to total assets in foreign bank branches, amounting to 397.5% as of 31 December 2001. In comparison with 2000, this figure is well over 100 points higher, while it is more than double the 1999 figure. An above-average ratio of derivatives receivables to total assets is also to be found in medium-sized banks, where it is 148.2%. Following a slight drop in 2000, there was growth again in this ratio among medium-sized banks in 2001, to a level above that of 1999. Both the branches of foreign banks and the medium-sized banks saw significant

CHART 39

COVERAGE OF POTENTIAL LOSSES FROM THE SECURITIES PORTFOLIO for banks with licences as of 31 December 2001

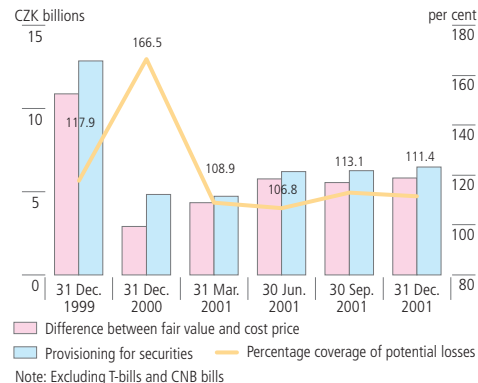


CHART 40

RECEIVABLES FROM DERIVATIVES TRANSACTIONS AS A PERCENTAGE OF TOTAL ASSETS for banks with licences as of 31 December 2001

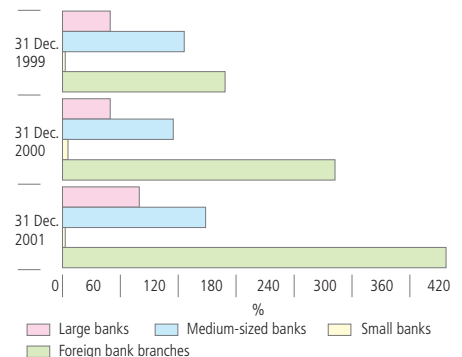


CHART 41
DERIVATIVES STRUCTURE BY UNDERLYING ASSET
for banks with licences as of 31 December 2001

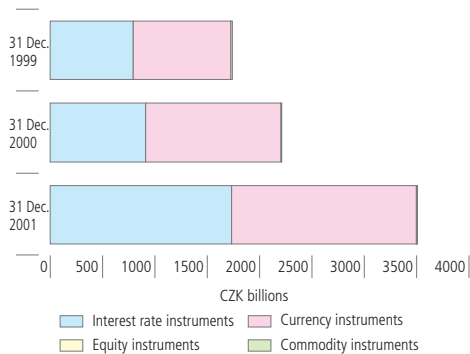


CHART 42
DERIVATIVES STRUCTURE BY CONTRACT TYPE
for banks with licences as of 31 December 2001

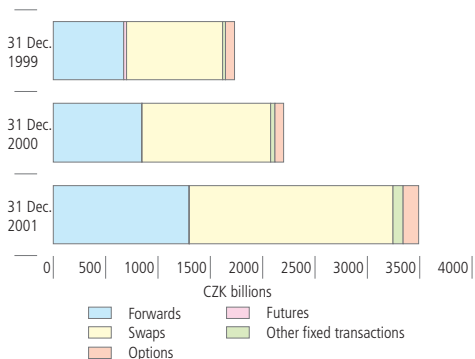
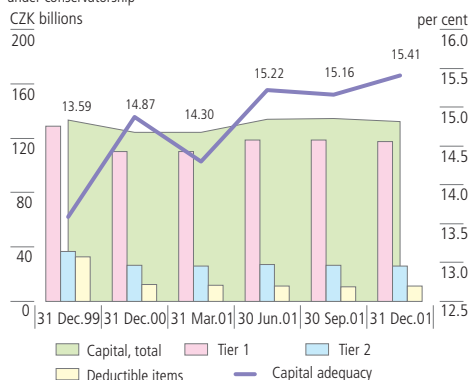


CHART 43
CAPITAL STRUCTURE
for banks with licences as of 31 December 2001, excluding banks under conservatorship



year-on-year growth in receivables from derivatives (of 54.9% and 42.7% respectively). As of 31 December 2001, the market share of foreign bank branches in derivatives amounted to 37.9%, and that of medium-sized banks to 25.0%.

In comparison with these groups, large banks demonstrated a somewhat lower degree of involvement in derivatives, both in their ratio of derivatives to total assets and in their level of participation in the market. For large banks, the ratio of derivatives transactions to total assets was 79.6% as of 31 December 2001, up by 30.2 points on a year earlier. By the end of 2001, the market share of the large banks had reached 37.0%, signalling their gradually increasing level of involvement in derivatives transactions (the figure for the previous year was 33.1%).

With regard to underlying assets, banks focus almost exclusively on transactions in currency and interest rate instruments. As at 31 December 2001, transactions in currency instruments made up 50.3% of total receivables from derivatives, and transactions in interest rate instruments only slightly less (49.4%), representing a year-on-year decline of 8.3 points and a rise of 8.2 points respectively. Transactions in equity and commodity instruments were, as in previous years, negligible.

The most common type of derivatives contract has long been swaps, which as of 31 December 2001 accounted for 55.8% of all receivables from derivatives. During 2001, swaps thus maintained their dominant position, as no change in their share was recorded. Forwards are the second most common type of derivative, comprising 37.2% of the total volume, only slightly less than at the end of the previous year. As of 31 December 2001, options formed only 4.2% of the total. The volume of receivables from futures fell yet again during 2001. Their share of total receivables from derivatives is minimal.

4. CAPITAL ADEQUACY

(for banks with licences as of 31 December 2001, excluding banks under conservatorship)

Capital adequacy is the main indicator of the sufficiency of the capital provision of individual banks. A sufficient level of capital is essential to cover the risks involved in banking. Since with banks the proportion of external funds to total funds is typically high, this capital also serves to protect deposited external funds, in particular client deposits. The importance of capital and its measurement in terms of capital adequacy is so widely recognised that, in a somewhat different form, it has been adopted for other types of financial institutions that administer external funds, such as securities dealers.

Capital adequacy in banks is based on the setting of capital requirements commensurate with the scale and range of banking activities and their degree of risk. Until March 2000, the calculation of, and requirements for, capital adequacy incorporated only credit risk, which continues to be the core component of the overall risk for banks in the Czech banking sector. However, under a new CNB provision that came into effect in April 2000, banks are required to include market risks when calculating capital adequacy. This has brought the capital adequacy calculation in the Czech banking sector into line with practices in advanced countries.

The capital ratio of the sector was 15.41% on average as of 31 December 2001. This represents an increase of 0.54 points on the previous year (using the same method of calculation). Capital adequacy did not develop uniformly in 2001. A decrease was seen at the beginning of the year, when the banking sector recorded a quarterly low of 14.3%.

Then, following appreciable growth in the second quarter, the slow descent resumed. The growth recorded in the second quarter of 2001 is linked to the dates of annual general meetings, whose decisions concerning profit distribution determine the portion of profit from the previous accounting period to be incorporated into the bank's capital.

Total capital amounted to CZK 132.5 billion as of 31 December 2001, 6.6% more than a year earlier. There was growth in total capital during both the second and third quarters of 2001, although most of the growth was recorded before the mid-year. During the last quarter, however, there was a slight drop in capital. The major component of overall capital is Tier 1 capital, which comprises equity capital, reserve funds and retained profit. Tier 1 capital grew by 7.0% to CZK 117.7 billion. Tier 2 capital, which includes subordinated debt and general provisions and reserves for covering risks, is currently less significant. It has not changed substantially in volume over time: during 2001, it recorded a 2.6% drop to CZK 25.9 billion. Deductible items also decreased in volume over the year, by 10.0% to CZK 11.1 billion. This drop is confirmation of the improving performance of banks, since losses from both the current accounting period and the preceding ones play negligible role in deductible items. The profitability of banks has, in addition, bolstered their capital.

The structure of capital requirements is derived from the structure of banking activities. In Czech banking, there is still the usual concentration on traditional banking activities, where the major risk is credit risk. This is reflected in the distribution of banking activities between the banking and trading portfolios. The banking portfolio includes roughly three quarters of balance-sheet assets. With off-balance-sheet assets, the situation is the reverse – about three quarters are classified in the trading portfolio. However, whereas the proportion of balance-sheet assets in the banking portfolio is fairly stable, the proportion of off-balance-sheet assets in the trading portfolio is gradually increasing, in line with the dynamic growth of derivatives transactions.

It is mainly the large and medium-sized banks that are involved in trading activities. Building societies and small banks concentrate almost exclusively on traditional banking activities. Chart 44 shows the higher growth rate of the trading portfolio among medium-sized banks, which during the fourth quarter of 2001 became the group with the largest trading-portfolio representation in the balance sheet.

Capital requirements are created in large part out of banking portfolio requirements; trading portfolio requirements are only a supplementary factor. The total capital requirement amounted to CZK 68.8 billion as of 31 December 2001, 2.9% more than a year earlier. Both components of the total showed growth: the capital requirement for the banking portfolio was up by 2.2% on a year earlier to CZK 63.3 billion, while that for the trading portfolio was up by 12.1% to CZK 5.5 billion.

As of 31 December 2001, risk-weighted assets in the banking portfolio amounted to CZK 791.0 billion, representing year-on-year growth of 2.2%. This level of growth was 8.7 points lower than that for assets as a whole, since banks invested primarily in assets bearing a lower risk weighting. As of 31 December 2001, the ratio of risk-weighted assets in the banking portfolio to their overall book value was 40.2%, a fall of 1.2 points from a year earlier.

The great majority of the capital requirement for banking portfolios (92% as of 31 December 2001) is due to capital requirements for credit risk. These are calculated using specific risk weightings dependent on the type of client or operation. The reduced lending activity and the priority allocation of free liquidity to quick assets or

CHART 44
RATIO BETWEEN TRADING PORTFOLIO AND BANKING PORTFOLIO ASSETS
for banks with licences as of 31 December 2001, excluding banks under conservatorship

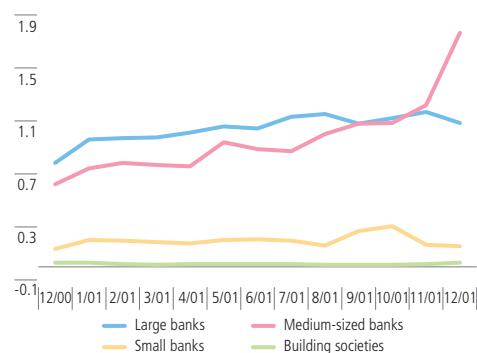


CHART 45
RISK-WEIGHTED ASSETS
for banks with licences as of 31 December 2001, excluding banks under conservatorship

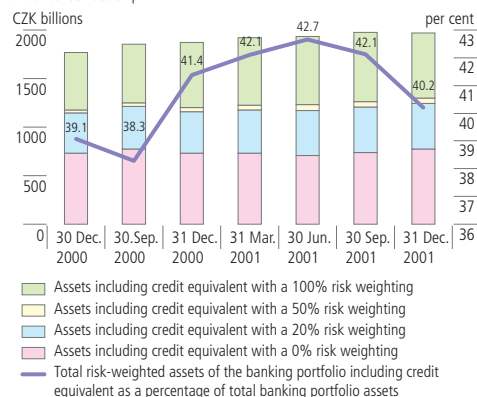


TABLE 12

BREAKDOWN OF BANKS BY CAPITAL ADEQUACY

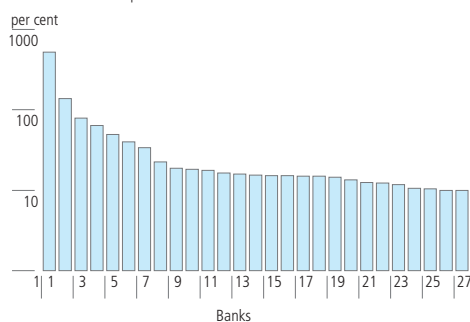
for banks with licences as of 31 December 2001, excluding banks under conservatorship

| | 31 DEC. 1996 | 31 DEC. 1997 | 31 DEC. 1998 | 31 DEC. 1999 | 31 DEC. 2000 | 31 DEC. 2001 |
|------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| under 8 % | 2 | 3 | 1 | 0 | 0 | 0 |
| 8 to 12 % | 5 | 9 | 8 | 5 | 7 | 5 |
| 12 to 15 % | 4 | 0 | 4 | 9 | 5 | 5 |
| 15 to 20 % | 4 | 6 | 4 | 7 | 6 | 9 |
| 20 to 50 % | 7 | 5 | 4 | 1 | 4 | 4 |
| over 50 % | 4 | 4 | 6 | 5 | 5 | 4 |

CHART 46

CAPITAL ADEQUACY DISTRIBUTION OF BANKS AS OF 31 DECEMBER 2001

for banks with licences as of 31 December 2001, excluding banks under conservatorship



to other banks is reducing the overall volume of risk-weighted assets, as these items have a low risk weighting.

The capital requirements for the trading portfolio are considerably lower than those for the banking portfolio. As of 31 December 2001, they amounted to CZK 5.5 billion, or just 8.0% of the total capital requirements. This is not just due to the lower proportion of assets in the trading portfolio; in fact, it chiefly reflects the nature of the transactions carried out, which to a great extent require less capital coverage. The highest capital requirements are consistently for general credit risk (CZK 3 billion as of 31 December 2001) and for trading portfolio credit risk (CZK 2 billion). The comparatively low capital requirements for covering market risk result from the limited importance of foreign exchange, the focus on state bonds and CNB bills, and the shorter maturities of the individual instruments, among other things.

Whereas at the end of 2000 a balancing-out of capital adequacy among the individual ranges had been evident, in 2001 the capital adequacy of the individual banks was concentrated to a larger extent in the 15%–20% range. The number of banks falling within this range is almost double that in the other groups, and is three more than a year earlier. The other groups monitored each contain either four or five banks. All banks exceeded the 8% minimum ratio. A drop in the number of banks in the marginal groups was recorded; the number of banks with capital adequacy of 8%–12% fell by two during the year and the number of those with capital adequacy of over 50% fell by one.

The capital adequacy distribution for all those banks which report it (i.e. with the exception of branches of foreign banks) clearly demonstrates their similarity. As of 31 December 2001, only five banks exhibited an exceptionally high level of capital adequacy (over 40%). This as a rule indicates that a bank has a particular specialisation and/or, in certain cases, a low level of activity. At the opposite end of the spectrum, i.e. just under the 10% level, there were only two banks at the end of 2001.

5. BANKING SECTOR PERFORMANCE

(for banks with licences as of 31 December 2001)

A bank's financial results represent how successfully it has been managed, from initial decisions regarding any specialisation or focus on particular clientele segments, through to staffing, facilities and the latest technology. Profit from banking activities and net profit, which summarise a bank's overall success and its ability to make use of disposable funds (especially in relation to capital invested), are directly related to its level of risk management. When a bank is run successfully, profit is used in large part to create mandatory and voluntary funds, which can be drawn on to cover any future losses. Losses, on the other hand, undermine the stability of the bank as a whole, since they reduce capital and consequently the bank may not be adequately protected against the risks to which it may be exposed in the future.

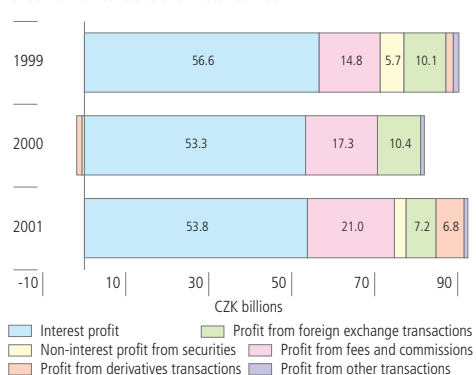
5.1 PROFIT FROM BANKING ACTIVITIES

Profit from banking activities in 2001 amounted to CZK 92.4 billion, the highest figure for three years. It surpassed the previous year's figure by 15.3%. The most important factors underlying the increase in profit from banking activities were profits from securities transactions and from derivatives transactions, which in 2000 had been loss-making for the banking sector as a whole. An increase in profit from fees and

CHART 47

STRUCTURE OF PROFIT FROM FINANCIAL ACTIVITIES BY PROFIT TYPE

for banks with licences as of 31 December 2001



commissions and a slight improvement in total net interest income also had a positive effect on profit from banking activities.

Interest profit constituted the largest component of profit from banking activities, with CZK 53.8 billion (58.2% of the total profit from banking activities). Despite an overall downward trend in interest rates, year-on-year growth in interest profit reached CZK 0.5 billion, even though the growth rate of interest income was 0.5 points lower than that of interest expenses. More than a fifth of all profit from banking activities in 2001 consisted of profit from fees and commissions, which amounted to CZK 21.0 billion, representing year-on-year growth of 21.1%. Whereas interest profit depends to a considerable extent on the overall level of interest rates, banks can influence profit from fees and commissions through an active pricing policy. The growth in such profit comes almost exclusively from client transactions.

In 2001, foreign exchange transactions were the third most important source of profit, even though they fell in volume by just under a third from the previous year to CZK 7.2 billion. Profit from derivatives transactions was only slightly less, at CZK 6.8 billion. Activities connected with non-interest profit from securities were also profitable. Amounting to CZK 2.8 billion, they were nevertheless the least important sector from the aspect of profit-creation from financial activities. In spite of considerable year-on-year growth, non-interest profit from securities amounted to only about half its 1999 figure. As regards profit type, most of the profit from securities, however, was interest profit, as the majority of securities in banks' portfolios are bonds.

The structure of profit by activity type registered certain changes in 2001. Client transactions remain the most important component. With profits of CZK 36.3 billion, representing year-on-year growth of 1.8%, they account for 39.3% of total profit from financial transactions. The lower profitability of this type of transaction compared with 1999 appears to be a long-term phenomenon. Only a small change in overall annual volume was recorded for cash and interbank transactions, which showed a profit of CZK 24.0 billion, making them the second most profitable category. The increased involvement of banks in securities transactions (particularly interest-bearing transactions) led to a 69.8% rise in profit from these transactions, such that they accounted for 15.7% of total profit from banking activities. Other types of transaction (with the exception of derivatives transactions) did not change markedly in volume in 2001.

In 2001, the large banks were responsible for about two thirds of the profit from financial activities, in line with the fact that they have the largest amount of total assets at their disposal. The large banks' share in total profit from banking activities was 2.5 points higher than a year earlier, at 69.3%. This exceeded their market share in total assets by about 10 points. The medium-sized banks are another important group. Their share nevertheless fell back slightly to 18.8%, below the level of their market share in total assets. The remaining three bank groups together account for only about a tenth of total profit from banking activities. The shares of building societies and foreign bank branches both fell. Branches of foreign banks generated a market share in profit from banking activities of only about half of what they should have done according to the volume of assets at their disposal as of 31 December 2001. All the groups recorded year-on-year growth in profit from banking activities. However, the highest level of growth – of almost one quarter – was posted by the small banks. In second place were the large banks, which increased their profit from banking activities by almost 20%.

CHART 48
STRUCTURE OF PROFIT FROM FINANCIAL ACTIVITIES
BY ACTIVITY TYPE
for banks with licences as of 31 December 2001

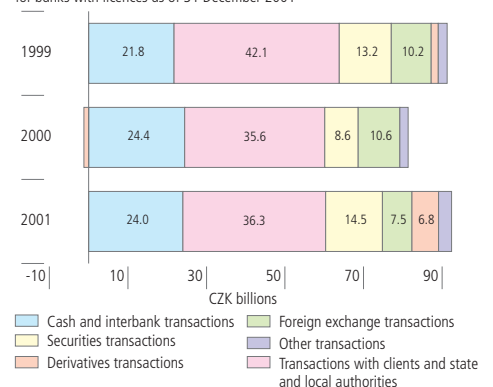


CHART 49
STRUCTURE OF PROFIT FROM FINANCIAL ACTIVITIES
BY BANK GROUP
for banks with licences as of 31 December 2001

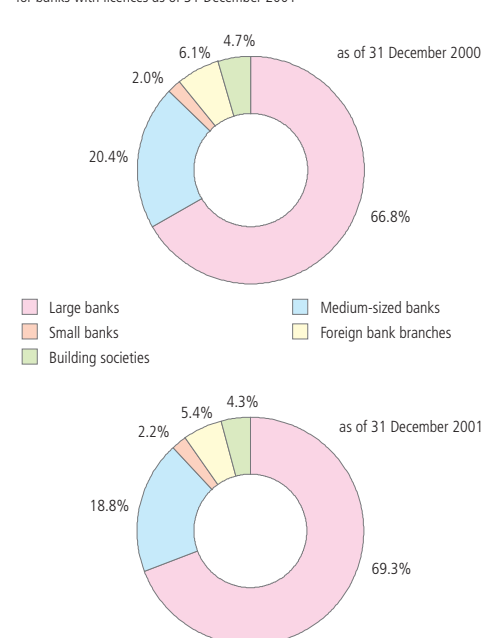
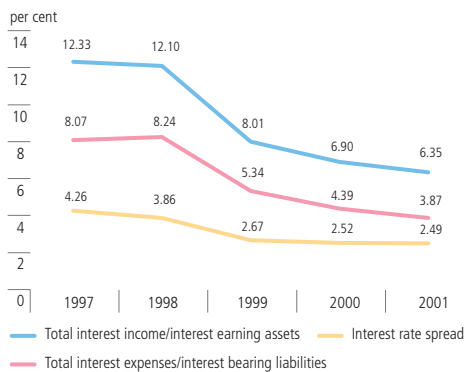


CHART 50
SELECTED PROFITABILITY INDICATORS
for banks with licences as of 31 December 2001

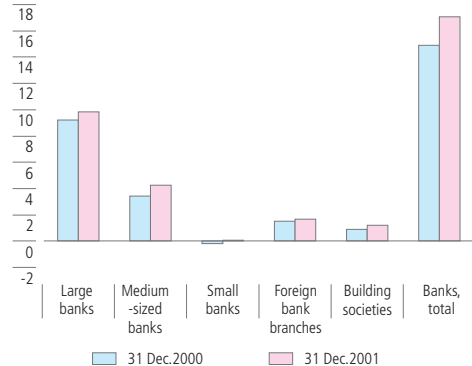


Whereas in 2000 the key interest rates announced by the CNB had not changed, during 2001 they were lowered appreciably (the two-week repo rate by 0.50 points, the discount rate by 1.25 points, and the Lombard rate by 1.75 points). When comparing the results of the banking sector, it should be borne in mind that the differences in these rates were even greater than at the end of 1998 and throughout most of 1999. The ratio of interest income to interest-earning credits was 6.35% at the end of 2001, i.e. 0.55 points less than at the end of the previous year. There was a gradual decline throughout the year, with the most sizeable change occurring in the first quarter. The ratio of interest expenses to interest-bearing deposits also fell gradually during the year, by 0.52 points as of 31 December 2001. In this case, too, the biggest drop occurred during the first quarter. Compared with 2000, the interest rate spread fell by only 0.03 points, to 2.49%, having fluctuated around 2.50% throughout 2001.

5.2 NET PROFIT

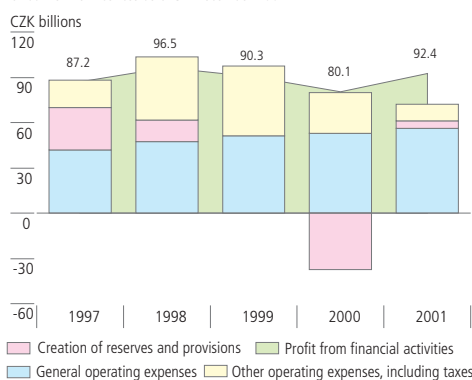
In 2001, the banking sector's net profit amounted to CZK 17.0 billion, more than 14.4% higher than in 2000. The last year in which the banks in the Czech banking sector were run at a loss was 1999. Every bank group contributed to the growth in net profit, most of all the large banks and medium-sized banks, with 52.9% and 36.7% of the total annual growth respectively. During 2001, every bank group turned in a profit. As regards the individual banks, only two were loss-making, compared with eight in 2000.

CHART 51
COMPARISON OF NET PROFIT
for banks with licences as of 31 December 2001



With CZK 9.9 billion, large banks accounted for 57.8% of the net profit in the banking sector. Medium-sized banks, with CZK 4.2 billion, had a 24.8% share. The net profit of the large banks grew by 13.0% in 2001; only two years earlier, these banks as a whole had been operating at a loss. Net profit among the medium-sized banks continued to rise: after a 69.2% rise in 2000, in 2001 it rose by a further 22.9%. The small banks group had been moderately loss-making for some time, but in 2000 it succeeded in reducing its losses, and in 2001 it registered profits of CZK 0.1 billion. Foreign bank branches, which had been loss-making until the end of 1999, turned in a net profit in 2000; this increased still further in 2001 to CZK 1.7 billion. The year 2001 saw a renewed rise in profitability among building societies following a significant dip in 2000, although their net profit of CZK 1.2 billion fell short of the 1999 level.

CHART 52
SUFFICIENCY OF PROFIT FROM FINANCIAL ACTIVITIES
for banks with licences as of 31 December 2001



The final figure for net profit is affected to a considerable extent by operating costs and the creation of provisions and reserves for lower-quality assets. In 2001, after a several-year-long downward trend in the growth rate of their general operating expenses, banks increased these costs by 6.9% to CZK 56.2 billion, representing an increase in the pace of growth of 3.9 points compared with 2000. The greatest share in the growth of operating expenses belonged to the large banks, which recorded growth in operating expenses of CZK 2.9 billion in absolute terms (more than 80% of the total growth in operating expenses across the banking sector). The areas of most notable growth in the operating expenses of large banks were personnel expenses and contracted outputs.

A big change from 2000 was recorded in the creation of reserves and provisions. In that year, as a consequence of extraordinary operations to "clean up" the large banks ahead of privatisation, the negative net creation of reserves and provisions of CZK 37.4 billion had a positive impact on profits, whereas in 2001 a positive figure of CZK 4.7 billion had the effect of reducing overall profits. Given the substantially improved credit portfolios of domestic banks, however, reserves and provisions were

created in considerably lower volume in 2001 than in the past. Other operating expenses fell by CZK 16.0 billion to CZK 11.2 billion, thus allowing a higher final profit level to be achieved.

As a consequence of the growth in profit from financial activities, in operating expenses, and in the creation of reserves and provisions, gross operating profit fell by 46.2% to CZK 20.3 billion in 2001. The final figure for net profit, higher than for 2000, was therefore particularly affected by CZK 2.0 billion in extraordinary income (in 2000, banks had been hit by extraordinary costs of CZK 24.9 billion, largely as a result of accounting for transferred receivables).

5.3 EFFICIENCY AND PRODUCTIVITY

In 2001, the overall level of operating expenses was affected to a considerable extent by growth in personnel expenses and contracted outputs. The gradual downsizing of branch networks, especially among large banks, and the simultaneous reduction in the number of employees in the banking sector, have not adequately compensated for the growth in the aforementioned operating-cost items. The downward trend in the number of outlets and personnel directly serving the public is not uniform across all the banks in the Czech Republic: some medium-sized and small banks, in particular, have been reinforcing their networks and endeavouring to expand further and to divide up the market afresh.

Nevertheless, banks in general are cutting the number of branches and employees, and are gradually replacing traditional ways of providing banking services with alternative distribution channels in step with the latest technology. This is enabling them to maintain the existing range, quality and availability of banking services. Much of the overall drop in the workforce was accounted for by a reduction in the number of people working at the head offices of certain banks, particularly those that have recently undergone mergers. Rationalisation, and related improvements in efficiency, at the head offices of the largest banks will presumably continue. One of the significant reasons for this is the concentration of certain – mainly strategic – activities in parent banks abroad. The reduction in the number of employees at head offices has in no way affected the range and quality of the services and products offered by the banks concerned (see Section 2.2.3 “Employees and banking units”).

General operating expenses amounted to CZK 56.2 billion in 2001, with only small changes occurring in their structure over the course of the year. At CZK 24.9 billion, contracted outputs retained a 44.3% share in overall operating expenses, thereby remaining the most important item. (This indicator includes not only accounting estimates for contractual work, but also items of a material nature.) Contracted outputs were up by 6.0% on the previous year, and together with mounting personnel expenses they contributed greatly to the overall growth in general operating expenses. Write-offs of assets, on the other hand, fell not just in relative terms as a percentage of overall operating expenses, but in absolute terms as well.

Personnel expenses amounted to CZK 17.1 billion in 2001, 14.0% higher than in 2000. In 2001, these expenses accounted for 30.4% of the structure of general operating expenses, but for 57.8% of the total annual growth in general operating expenses.

In 2001, operating expenses per employee grew by 17.5% to CZK 1.4 million. The continuing growth in operating expenses per employee was, as in 2000, the result of

CHART 53
STRUCTURE OF GENERAL OPERATING EXPENSES
for banks with licences as of 31 December 2001

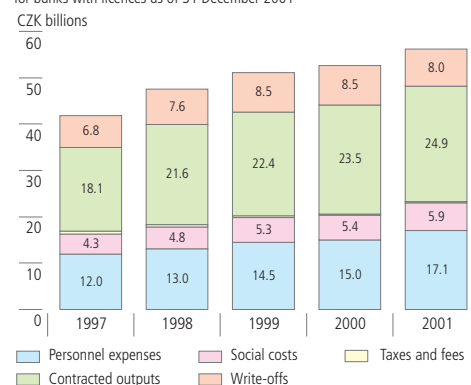
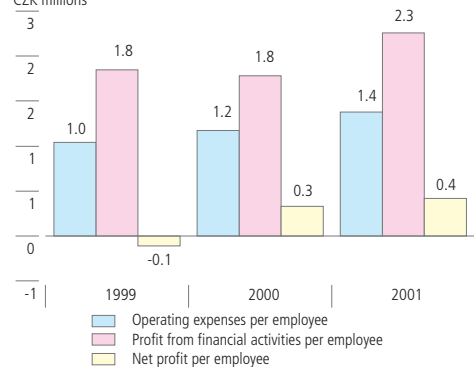


CHART 54
PROFIT AND EXPENSES PER EMPLOYEE
 for banks with licences as of 31 December 2001
 CZK millions



the concurrent decline in employee numbers and growth in operating expenses. The growth in profit from financial activities per employee may be evaluated in a positive light, since the pace of growth surpassed that for general operating expenses per employee by 9.3%. Profit from banking activities per employee amounted to CZK 2.3 million in 2001, 26.8% higher than a year earlier. Net profit per employee was only somewhat less dynamic. It grew by 25.6%, amounting to CZK 417,200.

Productivity and efficiency in the Czech banking sector, expressed as the total assets administered per employee, also showed an upward trend during 2001. At the end of the year, this figure had reached CZK 68.1 billion, 21.9% more than at the end of 2000, largely as a result of the growth in total assets within the banking sector and the decline in employee numbers.

The year 2001 also saw an improvement in general operating expenses as a percentage of the average stock of total assets in the banking sector, which dropped by 0.07 points to 2.11% as of 31 December 2001. This decrease was due to the combined effect of growth in assets and slightly slower growth in general operating expenses.

C. APPENDICES

Survey of banks and foreign bank branches as of 31 December 2001

I. Banks

| Bank | Start of operation | Equity capital in CZK millions | Number of banking units | | Number of employees |
|---|--------------------|--------------------------------|-------------------------|--------|---------------------|
| | | | in Czech Rep. | abroad | |
| Citibank, a.s. | 24 Jun. 1991 | 2 425 | 5 | | 621 |
| CREDIT LYONNAIS BANK PRAHA, a.s. | 12 Nov. 1992 | 500 | 0 | | 90 |
| Česká exportní banka, a.s. | 1 Jul. 1995 | 1 650 | 0 | | 121 |
| Česká spořitelna, a.s. | 1 Jan. 1969 | 15 200 | 684 | | 11 958 |
| Českomoravská hypoteční banka, a.s. | 10 Jan. 1991 | 1 328 | 42 | | 282 |
| Českomoravská záruční a rozvojová banka, akciová společnost | 1 Mar. 1992 | 1 500 | 5 | | 251 |
| Českomoravská stavební spořitelna, akciová společnost | 8 Sep. 1993 | 1 780 | 5 | | 506 |
| Československá obchodní banka, a.s. | 1 Jan. 1965 | 5 105 | 243 | 47 | 8 355 |
| Dresdner Bank (ČR), a.s. | 12 May 1992 | 1 000 | 1 | | 165 |
| eBanka, a.s. | 1 Jan. 1991 | 1 042 | 23 | | 592 |
| GE Capital Bank, a.s. | 22 Jun. 1998 | 500 | 189 | | 1 957 |
| HVB Bank Czech Republic, a.s. | 1 Jul. 1992 | 5 047 | 25 | | 1 174 |
| HYPO stavební spořitelna, a.s. | 1 Oct. 1994 | 500 | 5 | | 66 |
| IC Banka, a.s. | 6 Apr. 1994 | 500 | 1 | | 35 |
| Interbanka, akciová společnost | 1 Feb. 1991 | 1 709 | 0 | | 112 |
| J & T Banka, a.s. | 18 Dec. 1992 | 501 | 0 | | 57 |
| Komerční banka, a.s. | 1 Jan. 1990 | 19 005 | 330 | | 9 299 |
| Plzeňská banka, a.s. | 1 Oct. 1993 | 1 000 | 0 | | 37 |
| První městská banka, a.s. | 1 Sep. 1993 | 500 | 14 | | 57 |
| Raiffeisen stavební spořitelna a.s. | 7 Sep. 1993 | 650 | 0 | | 287 |
| Raiffeisenbank a.s. | 1 Jul. 1993 | 1 500 | 30 | | 829 |
| Stavební spořitelna České spořitelny, a.s. | 1 Jul. 1994 | 750 | 0 | | 302 |
| Union banka, a.s. | 15 Nov. 1991 | 2 444 | 91 | | 1 114 |
| Volksbank CZ, a.s. | 1 Jan. 1994 | 650 | 14 | | 293 |
| Všeobecná stavební spořitelna Komerční banky, a.s. | 16 Dec. 1993 | 500 | 0 | | 361 |
| Wüstenrot - stavební spořitelna, a.s. | 11 Nov. 1993 | 550 | 0 | | 156 |
| Živnostenská banka, a.s. | 1868 | 1 360 | 27 | 1 | 798 |

II. Foreign bank branches

| Bank | Start of operation | Home country | Number of local units | | Number of employees |
|---|--------------------|----------------|-----------------------|--------|---------------------|
| | | | in Czech Rep. | abroad | |
| ABN AMRO Bank N.V. | 6 May 1993 | Netherlands | 1 | | 135 |
| COMMERZBANK Aktiengesellschaft, pobočka Praha | 1 Dec. 1992 | Germany | 2 | | 174 |
| Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka | 1 Dec. 1993 | Germany | 0 | | 84 |
| ING Bank N.V. | 1 Sep. 1993 | Netherlands | 2 | | 200 |
| HSBC Bank plc - pobočka Praha | 1 May 1997 | United Kingdom | 0 | | 41 |
| Raiffeisenbank im Stiftland eG pobočka Cheb, odštěpný závod | 2 Jan. 1995 | Germany | 1 | | 25 |
| SOCIETE GENERALE, pobočka PRAHA | 1 Jan. 1998 | France | 0 | | 143 |
| Sparkasse Mühlviertel - West banka a.s. pobočka České Budějovice | 20 Mar. 1995 | Austria | 5 | | 53 |
| Všeobecná úverová banka a.s., pobočka Praha | 14 Jan. 1993 | Slovakia | 1 | | 59 |
| Waldviertler Sparkasse von 1842 pobočka | 1 May 1994 | Austria | 5 | | 82 |

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 or in bankruptcy proceedings

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

V. 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 |
| Bank Austria Creditanstalt Czech Republic a.s. | 1 Apr. 1991 | 1 Oct. 2001 | merger |

VI. Banks dissolved with liquidation

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

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 |
| Erste Bank Sparkassen (CR) a.s. | 1 Feb. 1993 | 30 Sep. 2000 |
| Foresbank, a.s. | 7 Sep. 1993 | 1 Mar. 1999 |
| SOCIETE GENERALE BANKA, a.s. | 15 Apr. 1991 | 18 Nov. 1999 |

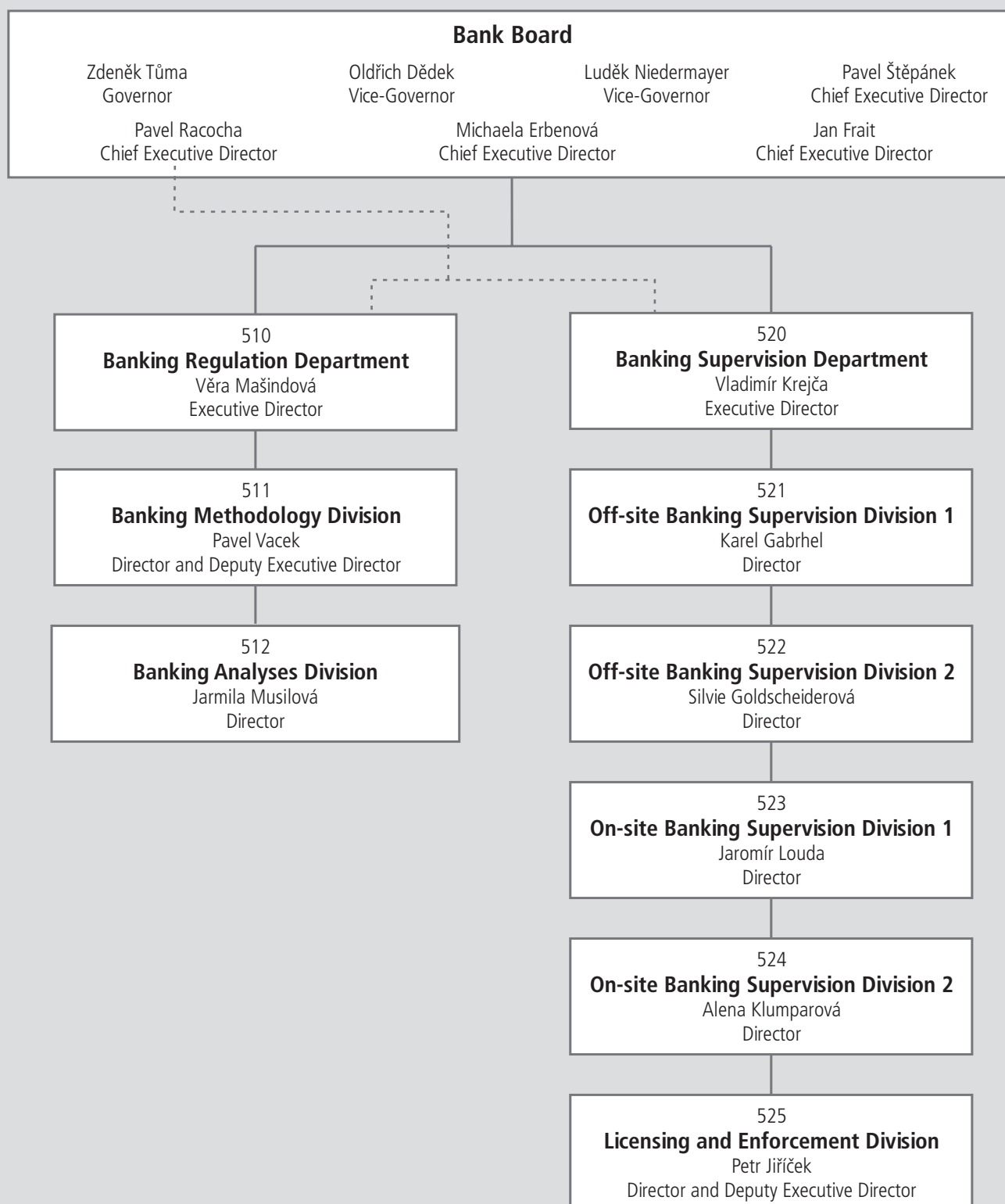
VIII. Former state financial institution

(transformed into a non-bank institution)

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

Organisational structure of CNB Banking Supervision

as of 1 January 2002



BREAKDOWN OF BANKS INTO GROUPS

I. LARGE BANKS

1. Česká spořitelna, a.s.
2. Československá obchodní banka, a.s.
3. Komerční banka, a.s.

II. MEDIUM-SIZED BANKS

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

III. SMALL BANKS

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

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 pobočka

V. BUILDING SOCIETIES

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

VI. BANKS UNDER CONSERVATORSHIP

1. IP banka, a.s.

Main indicators of monetary and economic developments in the Czech Republic

| | | 1998 | 1999 | 2000 | 2001 |
|---|-------------------------------------|---------|--------|--------|--------|
| Gross domestic product 1), 2) | Volume (in CZK billions) | 1 412.2 | 1406.7 | 1447.4 | 1499.2 |
| | Increase (in per cent) | -1.2 | -0.4 | 2.9 | 3.6 |
| Output - percentage increase 2) | Industry | 1.6 | -3.1 | 5.4 | 6.8 |
| | Construction | -7.0 | -6.5 | 5.3 | 9.6 |
| Prices 3) | Inflation rate (in per cent) | 10.7 | 2.1 | 3.9 | 4.7 |
| Unemployment 4) | Unemployment rate (in per cent) | 7.5 | 9.4 | 8.8 | 8.9 |
| Foreign trade | Exports (in CZK billions) | 834.2 | 908.8 | 1121.1 | 1268.5 |
| | Imports (in CZK billions) | 914.5 | 973.2 | 1241.9 | 1387.5 |
| | Balance (in CZK billions) | -80.3 | -64.4 | -120.8 | -119.0 |
| Average wage 2) | Nominal (in per cent) | 9.4 | 8.2 | 6.6 | 8.5 |
| | Real (in per cent) | -1.2 | 6.0 | 2.6 | 3.6 |
| Balance of payments | Current account (in CZK billions) | -44.7 | -54.2 | -109.7 | -101.0 |
| | Financial account (in CZK billions) | 94.3 | 106.6 | 148.0 | 153.3 |
| Exchange rate 5) | CZK/USD | 32.26 | 34.59 | 38.59 | 38.04 |
| | CZK/EUR | 35.85 | 36.88 | 35.61 | 34.08 |
| Average interbank | 7-day | 14.15 | 6.85 | 5.29 | 5.15 |
| deposit rate (PRIBOR) in per cent 5) | 3-month | 14.33 | 6.85 | 5.36 | 5.18 |
| | 6-month | 14.23 | 6.89 | 5.48 | 5.21 |
| Discount rate (in per cent) 4) | | 7.50 | 5.00 | 5.00 | 3.75 |
| Lombard rate (in per cent) 4) | | 12.50 | 7.50 | 7.50 | 5.75 |
| 2W repo rate (in per cent) 4) | | 9.50 | 5.25 | 5.25 | 4.75 |
| PX50 capital market index 5) | | 439.9 | 455.2 | 551.9 | 411.5 |

1) At constant 1995 prices

2) Percentage increase on a year earlier

3) Inflation rate in December of the given year

4) End-of-period figures

5) Annual averages

Assets

(for banks with licences as of 31 December 2001)

| | 31 Dec. 1999 | 31 Dec. 2000 | 2001 | | | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | | | 31 Mar. | 30 Jun. | 30 Sep. | 31 Dec. |
| in CZK millions | | | | | | |
| Cash | 36 894 | 34 777 | 27 395 | 30 240 | 30 226 | 41 163 |
| Deposits and credits with CNB | 270 439 | 285 784 | 320 257 | 328 004 | 324 114 | 315 118 |
| of which: required reserves | 27 754 | 28 103 | 29 412 | 27 461 | 27 353 | 30 273 |
| Deposits and credits with banks | 564 699 | 564 731 | 587 480 | 614 458 | 534 802 | 561 305 |
| of which: current accounts | 22 053 | 5 031 | 5 674 | 5 284 | 7 381 | 6 528 |
| time deposits | 402 809 | 396 726 | 416 981 | 444 321 | 451 942 | 455 754 |
| credits granted | 139 838 | 162 975 | 164 824 | 164 853 | 75 479 | 99 023 |
| T-bills | 80 331 | 109 126 | 91 958 | 108 238 | 108 485 | 144 162 |
| CNB bills | 208 134 | 240 497 | 261 481 | 283 731 | 289 490 | 273 681 |
| Credits granted (net) | 808 144 | 808 605 | 837 241 | 840 528 | 936 109 | 922 108 |
| of which: to clients | 794 316 | 757 750 | 794 620 | 801 732 | 792 018 | 739 326 |
| to state and local authorities | 13 828 | 50 855 | 42 620 | 38 797 | 144 091 | 182 782 |
| Securities, total | 210 015 | 306 015 | 283 164 | 298 873 | 318 473 | 325 676 |
| of which: trading securities | 74 941 | 92 492 | 39 285 | 43 373 | 50 276 | 51 655 |
| securities available for sale | 77 267 | 48 914 | 110 359 | 104 764 | 106 065 | 110 904 |
| securities held to maturity + ownership interests | 57 807 | 164 609 | 133 519 | 150 736 | 162 131 | 163 117 |
| Tangible and intangible assets | 62 068 | 61 065 | 58 097 | 58 291 | 58 124 | 58 033 |
| Other assets | 154 022 | 147 770 | 209 128 | 215 102 | 225 494 | 252 816 |
| Total assets | 2 317 478 | 2 509 455 | 2 565 839 | 2 672 702 | 2 719 252 | 2 783 158 |
| in per cent | | | | | | |
| Cash | 1.59 | 1.39 | 1.07 | 1.13 | 1.11 | 1.48 |
| Deposits and credits with CNB | 11.67 | 11.39 | 12.48 | 12.27 | 11.92 | 11.32 |
| of which: required reserves | 1.20 | 1.12 | 1.15 | 1.03 | 1.01 | 1.09 |
| Deposits and credits with banks | 24.37 | 22.50 | 22.90 | 22.99 | 19.67 | 20.17 |
| of which: current accounts | 0.95 | 0.20 | 0.22 | 0.20 | 0.27 | 0.23 |
| time deposits | 17.38 | 15.81 | 16.25 | 16.62 | 16.62 | 16.38 |
| credits granted | 6.03 | 6.49 | 6.42 | 6.17 | 2.78 | 3.56 |
| T-bills | 3.47 | 4.35 | 3.58 | 4.05 | 3.99 | 5.18 |
| CNB bills | 8.98 | 9.58 | 10.19 | 10.62 | 10.65 | 9.83 |
| Credits granted (net) | 34.87 | 32.22 | 32.63 | 31.45 | 34.43 | 33.13 |
| of which: to clients | 34.28 | 30.20 | 30.97 | 30.00 | 29.13 | 26.56 |
| to state and local authorities | 0.60 | 2.03 | 1.66 | 1.45 | 5.30 | 6.57 |
| Securities, total | 9.06 | 12.19 | 11.04 | 11.18 | 11.71 | 11.70 |
| of which: trading securities | 3.23 | 3.69 | 1.53 | 1.62 | 1.85 | 1.86 |
| securities available for sale | 3.33 | 1.95 | 4.30 | 3.92 | 3.90 | 3.98 |
| securities held to maturity + ownership interests | 2.49 | 6.56 | 5.20 | 5.64 | 5.96 | 5.86 |
| Tangible and intangible assets | 2.68 | 2.43 | 2.26 | 2.18 | 2.14 | 2.09 |
| Other assets | 6.65 | 5.89 | 8.15 | 8.05 | 8.29 | 9.08 |
| Total assets | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Liabilities

(for banks with licences as of 31 December 2001)

| | 31 Dec. 1999 | 31 Dec. 2000 | 2001 | | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | | | 31 Mar. | 30 Jun. | 30 Sep. | 31 Dec. |
| | in CZK millions | | | | | |
| Funds from CNB | 5 449 | 5 542 | 4 126 | 4 368 | 3 992 | 4 717 |
| Deposits and credits from banks | 369 578 | 356 156 | 380 270 | 381 422 | 402 841 | 367 130 |
| of which: current accounts | 10 017 | 7 717 | 11 249 | 8 050 | 13 330 | 14 819 |
| time deposits | 267 132 | 275 020 | 293 480 | 298 769 | 310 321 | 260 512 |
| credits received | 92 429 | 73 419 | 75 541 | 74 603 | 79 190 | 91 799 |
| Deposits received | 1 209 303 | 1 263 461 | 1 391 374 | 1 474 184 | 1 489 009 | 1 474 781 |
| of which: from clients | 1 153 031 | 1 217 449 | 1 338 801 | 1 415 088 | 1 412 923 | 1 394 148 |
| from state and local authorities | 53 030 | 43 781 | 51 755 | 58 290 | 75 271 | 80 622 |
| deposit certificates | 3 242 | 2 231 | 818 | 807 | 814 | 11 |
| Issues of short-term and long-term bonds | 203 839 | 239 361 | 125 839 | 115 753 | 135 835 | 208 711 |
| Other remunerated external funds | 29 921 | 29 482 | 29 191 | 27 273 | 26 685 | 26 193 |
| Subordinated financial liabilities | 29 921 | 29 482 | 29 191 | 27 273 | 26 685 | 26 193 |
| Liabilities of foreign bank branches to head offices | 2 750 | 3 449 | 3 397 | 3 335 | 3 353 | 3 295 |
| Reserves | 37 946 | 51 798 | 52 395 | 43 977 | 44 048 | 45 247 |
| Reserve funds | 35 719 | 28 877 | 28 834 | 29 960 | 29 781 | 29 977 |
| Capital funds | 12 958 | 6 965 | 7 396 | 7 434 | 6 909 | 8 553 |
| Equity capital | 80 964 | 83 161 | 83 025 | 83 906 | 83 906 | 82 580 |
| Retained profits | -102 | 4 373 | 18 816 | 12 429 | 12 403 | 12 144 |
| Profit of current year | -5 590 | 15 003 | 6 024 | 10 042 | 14 690 | 17 049 |
| Other liabilities | 304 823 | 392 344 | 405 961 | 451 347 | 439 117 | 476 590 |
| Total liabilities | 2 317 478 | 2 509 455 | 2 565 839 | 2 672 702 | 2 719 252 | 2 783 158 |
| | in per cent | | | | | |
| Funds from CNB | 0.24 | 0.22 | 0.16 | 0.16 | 0.15 | 0.17 |
| Deposits and credits from banks | 15.95 | 14.19 | 14.82 | 14.27 | 14.81 | 13.19 |
| of which: current accounts | 0.43 | 0.31 | 0.44 | 0.30 | 0.49 | 0.53 |
| time deposits | 11.53 | 10.96 | 11.44 | 11.18 | 11.41 | 9.36 |
| credits received | 3.99 | 2.93 | 2.94 | 2.79 | 2.91 | 3.30 |
| Deposits received | 52.18 | 50.35 | 54.23 | 55.16 | 54.76 | 52.99 |
| of which: from clients | 49.75 | 48.51 | 52.18 | 52.95 | 51.96 | 50.09 |
| from state and local authorities | 2.29 | 1.74 | 2.02 | 2.18 | 2.77 | 2.90 |
| deposit certificates | 0.14 | 0.09 | 0.03 | 0.03 | 0.03 | 0.00 |
| Issues of short-term and long-term bonds | 8.80 | 9.54 | 4.90 | 4.33 | 5.00 | 7.50 |
| Other remunerated external funds | 1.29 | 1.17 | 1.14 | 1.02 | 0.98 | 0.94 |
| Subordinated financial liabilities | 1.29 | 1.17 | 1.14 | 1.02 | 0.98 | 0.94 |
| Liabilities of foreign bank branches to head offices | 0.12 | 0.14 | 0.13 | 0.12 | 0.12 | 0.12 |
| Reserves | 1.64 | 2.06 | 2.04 | 1.65 | 1.62 | 1.63 |
| Reserve funds | 1.54 | 1.15 | 1.12 | 1.12 | 1.10 | 1.08 |
| Capital funds | 0.56 | 0.28 | 0.29 | 0.28 | 0.25 | 0.31 |
| Equity capital | 3.49 | 3.31 | 3.24 | 3.14 | 3.09 | 2.97 |
| Retained profits | 0.00 | 0.17 | 0.73 | 0.47 | 0.46 | 0.44 |
| Profit of current year | -0.24 | 0.60 | 0.23 | 0.38 | 0.54 | 0.61 |
| Other liabilities | 13.15 | 15.63 | 15.82 | 16.89 | 16.15 | 17.12 |
| 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 2001)

| | 31 Dec. 1999 | 31 Dec. 2000 | 2001 | | | |
|--|-----------------|--------------|-----------|-----------|-----------|-----------|
| | | | 31 Mar. | 30 Jun. | 30 Sep. | 31 Dec. |
| | in CZK millions | | | | | |
| Credit commitments provided | 160 498 | 273 044 | 264 352 | 250 319 | 235 100 | 213 832 |
| Receivables from guarantees | 105 955 | 190 805 | 172 752 | 150 222 | 149 036 | 139 867 |
| Receivables from letters of credit | 13 673 | 8 225 | 8 229 | 9 507 | 8 350 | 6 961 |
| Receivables from spot transactions | 39 709 | 109 358 | 201 421 | 177 649 | 184 464 | 73 346 |
| Receivables from derivatives transactions, total | 1 729 689 | 2 198 714 | 3 073 132 | 3 121 064 | 3 587 638 | 3 489 272 |
| of which: forwards | 672 387 | 845 133 | 1 234 108 | 1 283 041 | 1 512 890 | 1 298 253 |
| futures | 26 052 | 4 394 | 5 958 | 8 447 | 5 989 | 229 |
| swaps | 917 230 | 1 227 050 | 1 652 198 | 1 620 667 | 1 848 891 | 1 946 372 |
| other fixed transactions | 28 918 | 41 657 | 50 124 | 62 622 | 89 608 | 97 621 |
| options | 85 101 | 80 479 | 130 744 | 146 288 | 130 260 | 146 796 |
| of which: interest rate and credit instruments | 789 965 | 905 944 | 1 272 721 | 1 410 596 | 1 644 379 | 1 723 200 |
| currency instruments | 926 060 | 1 287 976 | 1 793 873 | 1 704 106 | 1 937 149 | 1 756 702 |
| equity instruments | 13 502 | 4 518 | 4 349 | 4 958 | 4 007 | 3 528 |
| commodity instruments | 162 | 276 | 2 188 | 1 405 | 2 105 | 5 842 |
| Total off-balance-sheet assets | 2 049 524 | 2 780 146 | 3 719 885 | 3 708 761 | 4 164 588 | 3 923 278 |
| | in per cent | | | | | |
| Credit commitments provided | 7.83 | 9.82 | 7.11 | 6.75 | 5.65 | 5.45 |
| Receivables from guarantees | 5.17 | 6.86 | 4.64 | 4.05 | 3.58 | 3.57 |
| Receivables from letters of credit | 0.67 | 0.30 | 0.22 | 0.26 | 0.20 | 0.18 |
| Receivables from spot transactions | 1.94 | 3.93 | 5.41 | 4.79 | 4.43 | 1.87 |
| Receivables from derivatives transactions, total | 84.39 | 79.09 | 82.61 | 84.15 | 86.15 | 88.94 |
| of which: forwards | 32.81 | 30.40 | 33.18 | 34.59 | 36.33 | 33.09 |
| futures | 1.27 | 0.16 | 0.16 | 0.23 | 0.14 | 0.01 |
| swaps | 44.75 | 44.14 | 44.42 | 43.70 | 44.40 | 49.61 |
| other fixed transactions | 1.41 | 1.50 | 1.35 | 1.69 | 2.15 | 2.49 |
| options | 4.15 | 2.89 | 3.51 | 3.94 | 3.13 | 3.74 |
| of which: interest rate and credit instruments | 38.54 | 32.59 | 34.21 | 38.03 | 39.48 | 43.92 |
| currency instruments | 45.18 | 46.33 | 48.22 | 45.95 | 46.51 | 44.78 |
| equity instruments | 0.66 | 0.16 | 0.12 | 0.13 | 0.10 | 0.09 |
| commodity instruments | 0.01 | 0.01 | 0.06 | 0.04 | 0.05 | 0.15 |
| 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 2001)

| | 31 Dec. 1999 | 31 Dec. 2000 | 2001 | | | |
|--|-----------------|--------------|-----------|-----------|-----------|-----------|
| | | | 31 Mar. | 30 Jun. | 30 Sep. | 31 Dec. |
| | in CZK millions | | | | | |
| Credit commitments accepted | 22 062 | 38 936 | 47 223 | 44 526 | 33 969 | 24 681 |
| Payables from guarantees | 265 954 | 332 540 | 337 846 | 358 114 | 366 517 | 317 585 |
| Payables from letters of credit | 801 | 698 | 788 | 887 | 891 | 958 |
| Payables from spot transactions | 41 239 | 109 746 | 204 485 | 171 762 | 183 654 | 73 571 |
| Payables from derivatives transactions, total | 1 723 721 | 2 196 476 | 3 078 058 | 3 115 295 | 3 592 045 | 3 485 574 |
| of which: forwards | 675 210 | 843 961 | 1 244 784 | 1 288 694 | 1 515 852 | 1 298 578 |
| futures | 23 346 | 4 139 | 8 145 | 8 867 | 6 475 | 206 |
| swaps | 916 793 | 1 225 345 | 1 645 378 | 1 612 786 | 1 850 400 | 1 943 555 |
| other fixed transactions | 25 042 | 43 098 | 50 192 | 59 712 | 90 420 | 99 162 |
| options | 83 330 | 79 933 | 129 559 | 145 234 | 128 898 | 144 073 |
| of which: interest rate and credit instruments | 787 705 | 904 552 | 1 279 366 | 1 407 900 | 1 650 495 | 1 726 259 |
| currency instruments | 923 036 | 1 287 127 | 1 792 129 | 1 701 100 | 1 935 440 | 1 749 909 |
| equity instruments | 12 817 | 4 520 | 4 375 | 4 890 | 4 007 | 3 563 |
| commodity instruments | 162 | 276 | 2 188 | 1 404 | 2 105 | 5 842 |
| Total off-balance-sheet liabilities | 2 053 777 | 2 678 396 | 3 668 401 | 3 690 585 | 4 177 077 | 3 902 369 |
| | in per cent | | | | | |
| Credit commitments accepted | 1.07 | 1.45 | 1.29 | 1.21 | 0.81 | 0.63 |
| Payables from guarantees | 12.95 | 12.42 | 9.21 | 9.70 | 8.77 | 8.14 |
| Payables from letters of credit | 0.04 | 0.03 | 0.02 | 0.02 | 0.02 | 0.02 |
| Payables from spot transactions | 2.01 | 4.10 | 5.57 | 4.65 | 4.40 | 1.89 |
| Payables from derivatives transactions, total | 83.93 | 82.01 | 83.91 | 84.41 | 85.99 | 89.32 |
| of which: forwards | 32.88 | 31.51 | 33.93 | 34.92 | 36.29 | 33.28 |
| futures | 1.14 | 0.15 | 0.22 | 0.24 | 0.16 | 0.01 |
| swaps | 44.64 | 45.75 | 44.85 | 43.70 | 44.30 | 49.80 |
| other fixed transactions | 1.22 | 1.61 | 1.37 | 1.62 | 2.16 | 2.54 |
| options | 4.06 | 2.98 | 3.53 | 3.94 | 3.09 | 3.69 |
| of which: interest rate and credit instruments | 38.35 | 33.77 | 34.88 | 38.15 | 39.51 | 44.24 |
| currency instruments | 44.94 | 48.06 | 48.85 | 46.09 | 46.33 | 44.84 |
| equity instruments | 0.62 | 0.17 | 0.12 | 0.13 | 0.10 | 0.09 |
| commodity instruments | 0.01 | 0.01 | 0.06 | 0.04 | 0.05 | 0.15 |
| 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 2001; in CZK millions)

| | 31 Dec. 1999 | 31 Dec. 2000 | 2001 | | | |
|--|--------------|--------------|---------|---------|---------|---------|
| | | | 31 Mar. | 30 Jun. | 30 Sep. | 31 Dec. |
| Interest income | 153 550 | 132 384 | 33 239 | 67 032 | 101 018 | 134 508 |
| Interest expenses | 96 991 | 79 084 | 20 095 | 40 576 | 60 915 | 80 714 |
| Interest profit | 56 559 | 53 300 | 13 144 | 26 456 | 40 103 | 53 793 |
| Income from fees and commissions | 19 959 | 22 853 | 5 547 | 12 318 | 18 671 | 25 773 |
| Expenses from fees and commissions | 5 187 | 5 538 | 951 | 2 018 | 3 122 | 4 806 |
| Profit from fees and commissions | 14 772 | 17 316 | 4 597 | 10 300 | 15 548 | 20 966 |
| Interest profit including fees and commissions | 71 331 | 70 616 | 17 741 | 36 756 | 55 651 | 74 760 |
| Profit from securities | 5 735 | -578 | 196 | 1 156 | 1 589 | 2 830 |
| Profit from foreign exchange transactions | 10 080 | 10 436 | 2 404 | 4 636 | 4 895 | 7 156 |
| Profit from derivatives transactions | 1 773 | -1 228 | 586 | 1 706 | 5 460 | 6 787 |
| Profit from other banking transactions | 1 351 | 867 | 388 | 530 | 734 | 857 |
| Profit from banking activities | 90 271 | 80 113 | 21 314 | 44 784 | 68 329 | 92 390 |
| General operating expenses | 51 067 | 52 601 | 12 512 | 26 505 | 39 671 | 56 236 |
| Creation of reserves and provisions (net) | 87 | -37 379 | 993 | 4 354 | 4 132 | 4 674 |
| Other operating income (+) / expenses (-) | -46 304 | -27 174 | -756 | -1 566 | -6 420 | -11 196 |
| Gross operating profit | -7 187 | 37 717 | 7 053 | 12 359 | 18 106 | 20 284 |
| Extraordinary income (+) / expenses (-) | 2 700 | -24 917 | 724 | 773 | 1 096 | 1 953 |
| Pre-tax gross profit | -4 487 | 12 800 | 7 777 | 13 133 | 19 202 | 22 237 |
| Taxes | 1 085 | -2 100 | 1 752 | 3 089 | 4 512 | 5 188 |
| Net profit | -5 572 | 14 901 | 6 024 | 10 043 | 14 690 | 17 049 |

Profitability and efficiency

(for banks with licences as of 31 December 2001)

| | 31 Dec. 1999 | 31 Dec. 2000 | 2001 | | | |
|---|--------------|--------------|---------|---------|---------|---------|
| | | | 31 Mar. | 30 Jun. | 30 Sep. | 31 Dec. |
| Profit from banking activities/assets in per cent | 3.90 | 3.33 | 3.36 | 3.45 | 3.47 | 3.47 |
| Gross profit/assets in per cent | (0.19) | 0.53 | 1.22 | 1.01 | 0.97 | 0.83 |
| Net profit/assets in per cent | (0.24) | 0.62 | 0.95 | 0.77 | 0.75 | 0.64 |
| Net profit/Tier 1 capital in per cent | (4.32) | 11.97 | 19.31 | 15.10 | 14.72 | 12.90 |
| Total interest income/interest earning credits in per cent | 8.01 | 6.90 | 6.62 | 6.46 | 6.43 | 6.35 |
| Total interest expenses/interest bearing deposits in per cent | 5.34 | 4.39 | 4.07 | 3.98 | 3.92 | 3.87 |
| Interest rate spread in per cent | 2.67 | 2.52 | 2.55 | 2.48 | 2.50 | 2.49 |
| Net interest margin in per cent | 2.69 | 2.46 | 2.36 | 2.32 | 2.31 | 2.30 |
| Number of employees in banking sector | 48 924 | 44 932 | 43 953 | 43 081 | 41 577 | 40 871 |
| Per employee in CZK thousands: | | | | | | |
| total assets | 47 369 | 55 850 | 58 377 | 62 039 | 65 403 | 68 096 |
| profit from banking activities | 1 845 | 1 783 | 1 940 | 2 079 | 2 191 | 2 261 |
| net profit | -114 | 332 | 548 | 466 | 471 | 417 |
| operating expenses | 1 044 | 1 171 | 1 139 | 1 230 | 1 272 | 1 376 |
| personnel expenses | 297 | 333 | 87 | 182 | 282 | 418 |
| General operating expenses/assets in per cent | 2.21 | 2.18 | 1.97 | 2.04 | 2.01 | 2.11 |

Credits

(for banks with licences as of 31 December 2001; gross credits granted in the Czech Republic excluding budget credits of state and similar authorities; in CZK millions)

| | 31 Dec. 1999 | 31 Dec. 2000 | 2001 | | | |
|---|--------------|--------------|---------|---------|---------|---------|
| | | | 31 Mar. | 30 Jun. | 30 Sep. | 31 Dec. |
| Total credits | 914 434 | 863 121 | 881 390 | 885 126 | 979 832 | 944 112 |
| of which: short-term | 390 419 | 349 028 | 357 752 | 349 401 | 351 165 | 323 504 |
| medium-term | 217 710 | 177 629 | 192 004 | 196 373 | 198 205 | 188 590 |
| long-term | 306 305 | 336 464 | 331 634 | 339 352 | 430 462 | 432 018 |
| Total credits | 914 434 | 863 121 | 881 390 | 885 126 | 979 832 | 944 112 |
| of which: non-financial sector | 653 792 | 572 239 | 568 372 | 569 949 | 574 243 | 529 103 |
| financial sector | 54 482 | 58 336 | 55 201 | 54 592 | 54 190 | 60 441 |
| government sector | 11 604 | 36 818 | 40 725 | 35 723 | 142 622 | 162 592 |
| small businesses | 31 132 | 24 021 | 26 315 | 26 853 | 19 003 | 22 919 |
| households | 77 466 | 95 818 | 97 917 | 104 994 | 104 482 | 116 324 |
| other | 85 959 | 75 889 | 92 860 | 93 015 | 85 292 | 52 733 |
| of which: agriculture and forestry | 22 374 | 17 852 | 17 938 | 18 699 | 19 378 | 18 516 |
| manufacturing | 235 563 | 194 865 | 207 304 | 210 926 | 216 048 | 184 196 |
| construction | 25 771 | 18 026 | 17 760 | 19 916 | 17 065 | 13 601 |
| financial intermediation, including insurance | 63 132 | 87 014 | 61 627 | 71 725 | 151 123 | 154 481 |
| transport | 22 905 | 24 056 | 26 974 | 28 303 | 25 085 | 26 011 |
| trade; hotels and restaurants | 172 442 | 148 343 | 141 335 | 142 292 | 124 462 | 131 920 |
| other | 372 248 | 372 965 | 408 452 | 393 265 | 426 671 | 415 387 |

Deposits

(for banks with licences as of 31 December 2001; deposits accepted in the Czech Republic excluding budget deposits of state and similar authorities; in CZK millions)

| | 31 Dec. 1999 | 31 Dec. 2000 | 2001 | | | |
|---|--------------|--------------|-----------|-----------|-----------|-----------|
| | | | 31 Mar. | 30 Jun. | 30 Sep. | 31 Dec. |
| Total deposits | 1 161 757 | 1 211 924 | 1 334 711 | 1 418 004 | 1 420 279 | 1 412 189 |
| of which: demand | 384 869 | 434 781 | 442 317 | 491 462 | 495 018 | 524 891 |
| time | 776 888 | 777 143 | 892 394 | 926 542 | 925 261 | 887 298 |
| of which: short-term | 567 446 | 564 605 | 685 445 | 724 016 | 719 629 | 670 687 |
| medium-term | 94 086 | 82 978 | 127 382 | 78 213 | 78 368 | 75 206 |
| long-term | 115 357 | 129 560 | 79 567 | 124 313 | 127 264 | 141 405 |
| Total deposits | 1 161 757 | 1 211 924 | 1 334 711 | 1 418 004 | 1 420 279 | 1 412 189 |
| of which: non-financial sector | 260 945 | 262 350 | 298 207 | 325 894 | 298 514 | 289 140 |
| financial sector | 40 357 | 32 944 | 51 965 | 64 057 | 72 539 | 68 532 |
| government sector | 39 098 | 48 569 | 53 348 | 66 994 | 71 390 | 75 355 |
| small businesses | 37 008 | 40 453 | 50 468 | 56 092 | 58 047 | 49 112 |
| households | 761 869 | 807 920 | 814 176 | 842 429 | 856 150 | 868 200 |
| other | 22 480 | 19 688 | 66 547 | 62 538 | 63 639 | 61 850 |
| of which: agriculture and forestry | 9 747 | 10 995 | 13 273 | 14 195 | 14 366 | 13 596 |
| manufacturing | 60 105 | 61 678 | 74 757 | 89 460 | 77 730 | 75 967 |
| construction | 19 316 | 20 297 | 19 792 | 20 126 | 20 948 | 21 957 |
| financial intermediation, including insurance | 66 612 | 49 500 | 60 933 | 70 219 | 90 772 | 100 809 |
| transport | 9 668 | 11 340 | 16 483 | 17 089 | 17 071 | 15 716 |
| trade; hotels and restaurants | 62 775 | 71 904 | 78 619 | 84 733 | 81 140 | 83 649 |
| other | 933 535 | 986 209 | 1 070 854 | 1 122 182 | 1 118 252 | 1 100 495 |

Capital, capital requirements and capital adequacy

(for banks with licences as of 31 December 2001, excluding banks under conservatorship; in CZK millions)

| | 31.Dec.1999 | 31.Dec.2000 | 2001 | | | |
|---|-------------|-------------|---------|---------|---------|---------|
| | | | 31 Mar. | 30 Jun. | 30 Sep. | 31 Dec. |
| Tier 1 | 128 866 | 109 962 | 110 274 | 118 448 | 118 529 | 117 661 |
| Tier 2 | 36 857 | 26 551 | 25 840 | 27 153 | 26 659 | 25 868 |
| Deductible items | 32 567 | 12 285 | 12 022 | 11 529 | 10 674 | 11 052 |
| Total capital | 133 155 | 124 228 | 124 092 | 134 071 | 134 515 | 132 477 |
| Total capital requirement | - | 66 847 | 69 416 | 70 472 | 70 983 | 68 772 |
| Capital requirement A - banking portfolio | - | 61 950 | 64 658 | 65 960 | 66 495 | 63 283 |
| Capital requirement B - trading portfolio | - | 4 898 | 4 758 | 4 512 | 4 488 | 5 489 |
| Capital adequacy in per cent | 13.59 | 14.87 | 14.30 | 15.22 | 15.16 | 15.41 |

Reserve resources

(for banks with licences as of 31 December 2001, excluding banks under conservatorship; in CZK millions)

| | 31.Dec.1999 | 31.Dec.2000 | 2001 | | | |
|-------------------------|-------------|-------------|---------|---------|---------|---------|
| | | | 31 Mar. | 30 Jun. | 30 Sep. | 31 Dec. |
| Provisions | 88 552 | 59 138 | 59 178 | 61 305 | 56 674 | 52 974 |
| Reserves | 37 946 | 51 798 | 52 395 | 43 977 | 44 048 | 45 247 |
| Reserve funds | 35 719 | 27 703 | 27 660 | 28 786 | 28 607 | 28 803 |
| Capital funds | 12 958 | 6 821 | 7 252 | 7 290 | 6 765 | 8 409 |
| Total reserve resources | 175 174 | 145 459 | 146 486 | 141 358 | 136 094 | 135 433 |

Quick assets

(for banks with licences as of 31 December 2001, excluding banks under conservatorship; in CZK millions)

| | 31.Dec.1999 | 31.Dec.2000 | 2001 | | | |
|-----------------------------------|-------------|-------------|---------|---------|---------|---------|
| | | | 31 Mar. | 30 Jun. | 30 Sep. | 31 Dec. |
| Cash | 36 894 | 34 777 | 27 395 | 30 240 | 30 226 | 41 163 |
| Deposits and credits with CNB | 270 439 | 285 784 | 320 257 | 328 004 | 324 114 | 315 118 |
| of which: required reserves | 27 754 | 28 103 | 29 412 | 27 461 | 27 353 | 30 272 |
| Current accounts with banks | 22 053 | 5 030 | 5 671 | 5 281 | 7 379 | 6 528 |
| T-bills | 80 331 | 109 126 | 91 958 | 108 238 | 108 485 | 144 162 |
| CNB bills | 208 134 | 240 497 | 261 481 | 283 731 | 289 490 | 273 681 |
| Total quick assets | 617 851 | 675 214 | 706 761 | 755 494 | 759 693 | 780 652 |
| Trading securities | 74 941 | 92 492 | 39 285 | 43 373 | 50 276 | 51 655 |
| of which: bonds | 72 014 | 38 223 | 37 268 | 41 933 | 49 145 | 50 674 |
| equity securities | 2 927 | 54 270 | 2 017 | 1 440 | 1 131 | 980 |
| Total liquid assets | 692 791 | 767 706 | 746 047 | 798 867 | 809 970 | 832 306 |
| Percentage share in total assets: | | | | | | |
| quick assets | 26.66 | 27.10 | 27.72 | 28.44 | 28.11 | 28.21 |
| liquid assets | 29.89 | 30.81 | 29.26 | 30.07 | 29.97 | 30.08 |

Classified credits

(for banks with licences as of 31 December 2001, excluding banks under conservatorship)

| | 31.Dec.1999 | 31.Dec.2000 | 2001 | | | |
|---|-------------|-------------|---------|---------|---------|---------|
| | | | 31 Mar. | 30 Jun. | 30 Sep. | 31 Dec. |
| Classified credits in CZK millions | 291 061 | 257 762 | 252 462 | 243 096 | 228 362 | 209 866 |
| as a percentage of total credit volume | 32.15 | 29.83 | 28.99 | 27.74 | 23.55 | 21.53 |
| of which: watch credits | 92 124 | 85 814 | 84 324 | 79 998 | 75 697 | 75 984 |
| substandard credits | 39 379 | 54 910 | 50 031 | 45 607 | 40 465 | 32 295 |
| doubtful credits | 38 433 | 27 276 | 33 660 | 33 214 | 30 299 | 29 725 |
| loss credits | 121 125 | 89 762 | 84 448 | 84 277 | 81 901 | 71 862 |
| Classified credits taking into account collateral, in CZK millions | 170 174 | 119 895 | 117 540 | 130 131 | 122 947 | 120 240 |
| as a percentage of total credit volume | 18.80 | 13.88 | 13.50 | 14.85 | 12.68 | 12.33 |
| Weighted classification in CZK millions | 152 823 | 118 672 | 115 500 | 114 005 | 108 923 | 96 982 |
| as a percentage of total credit volume | 16.88 | 13.73 | 13.26 | 13.01 | 11.23 | 9.95 |
| Weighted classification taking into account collateral, in CZK millions | 98 817 | 61 852 | 59 274 | 64 659 | 61 251 | 57 446 |
| as a percentage of total credit volume | 10.91 | 7.16 | 6.81 | 7.38 | 6.32 | 5.89 |
| Reserves and provisions in CZK millions | 103 783 | 77 141 | 78 260 | 79 908 | 77 070 | 78 898 |
| Surplus(+)/shortfall(-) of reserves, provisions and collateral, in CZK millions | 4 966 | 15 289 | 18 986 | 15 250 | 15 820 | 21 452 |
| as a percentage of total credit volume | 0.55 | 1.77 | 2.18 | 1.74 | 1.63 | 2.20 |

**Assets and liabilities by residual maturity
as of 31 December 2000**

(for banks with licences as of 31 December 2001; in CZK millions)

| | Total | of which | | | | | | | | |
|--|-----------|--------------|-------------------|---------------|---------------|--------------------|--------------|--------------|--------------|---------------|
| | | under 1 week | 1 week to 1 month | 1 to 3 months | 3 to 6 months | 6 months to 1 year | 1 to 2 years | 2 to 5 years | over 5 years | non-specified |
| Total assets | 2 509 455 | 506 115 | 275 554 | 230 058 | 170 133 | 186 253 | 102 109 | 287 312 | 170 589 | 581 331 |
| Total liabilities | 2 509 455 | 1 056 169 | 375 727 | 178 735 | 139 229 | 142 099 | 133 696 | 129 233 | 68 896 | 285 671 |
| Net balance sheet position | x | (550 054) | (100 173) | 51 322 | 30 904 | 44 154 | (31 586) | 158 079 | 101 693 | 295 661 |
| Cumulative net balance sheet position | x | (550 054) | (650 227) | (598 905) | (568 000) | (523 846) | (555 433) | (397 354) | (295 661) | 0 |
| as a percentage of total assets | x | (21.92) | (25.91) | (23.87) | (22.63) | (20.87) | (22.13) | (15.83) | (11.78) | 0.00 |
| Liabilities taking into account demand deposit liquidity | 2 509 455 | 591 518 | 422 193 | 225 200 | 232 159 | 211 796 | 203 393 | 198 931 | 138 594 | 285 671 |
| Net balance sheet position | x | (85 403) | (146 638) | 4 857 | (62 026) | (25 544) | (101 284) | 88 381 | 31 995 | 295 661 |
| Cumulative net balance sheet position | x | (85 403) | (232 041) | (227 184) | (289 210) | (314 753) | (416 037) | (327 656) | (295 661) | 0 |
| as a percentage of total assets | x | (3.40) | (9.25) | (9.05) | (11.52) | (12.54) | (16.58) | (13.06) | (11.78) | 0.00 |

**Assets and liabilities by residual maturity
as of 31 December 2001**

(for banks with licences as of 31 December 2001; in CZK millions)

| | Total | of which | | | | | | | | |
|--|-----------|--------------|-------------------|---------------|---------------|--------------------|--------------|--------------|--------------|---------------|
| | | under 1 week | 1 week to 1 month | 1 to 3 months | 3 to 6 months | 6 months to 1 year | 1 to 2 years | 2 to 5 years | over 5 years | non-specified |
| Total assets | 2 783 133 | 584 358 | 487 362 | 215 338 | 175 455 | 176 565 | 111 071 | 309 213 | 222 068 | 501 704 |
| Total liabilities | 2 783 133 | 1 256 214 | 370 860 | 222 388 | 113 524 | 124 081 | 112 118 | 156 630 | 57 209 | 370 109 |
| Net balance sheet position | x | (671 857) | 116 502 | (7 050) | 61 931 | 52 484 | (1 047) | 152 583 | 164 860 | 131 595 |
| Cumulative net balance sheet position | x | (671 857) | (555 355) | (562 405) | (500 474) | (447 990) | (449 037) | (296 455) | (131 595) | 0 |
| as a percentage of total assets | x | (24.14) | (19.95) | (20.21) | (17.98) | (16.10) | (16.13) | (10.65) | (4.73) | 0.00 |
| Liabilities taking into account demand deposit liquidity | 2 783 133 | 681 592 | 428 322 | 279 850 | 228 448 | 210 274 | 198 312 | 242 823 | 143 402 | 370 109 |
| Net balance sheet position | x | (97 235) | 59 040 | (64 512) | (52 994) | (33 709) | (87 241) | 66 390 | 78 666 | 131 595 |
| Cumulative net balance sheet position | x | (97 235) | (38 195) | (102 707) | (155 701) | (189 410) | (276 651) | (210 261) | (131 595) | 0 |
| as a percentage of total assets | x | (3.49) | (1.37) | (3.69) | (5.59) | (6.81) | (9.94) | (7.55) | (4.73) | 0.00 |

Foreign exchange activities

(for banks with licences as of 31 December 2001)

| | 31 Dec. 1999 | 31 Dec. 2000 | 2001 | | | |
|---|--------------|--------------|-----------|-----------|-----------|-----------|
| | | | 31 Mar. | 30 Jun. | 30 Sep. | 31 Dec. |
| Assets in CZK millions | | | | | | |
| Credits granted (gross) | 228 862 | 225 980 | 236 688 | 231 079 | 220 744 | 189 411 |
| Securities (gross) | 32 291 | 53 835 | 45 789 | 51 477 | 54 028 | 54 122 |
| Deposits and credits with banks (gross) | 224 621 | 238 130 | 277 954 | 285 025 | 277 830 | 286 471 |
| Other (gross) | 40 710 | 32 049 | 24 555 | 24 796 | 40 812 | 52 114 |
| Total assets (gross) | 526 484 | 549 993 | 584 986 | 592 377 | 593 415 | 582 117 |
| as a percentage of foreign exchange assets | | | | | | |
| Credits granted (gross) | 43.47 | 41.09 | 40.46 | 39.01 | 37.20 | 32.54 |
| Securities (gross) | 6.13 | 9.79 | 7.83 | 8.69 | 9.10 | 9.30 |
| Deposits and credits with banks (gross) | 42.66 | 43.30 | 47.51 | 48.12 | 46.82 | 49.21 |
| Other (gross) | 7.73 | 5.83 | 4.20 | 4.19 | 6.88 | 8.95 |
| Total assets (gross) | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| as a percentage of the total in foreign currencies and CZK | | | | | | |
| Credits granted (gross) | 25.70 | 26.16 | 26.51 | 25.71 | 22.24 | 19.43 |
| Securities (gross) | 6.31 | 8.15 | 7.14 | 7.39 | 7.48 | 7.22 |
| Deposits and credits with banks (gross) | 39.75 | 42.16 | 47.30 | 46.38 | 51.94 | 51.03 |
| Other (gross) | 8.40 | 6.17 | 4.52 | 4.37 | 7.11 | 8.67 |
| Total assets (gross) | 21.47 | 21.08 | 21.95 | 21.33 | 21.01 | 20.16 |
| Liabilities in CZK millions | | | | | | |
| Deposits received | 201 300 | 219 665 | 222 674 | 218 736 | 212 548 | 231 750 |
| Deposits and credits from banks | 156 570 | 168 127 | 203 140 | 197 705 | 192 496 | 159 348 |
| Bond issues | 20 508 | 25 392 | 19 796 | 16 357 | 20 591 | 34 710 |
| Other | 69 755 | 67 692 | 55 563 | 54 379 | 53 354 | 53 768 |
| Total liabilities | 448 134 | 480 875 | 501 173 | 487 177 | 478 990 | 479 576 |
| as a percentage of foreign exchange liabilities | | | | | | |
| Deposits received | 44.92 | 45.68 | 44.43 | 44.90 | 44.37 | 48.32 |
| Deposits and credits from banks | 34.94 | 34.96 | 40.53 | 40.58 | 40.19 | 33.23 |
| Bond issues | 4.58 | 5.28 | 3.95 | 3.36 | 4.30 | 7.24 |
| Other | 15.57 | 14.08 | 11.09 | 11.16 | 11.14 | 11.21 |
| Total liabilities | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| as a percentage of the total in foreign currencies and CZK | | | | | | |
| Deposits received | 16.65 | 17.39 | 16.00 | 14.84 | 14.27 | 15.71 |
| Deposits and credits from banks | 42.36 | 47.21 | 53.42 | 51.83 | 47.78 | 43.40 |
| Bond issues | 10.06 | 10.61 | 15.73 | 14.13 | 15.16 | 16.63 |
| Other | 13.04 | 10.41 | 8.31 | 7.75 | 7.71 | 7.34 |
| Total liabilities | 19.34 | 19.16 | 19.53 | 18.23 | 17.61 | 17.23 |
| Off-balance-sheet assets in CZK millions | | | | | | |
| Derivatives transactions | 668 147 | 787 533 | 1 091 464 | 1 078 215 | 1 206 408 | 1 052 626 |
| Other off-balance-sheet transactions | 136 373 | 208 275 | 240 735 | 235 360 | 230 557 | 138 796 |
| Total off-balance-sheet assets | 804 520 | 995 809 | 1 332 199 | 1 313 575 | 1 436 966 | 1 191 422 |
| as a percentage of foreign exchange off-balance-sheet assets | | | | | | |
| Derivatives transactions | 83.05 | 79.08 | 81.93 | 82.08 | 83.96 | 88.35 |
| Other off-balance-sheet transactions | 16.95 | 20.92 | 18.07 | 17.92 | 16.04 | 11.65 |
| Total off-balance-sheet assets | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| as a percentage of the total in foreign currencies and CZK | | | | | | |
| Derivatives transactions | 38.63 | 35.82 | 35.52 | 34.55 | 33.63 | 30.17 |
| Other off-balance-sheet transactions | 42.64 | 35.82 | 37.22 | 40.05 | 39.96 | 31.98 |
| Total off-balance-sheet assets | 39.25 | 35.82 | 35.81 | 35.42 | 34.50 | 30.37 |
| Off-balance-sheet liabilities in CZK millions | | | | | | |
| Derivatives transactions | 743 821 | 857 843 | 1 169 063 | 1 173 623 | 1 318 689 | 1 144 061 |
| Other off-balance-sheet transactions | 113 923 | 175 717 | 215 123 | 219 294 | 214 653 | 132 522 |
| Total off-balance-sheet liabilities | 857 744 | 1 033 560 | 1 384 186 | 1 392 917 | 1 533 342 | 1 276 584 |
| as a percentage of foreign exchange off-balance-sheet liabilities | | | | | | |
| Derivatives transactions | 86.72 | 83.00 | 84.46 | 84.26 | 86.00 | 89.62 |
| Other off-balance-sheet transactions | 13.28 | 17.00 | 15.54 | 15.74 | 14.00 | 10.38 |
| Total off-balance-sheet liabilities | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| as a percentage of the total in foreign currencies and CZK | | | | | | |
| Derivatives transactions | 43.15 | 39.06 | 37.98 | 37.67 | 36.71 | 32.82 |
| Other off-balance-sheet transactions | 34.52 | 36.46 | 36.44 | 38.12 | 36.69 | 31.80 |
| Total off-balance-sheet liabilities | 41.76 | 38.59 | 37.73 | 37.74 | 36.71 | 32.71 |

Activities vis-à-vis non-residents

(for banks with licences as of 31 December 2001)

| | 31 Dec. 1999 | 31 Dec. 2000 | 2001 | | | |
|--|--------------|--------------|-----------|-----------|-----------|-----------|
| | | | 31 Mar. | 30 Jun. | 30 Sep. | 31 Dec. |
| Assets in CZK millions | | | | | | |
| Credits granted (gross) | 90 020 | 79 202 | 94 962 | 94 295 | 84 644 | 56 504 |
| Securities (gross) | 65 843 | 120 204 | 112 837 | 122 207 | 128 226 | 125 889 |
| Deposits and credits with banks (gross) | 300 781 | 292 901 | 313 942 | 332 434 | 328 875 | 368 266 |
| Other (gross) | 39 787 | 31 740 | 27 337 | 25 923 | 42 290 | 55 630 |
| Total assets (gross) | 496 431 | 524 047 | 549 078 | 574 859 | 584 035 | 606 289 |
| as a percentage of assets vis-à-vis non-residents | | | | | | |
| Credits granted (gross) | 18.13 | 15.11 | 17.29 | 16.40 | 14.49 | 9.32 |
| Securities (gross) | 13.26 | 22.94 | 20.55 | 21.26 | 21.96 | 20.76 |
| Deposits and credits with banks (gross) | 60.59 | 55.89 | 57.18 | 57.83 | 56.31 | 60.74 |
| Other (gross) | 8.01 | 6.06 | 4.98 | 4.51 | 7.24 | 9.18 |
| Total assets (gross) | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| as a percentage of the total vis-à-vis residents and non-residents | | | | | | |
| Credits granted (gross) | 10.11 | 9.17 | 10.64 | 10.49 | 8.53 | 5.80 |
| Securities (gross) | 12.87 | 18.20 | 17.59 | 17.55 | 17.74 | 16.78 |
| Deposits and credits with banks (gross) | 53.23 | 51.85 | 53.43 | 54.09 | 61.48 | 65.60 |
| Other (gross) | 8.21 | 6.11 | 5.04 | 4.57 | 7.37 | 9.26 |
| Total assets (gross) | 20.25 | 20.09 | 20.61 | 20.70 | 20.68 | 21.00 |
| Liabilities in CZK millions | | | | | | |
| Deposits received | 65 963 | 73 133 | 74 666 | 69 775 | 68 486 | 69 953 |
| Deposits and credits from banks | 185 088 | 181 247 | 212 491 | 210 679 | 206 022 | 178 265 |
| Bond issues | 35 407 | 29 118 | 19 563 | 17 095 | 14 642 | 14 275 |
| Other | 61 193 | 54 471 | 44 328 | 43 216 | 43 962 | 57 151 |
| Total liabilities | 347 652 | 337 970 | 351 048 | 340 764 | 333 113 | 319 644 |
| as a percentage of liabilities vis-à-vis non-residents | | | | | | |
| Deposits received | 18.97 | 21.64 | 21.27 | 20.48 | 20.56 | 21.88 |
| Deposits and credits from banks | 53.24 | 53.63 | 60.53 | 61.83 | 61.85 | 55.77 |
| Bond issues | 10.18 | 8.62 | 5.57 | 5.02 | 4.40 | 4.47 |
| Other | 17.60 | 16.12 | 12.63 | 12.68 | 13.20 | 17.88 |
| Total liabilities | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| as a percentage of the total vis-à-vis residents and non-residents | | | | | | |
| Deposits received | 5.45 | 5.79 | 5.37 | 4.73 | 4.60 | 4.74 |
| Deposits and credits from banks | 50.08 | 50.89 | 55.88 | 55.24 | 51.14 | 48.56 |
| Bond issues | 17.37 | 12.17 | 15.55 | 14.77 | 10.78 | 6.84 |
| Other | 11.44 | 8.37 | 6.63 | 6.16 | 6.36 | 7.80 |
| Total liabilities | 15.00 | 13.47 | 13.68 | 12.75 | 12.25 | 11.48 |
| Off-balance-sheet assets in CZK millions | | | | | | |
| Derivatives transactions | 1 098 152 | 1 237 369 | 1 728 941 | 1 810 525 | 2 092 318 | 2 256 213 |
| Other off-balance-sheet transactions | 64 109 | 108 350 | 141 166 | 139 746 | 165 486 | 81 625 |
| Total off-balance-sheet assets | 1 162 261 | 1 345 719 | 1 870 107 | 1 950 271 | 2 257 803 | 2 337 839 |
| as a percentage of off-balance-sheet assets vis-à-vis non-residents | | | | | | |
| Derivatives transactions | 94.48 | 91.95 | 92.45 | 92.83 | 92.67 | 96.51 |
| Other off-balance-sheet transactions | 5.52 | 8.05 | 7.55 | 7.17 | 7.33 | 3.49 |
| Total off-balance-sheet assets | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| as a percentage of the total vis-à-vis residents and non-residents | | | | | | |
| Derivatives transactions | 63.49 | 56.28 | 56.26 | 58.01 | 58.32 | 64.66 |
| Other off-balance-sheet transactions | 20.04 | 18.64 | 21.83 | 23.78 | 28.68 | 18.81 |
| Total off-balance-sheet assets | 56.71 | 48.40 | 50.27 | 52.59 | 54.21 | 59.59 |
| Off-balance-sheet liabilities in CZK millions | | | | | | |
| Derivatives transactions | 1 080 151 | 1 216 966 | 1 753 475 | 1 842 470 | 2 109 481 | 2 266 937 |
| Other off-balance-sheet transactions | 84 824 | 146 806 | 194 741 | 203 001 | 221 147 | 129 798 |
| Total off-balance-sheet liabilities | 1 164 975 | 1 363 771 | 1 948 216 | 2 045 471 | 2 330 628 | 2 396 735 |
| as a percentage of off-balance-sheet liabilities vis-à-vis non-residents | | | | | | |
| Derivatives transactions | 92.72 | 89.24 | 90.00 | 90.08 | 90.51 | 94.58 |
| Other off-balance-sheet transactions | 7.28 | 10.76 | 10.00 | 9.92 | 9.49 | 5.42 |
| Total off-balance-sheet liabilities | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| as a percentage of the total vis-à-vis residents and non-residents | | | | | | |
| Derivatives transactions | 62.66 | 55.41 | 56.97 | 59.14 | 58.73 | 65.04 |
| Other off-balance-sheet transactions | 25.70 | 30.46 | 32.99 | 35.29 | 37.80 | 31.14 |
| Total off-balance-sheet liabilities | 56.72 | 50.92 | 53.11 | 55.42 | 55.80 | 61.42 |

Selected bank group indicators

(for banks with licences as of 31 December 2001)

| | 31 Dec. 1999 | 31 Dec. 2000 | 2001 | | | |
|---|--------------|--------------|-----------|-----------|-----------|-----------|
| | | | 31 Mar. | 30 Jun. | 30 Sep. | 31 Dec. |
| Large banks | | | | | | |
| Total assets (in CZK millions) | 1 465 064 | 1 470 762 | 1 506 182 | 1 569 931 | 1 582 143 | 1 621 186 |
| Credits granted (net) (in CZK millions) | 536 298 | 470 136 | 483 475 | 474 211 | 556 968 | 546 362 |
| Deposits received (in CZK millions) | 903 063 | 911 382 | 969 631 | 1 007 808 | 1 024 120 | 1 029 167 |
| Total off-balance-sheet assets (in CZK millions) | 886 711 | 931 484 | 1 255 563 | 1 344 451 | 1 423 445 | 1 446 895 |
| Receivables from derivatives transactions (in CZK millions) | 725 044 | 726 937 | 1 033 640 | 1 125 938 | 1 237 292 | 1 290 064 |
| Profit from banking activities (in CZK millions) | 64 092 | 49 110 | 14 694 | 31 006 | 47 130 | 64 005 |
| Net profit (in CZK millions) | -7 865 | 8 719 | 4 268 | 6 577 | 9 399 | 9 855 |
| Classified credits / total credits (in per cent) | 41.16 | 43.02 | 41.57 | 40.10 | 31.81 | 28.16 |
| Capital adequacy (in per cent) | 12.09 | 13.70 | 13.42 | 14.56 | 14.52 | 14.78 |
| Quick assets / total assets (in per cent) | 28.63 | 30.78 | 31.54 | 33.85 | 32.31 | 30.01 |
| Medium-sized banks | | | | | | |
| Total assets (in CZK millions) | 410 037 | 534 121 | 556 227 | 554 260 | 585 629 | 589 799 |
| Credits granted (net) (in CZK millions) | 142 265 | 190 704 | 199 341 | 211 860 | 214 637 | 209 233 |
| Deposits received (in CZK millions) | 155 643 | 179 836 | 231 539 | 252 922 | 252 444 | 237 534 |
| Total off-balance-sheet assets (in CZK millions) | 617 928 | 759 951 | 970 245 | 907 107 | 1 114 966 | 999 050 |
| Receivables from derivatives transactions (in CZK millions) | 517 090 | 612 472 | 778 499 | 738 891 | 928 963 | 874 272 |
| Profit from banking activities (in CZK millions) | 15 513 | 16 335 | 3 937 | 8 266 | 12 643 | 17 399 |
| Net profit (in CZK millions) | 2 037 | 3 447 | 740 | 1 565 | 4 273 | 4 236 |
| Classified credits / total credits (in per cent) | 19.47 | 17.37 | 15.93 | 15.40 | 15.65 | 16.12 |
| Capital adequacy (in per cent) | 17.71 | 16.31 | 14.90 | 15.47 | 15.56 | 15.86 |
| Quick assets / total assets (in per cent) | 29.69 | 30.01 | 28.94 | 25.54 | 29.84 | 36.93 |
| Small banks | | | | | | |
| Total assets (in CZK millions) | 42 015 | 54 561 | 58 497 | 63 752 | 72 409 | 63 994 |
| Credits granted (net) (in CZK millions) | 20 930 | 24 939 | 26 752 | 27 709 | 29 719 | 31 234 |
| Deposits received (in CZK millions) | 8 803 | 10 762 | 16 059 | 23 702 | 26 444 | 18 709 |
| Total off-balance-sheet assets (in CZK millions) | 6 251 | 10 388 | 15 155 | 9 543 | 9 703 | 8 085 |
| Receivables from derivatives transactions (in CZK millions) | 1 221 | 3 074 | 6 883 | 1 726 | 1 953 | 1 802 |
| Profit from banking activities (in CZK millions) | 1 432 | 1 628 | 452 | 943 | 1 451 | 2 033 |
| Net profit (in CZK millions) | -505 | -191 | -7 | -102 | -87 | 93 |
| Classified credits / total credits (in per cent) | 24.76 | 15.71 | 15.51 | 15.21 | 15.10 | 14.30 |
| Capital adequacy (in per cent) | 21.63 | 21.58 | 20.36 | 21.82 | 21.78 | 22.29 |
| Quick assets / total assets (in per cent) | 15.63 | 26.98 | 28.52 | 31.27 | 33.72 | 27.81 |
| Foreign bank branches | | | | | | |
| Total assets (in CZK millions) | 288 458 | 302 318 | 297 593 | 335 976 | 325 467 | 332 826 |
| Credits granted (net) (in CZK millions) | 81 978 | 91 646 | 96 047 | 93 819 | 98 548 | 96 566 |
| Deposits received (in CZK millions) | 47 474 | 50 693 | 65 631 | 72 595 | 65 338 | 56 001 |
| Total off-balance-sheet assets (in CZK millions) | 534 726 | 980 820 | 1 400 293 | 1 383 131 | 1 556 948 | 1 413 814 |
| Receivables from derivatives transactions (in CZK millions) | 486 333 | 853 924 | 1 254 109 | 1 254 509 | 1 419 431 | 1 323 134 |
| Profit from banking activities (in CZK millions) | 4 117 | 4 895 | 1 274 | 2 567 | 3 998 | 5 016 |
| Net profit (in CZK millions) | -897 | 1 537 | 650 | 1 310 | 1 993 | 1 667 |
| Classified credits / total credits (in per cent) | 5.93 | 3.64 | 3.81 | 4.02 | 3.24 | 3.42 |
| Capital adequacy (in per cent) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Quick assets / total assets (in per cent) | 21.82 | 13.62 | 15.03 | 14.87 | 12.22 | 12.82 |
| Building societies | | | | | | |
| Total assets (in CZK millions) | 111 904 | 130 143 | 131 087 | 132 535 | 137 360 | 159 111 |
| Credits granted (net) (in CZK millions) | 26 674 | 31 180 | 31 626 | 32 929 | 36 237 | 38 713 |
| Deposits received (in CZK millions) | 94 320 | 110 787 | 108 515 | 117 158 | 120 663 | 133 370 |
| Total off-balance-sheet assets (in CZK millions) | 3 908 | 6 810 | 3 866 | 4 520 | 4 285 | 4 147 |
| Receivables from derivatives transactions (in CZK millions) | 0 | 2 306 | 0 | 0 | 0 | 0 |
| Profit from banking activities (in CZK millions) | 5 116 | 3 780 | 956 | 2 000 | 3 104 | 3 943 |
| Net profit (in CZK millions) | 1 657 | 873 | 375 | 703 | 1 127 | 1 216 |
| Classified credits / total credits (in per cent) | 2.82 | 3.27 | 3.48 | 3.46 | 3.67 | 3.28 |
| Capital adequacy (in per cent) | 15.82 | 17.71 | 18.21 | 17.96 | 16.73 | 16.20 |
| Quick assets / total assets (in per cent) | 6.44 | 4.83 | 7.05 | 9.51 | 7.00 | 9.97 |

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