FINANCIAL MARKET SUPERVISION REPORT

2012

CZECH
NATIONAL BANK

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The Czech National Bank has issued a Financial Market Supervision Report each year since 2006,[1] when on the basis of an amendment to Act No. 6/1993 Coll., on the Czech National Bank, a new legal obligation was imposed on the CNB to compile such a report for each past calendar year and to submit it for information to the Chamber of Deputies, the Senate and the Government by 30 June of the following year.

In accordance with the Act on the Czech National Bank, the draft report was submitted to the Financial Market Committee, which exercised its right to append its opinion to the report.

The Financial Market Supervision Report 2012 consists of two parts.

Part A gives information on the direct conduct of financial market supervision, on changes in the legislation regulating the financial market, on the introduction of new methods for enhancing the stability and transparency of the financial market, on the entities operating in the Czech financial market, on licensing and enforcement procedures and on the CNB's international cooperation in the supervisory area.

Part B describes developments in the individual segments of the financial market supervised by the CNB, i.e. credit institutions, insurance undertakings, pension funds and the capital market, in the given year.

The Financial Market Supervision Report is also intended to inform the public about the CNB's activities in the field of supervision of the domestic financial market and about the situation and trends in the Czech financial market in 2012.

Like the Financial Market Supervision Reports for 2006–2011, the Financial Market Supervision Report for 2012 will be published on the CNB website in Czech and English along with other information about the financial market.

The report was discussed and approved by the CNB Bank Board on 13 June 2013.

1 The Financial Market Supervision Reports for 2006–2011 are published on the CNB website at www.cnb.cz/ – *Supervision – Aggregate Information on the Financial Sector – Financial Market Supervision Reports*.

FINANCIAL MARKET COMMITTEE

The Financial Market Committee (the "Committee") was established on the basis of Act No. 57/2006 Coll., under which financial market supervision in the Czech Republic was integrated into the Czech National Bank, as an advisory body to the CNB Bank Board for financial market supervision. The Committee debates matters of a conceptual nature relating to financial market regulation and supervision and also provides its opinion on significant financial sector trends having a regulatory aspect. The Committee does not deal with matters concerning specific financial market entities.

The composition of the Committee changed in 2012. Luděk Niedermayer replaced Tomáš Síkora as chairman during the year. The members also included Petr Marsa and Petr Koblic (the chairman and two members are elected by the Budget Committee of the Chamber of Deputies from candidates proposed by financial market professional organisations).

The committee members also included the Financial Arbitrator of the Czech Republic – Monika Nedelková in 2012 – and two representatives of the Ministry of Finance – Dušan Hradil and Radek Urban.

The CNB is represented by Vice-Governor Vladimír Tomšík.

The members of the Committee perform their duties in person and without remuneration.

Given its composition, encompassing representatives of both the private and public sectors, the Committee is an independent forum that provides the CNB with feedback, opinions, recommendations and suggestions on matters associated with the CNB's function as the domestic financial market supervisory authority.

The Committee members can, at their discretion and responsibility, consult financial market professional associations on most of the documents under discussion. The Committee met four times in 2012: on 30 January, 28 May, 8 October and 12 December.

The Committee is regularly informed by the CNB of the main financial market supervisory activities (pursuant to Article 45c(3) of the Act on the Czech National Bank) and also issues its opinion on the Financial Market Supervision Report.

In 2012 the Committee dealt, among other things, with an analysis of the licensing process in selected sectors of the financial market and an analysis of the process of approval of directors of regulated financial market entities and the process of registration of insurance and investment intermediaries. The Committee also discussed financial market enforcement policy.

In 2012 the CNB's management again informed the FMC regularly about the current situation in the Czech financial market in the context of the recent financial crisis and about measures taken in the financial market supervision area. In this regard, the Committee also discussed the new regulatory frameworks at the European level and their implications for the domestic financial market.

The banking union and the Liikanen group report were other interesting topics addressed by the Committee. FSC members also acquainted themselves with the preparation of the Act on Management Companies and Investment Funds.

Opinion of the Financial Market Committee on the CNB's Financial Market Supervision Report for 2012

The Financial Market Committee expresses its opinion on the CNB's Financial Market Supervision Report for the previous year. The Report is then approved by the CNB Bank Board and submitted to the Chamber of Deputies, the Senate and the Government for information.

The banking sector was sound and well capitalised in 2012 and continued to generate profit. It has sufficient funds and recorded no liquidity problems. In 2012, the Czech economy went through a recession, which intensified slightly as the year progressed. A contraction in real GDP of 1.2% was recorded for the year as a whole. The unfavourable economic situation was mainly due to falling domestic demand of households for goods and services for final consumption and of investors for fixed capital. Foreign trade was the only component of demand to have a positive effect on GDP growth. Despite a rising surplus, however, even foreign trade was no longer able to offset the fall in domestic demand. The Czech National Bank responded to current and forecasted economic developments by lowering its key interest rates three times during 2012.

The Financial Market Committee, being aware that the final version of the Financial Market Supervision Report for 2012 must also be approved by the CNB Bank Board, acknowledges this draft report and has no reservations about its content.

Prague, 22 May 2013

On behalf of the Financial Market Committee

Luděk Niedermayer
Chairman

PART A
FINANCIAL MARKET SUPERVISION IN 2012

1. LEGISLATIVE CHANGES IN THE FINANCIAL MARKET SUPERVISION AREA IN 2012

1.1 THE SITUATION IN FINANCIAL MARKET REGULATION

In 2012, the Czech National Bank (CNB) contributed to the implementation of the EU's rapidly changing regulations in the financial market area and to changes in the regulatory framework in the Czech Republic. The CNB activities included working mainly with the Czech Ministry of Finance and also with other state administration bodies on the preparation of new laws. The CNB also prepared and issued a number of decrees and explanatory and methodological opinions interpreting the application of regulatory requirements pertaining to financial market participants.

1.2 CHANGES TO LAWS

The CNB is involved in the preparation of laws in the financial market area, for which the Ministry of Finance has primary responsibility. This involvement is based primarily on an agreement on cooperation in the preparation of draft national legislation concerning the financial market. The CNB and the MF signed this agreement in May 2006.[2] The CNB is also the official commenting authority for such legislation within the legislative process.

The following laws regulating the business activities of financial institutions and other entities subject to regulation and supervision were prepared in the Czech Republic in 2012 with the active involvement of the CNB.

Amendment to the Act on Bonds
This amendment to the Act on Bonds liberalises bond issuance. The CNB's powers in relation to bonds have been redefined analogously to those for equities and include supervision of offers of bonds to the public, but not of issuance conditions and other obligations of issuers. Assessment of issuance conditions and inspection of the issuer's procedures are matters for creditors. The amendment was promulgated in the Collection of Laws on 30 May 2012.

Amendment to the Act on Banks and the Credit Unions Act
This amendment consists mainly of a tightening of the business regime for third-country bank branches in the Czech Republic, authorisation for the CNB to stipulate the details of individual prudential rules for such branches, and some technical adjustments concerning credit unions (e.g. the obligation to decide on the coverage of the loss of a credit union when approving each financial statement; the execution of just one disadvantageous trade, rather than the repeated execution of such trades, will constitute a shortcoming in activities). The amendment was promulgated in the Collection of Laws on 19 July 2012.

Amendment to the Act on Retirement Savings and the Act on Supplementary Pension Savings
The Act on Retirement Savings and the Act on Supplementary Pension Savings – part of the pension reform – were amended by means of a technical amendment which redefined pension product distributors and their registration and closed the first loopholes identified in the original version of the Act. The amendment was promulgated in the Collection of Laws on 7 September 2012.

Amendment to the Building Savings Schemes Act
This amendment introduces the product concept of building savings schemes, under which building societies may obtain universal banking licences and universal banks may obtain licences to operate building savings schemes. These changes are important in terms of reducing the liquidity risk in the building society sector arising from the large amount of deposits whose "binding period" has elapsed. In addition, the amendment regulates the earmarking of claims for state contributions and clarifies some issues relating to supervision by the Ministry of Finance. The draft amendment to the Building Savings Schemes Act was submitted to the Czech Parliament on 2 May 2012.

2 See http://www.cnb.cz/miranda2/export/sites/www.cnb.cz/cs/legislativa/postaveni_cnb/download/dohoda_CNB_MF.pdf

Amendment to the Act on the Czech National Bank
In the part relating to financial market supervision this draft amendment lays down the CNB's macroprudential policy duties, the option of issuing recommendations, alerts or warnings to the public or to individuals, the general authority to impose remedial measures in the event of a breach of any sectoral regulation, and changes in the reporting framework. The draft also forbids searches in inspection files and allows decisions to be changed (not only revoked) in appeals proceedings in all sectors. The draft amendment was submitted to the Czech Parliament on 11 October 2012.

Act on Bureau-de-Change Activity
A new Act on Bureau-de-Change Activity regulates the provision of bureau-de-change services. Money changers are subject to new regulatory and supervisory requirements, e.g. a pre-contractual information duty as regards the exchange rate list and the duty to issue receipts for bureau-de-change transactions. The CNB pushed through an obligation for a bureau-de-change to announce a single basic buy and sell exchange rate. Any other exchange rates may be presented only as a discount on the rate on the exchange rate list. The draft Act on Bureau-de-change Activity was submitted to the Czech Parliament on 5 November 2012.

Amendment to the Act on Insurance Intermediaries
This amendment to the Act on Insurance Intermediaries redefines the categories of intermediaries and how intermediaries are registered, and stipulates more stringent requirements for their professional qualifications and rules of conduct towards clients. Insurance companies should fulfil the same requirements when distributing products directly. The amendment is meant to strengthen the protection of consumers of insurance products, improve the supervisory environment and increase the transparency of intermediation on the insurance market. The draft amendment to the Act on Insurance Intermediaries was submitted to the Czech Parliament on 21 November 2012.

Amendment to the Act on Financial Conglomerates
This amendment to the Act on Financial Conglomerates transposes the changes made to the Financial Conglomerates Directive 2011/89/EU (FICOD I). The purpose of the implementation is to ensure consistency between the objectives of supplementary supervision of financial conglomerates and supervision of groups in individual financial market sectors, primarily banking and insurance. The draft amendment to the Act on Financial Conglomerates was submitted to the Czech Parliament on 3 January 2013.

New Act on Management Companies and Investment Funds
The Act on Management Companies and Investment Funds includes the transposition into Czech law of Directive 2011/61/EU on alternative investment fund managers. It also contains a general review of the existing regulation of collective investment, amends the existing terminology and broadens the types of investment funds. The Czech government approved the draft of the new Act on Management Companies and Investment Funds on 20 December 2012.

1.3 CNB DECREES AND PROVISIONS

The CNB is entitled to issue implementing legal rules in the form of decrees on the basis of authorisations specified in individual laws.

1.3.1 Decrees issued

In 2012, the CNB completed legislative work on decrees relating chiefly to new laws in the financial market area. These were usually issued on the day the laws took effect or immediately thereafter. The CNB issued the following decrees in 2012:

- Decree No. 57/2012 Coll., on the minimum requisites of the statute of a participation fund and a retirement fund. The decree regulates the structure of funds' statutes, the minimum requisites of statutes and changes in statutes that are not subject to CNB approval.

- Decree No. 58/2012 Coll., amending Decree No. 233/2009 Coll., on applications, approval of persons and the manner of proving professional qualifications, trustworthiness and experience of persons, and on the minimum amount of funds to be provided by a foreign bank to its branch. The amendment contains standard application forms and annexes thereto for pension management companies, participation funds and retirement funds.

- Decree No. 117/2012 Coll., on more detailed regulation of the activities of a pension management company, a retirement fund and a participation fund. The decree lays down requirements for the control system, rules of conduct and reporting obligations of a pension management company.

- Decree No. 187/2012 Coll., amending Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms. The amendment to the decree lowers the limit for exempting the value of an exposure to a foreign parent company or subsidiary from 75% to 50% (the limit of 25% of capital for exposures is retained), supplements the requirements for credit risk and collateral management for the purposes of creating provisions, and stipulates an obligation to disclose major transactions with group members without undue delay.

- Decree No. 215/2012 Coll., on professional qualifications for the distribution of certain products on the financial market. This decree regulates the scope of professional qualifications and expertise of distributors of pension products and lays down requirements for persons accredited to organise professional examinations.

- Decree No. 341/2012 Coll., on the activities of a depository of a retirement fund and a participation fund.

- Decree No. 372/2009 Coll., amending Decree No. 233/2009 Coll., on applications, approval of persons and the manner of proving professional qualifications, trustworthiness and experience of persons, and on the minimum amount of funds to be provided by a foreign bank to its branch, as amended.

- Decree No. 426/2012 Coll., on submission of information by pension management companies to the Czech National Bank.

- Decree No. 427/2012 Coll., amending Decree No. 433/2009 Coll., on the manner of submitting, form and requisites of the statements of insurance and reinsurance companies, as amended by Decree No. 359/2010 Coll.

- Provision of the Czech National Bank No. 1 of 12 November 2012, amending Provision of the Czech National Bank No. 2 of 18 November 2011, stipulating the submitting of statements by banks and foreign bank branches to the Czech National Bank.

- Provision of the Czech National Bank No. 2 of 21 November 2012, amending Provision of the Czech National Bank No. 1 of 19 October 2010, on reporting by credit unions to the Czech National Bank, as amended by the Provision of the Czech National Bank of 21 November 2011.

1.4 OFFICIAL INFORMATION ISSUED

The CNB issues official information documents containing important facts for financial market participants regarding the implementation of legal rules. In 2012, the CNB issued the following official information documents:

- Official information of 27 January 2012 regarding protection against market abuse and transparency.

- Official information of 21 March 2012 regarding the recognition of certain professional examinations organised by the European Financial Planning Association Czech Republic.

- Official information of 28 March 2012 regarding the prudential rules for banks, credit unions and investment firms – Information on remuneration.

- Official information of the CNB of 2 May 2012 regarding certain information duties when concluding life insurance and during its existence.

- Official information of 27 June 2012 regarding the verification of sufficient coverage of credit losses.

The following information was published on the CNB website:

- Information of the CNB of 23 April 2012 regarding the issuance of ESMA guidelines on systems and controls in an automated trading environment.

- Information of the CNB of 30 May 2012 on the issuance of ESMA guidelines on risk measurement and the calculation of global exposure for certain types of structured standard funds.

- Information of the CNB of 20 December 2012 regarding the issuance of ESMA guidelines on certain aspects of the MiFID suitability requirements.

The CNB provided market participants and the public with information in the form of opinions and replies to queries, which it published on its website. A number of explanatory opinions regarding financial market regulation were published in this way in 2012.

A complete and up-to-date list of the CNB's decrees, official information and opinions relating to the financial market can be found in the Supervision, regulation – Legislation section of the CNB website.

1.5 REGULATORY CHANGES UNDER PREPARATION[3]

1.5.1 Draft laws

Intensive preparations for a number of other regulatory changes took place in 2012, mostly in order to transpose EU regulations. These regulations are expected to be submitted to the Czech government and Parliament in 2013.

Amendment to the Act on Banks

The CNB prepared a set of comments on a draft amendment to the Act on Banks as part of the transposition of CRD IV and the adjustment to CRR. The draft had been submitted by the Ministry of Finance to the CNB for consultation. The comments related to such matters as provisions on capital buffers, remedial actions, consolidated oversight, control system requirements and branches under the single licence. The Ministry of Finance incorporated comments that it considered essential for the proper implementation of CRD IV and the adjustment of the act to CRR. The revision of the provisions governing the control system according to the harmonised text agreed in 2012 between the CNB and the Ministry of Finance has been postponed. The plan is to implement this revision during the transposition of MiFID II. The processing of some of the comments made by the CNB, such as the option of waving a delinquency proceeding (the opportunity principle) in administrative sanctions and the deletion of the Ministry of Finance's requirement to set rates for the countercyclical capital buffer by means of a CNB decree, will be completed in 2013.

3 See Section 2 EU regulations in 2012 for details on planned changes to the regulations relating to EC proposals (in the areas of capital requirements, Solvency II, markets in financial instruments, crisis management, etc.).

Amendment to the Insurance Act

The CNB was involved in preparing the transposition of Directive 2009/138/EC (Solvency II) into the Insurance Act. In September 2012 the Ministry of Finance submitted a draft act for interdepartmental comments. The draft amends the Act on Insurance and some other laws. The CNB made a number of comments on the draft. These related mainly to internal control systems (the CNB requested harmonisation with other sectoral laws), retention of the existing provisions allowing the CNB to reject an auditor in advance, the requirement for regular audits of internal control systems and the scope of application of the Act on Insurance to Exportní garanční a pojišťovací společnost a.s. after the implementation of Solvency II. However, the comments were not incorporated, because the Czech government, at the request of the Ministry of Finance and taking into account the delayed transposition of Solvency II, postponed the submission of the draft law to the Czech government.

Amendment to the Act on Auditors

The CNB prepared a set of proposals on the planned amendment of the Act on Auditors. The suggestions were discussed with representatives of the Chamber of Auditors and the Council for Public Audit Supervision and received general support. The proposed changes suggested abandoning the idea of having the audit committee as a body of a company, tightening up the requirements relating to the independence and professional qualifications of members of the audit committee and introducing the option of replacing the committee by the supervisory board provided that it meets requirements relating to professional qualifications and independence. The CNB also submitted these proposals in the interdepartmental comments procedure on the amendment of the act, which took place in late 2012.

Act on Financial Market Supervision

The preparation of the new Act on Financial Market Supervision involved discussions and communication between the CNB and the Ministry of Finance. In March 2012, a project team made up of representatives of all relevant departments was set up at the CNB. The CNB prepared comments on the Ministry of Finance's proposals regarding the structure of the act, the assessment of senior officers and the provisions regulating on-site and off-site surveillance. It also submitted draft changes to the parts of the act relating to supervisory confidentiality, harmonisation of the assessment of senior officers, assessment of qualifying holdings and assessment of auditors of financial institutions. As the Ministry of Finance's efforts in 2012 were focused primarily on the transposition of EU regulations, the Czech government extended the deadline for the completion of the act by one year, i.e. until November 2013.

1.5.2 Draft decrees

Legislative work on the following decrees – connected mainly with amendments to laws – will be initiated or continue in 2013:

- Decree on the requisites of an offer of pension insurance.
- Decree on the details of certain rules relevant to management companies and investment funds.
- Decree on the activities of a depository of a standard fund and on the provisions of a depository agreement of a standard fund.
- Decree on the statutes of a collective investment fund.
- Decree on applications under the Act on Management Companies and Investment Funds.
- Decree on bureau-de-change activity.
- Decree on applications under the Act on Insurance Intermediaries.
- Decree on reporting by insurance intermediaries.

- Decree on the remuneration of liquidators, conservators and insolvency trustees of some service providers on the capital market and on the reimbursement of their cash expenditures.
- Decree on reporting by managers and administrators of investment funds.
- Decree on reporting by investment firms.
- Decree on reporting by banks and foreign bank branches.
- Decree on reporting by credit unions.
- Amendment to Decree No. 233/2009 Coll., on applications, approval of persons and the manner of proving professional qualifications, trustworthiness and experience of persons.
- Amendment to Decree No. 215/2012 Coll., on professional qualifications for the distribution of certain products on the financial market.
- Decree on the pursuit of business of banks, credit unions and investment firms.
- Amendment to Decree No. 141/2011 Coll., on the pursuit of business of payment institutions and electronic money institutions.
- Amendment to Decree No. 281/2008 Coll., on certain requirements for the system of internal principles against money laundering.
- Amendment to Decree No. 231/2009 Coll., on the requisites and the manner of keeping of a transactions and orders book of an investment firm and on the requisites and the manner of keeping records of an investment intermediary.
- Amendment to Decree No. 347/2006 Coll., implementing certain provisions of the Act on Financial Conglomerates.

2. EU REGULATIONS IN 2012

Intensive work on new European financial market regulations continued in 2012 at the level of the European Commission, the Council and the European Parliament. The CNB paid special attention to the European Commission's proposals and prepared relevant opinions on an ongoing basis. CNB representatives in EU committees and working groups actively promoted the CNB's positions on key issues.

2.1 DIRECTIVE AND REGULATION ON CAPITAL REQUIREMENTS (CRD IV, CRR)

The draft capital requirements directive and regulation were discussed by a Council working group of which the Ministry of Finance is the member for the Czech Republic. A CNB representative also took part in the discussions in an advisory capacity. The CNB prepared comments and discussed them with the Ministry of Finance on an ongoing basis with a view to promoting a single stance reflecting the CNB's supervisory needs. Key issues included the "flexibility package" (the Member States' option to tighten selected prudential requirements), the leverage ratio (publication of the leverage ratio before it is binding and precisely calibrated) and the definition of capital, including the treatment of financial conglomerates (the ability of the supervisory body to allow financial conglomerates to deduct major investments in insurance companies from their capital). The general approach prepared by the Council working group was approved at the ECOFIN meeting on 15 May 2012, and trialogue negotiations with the European Parliament (EP) then took place.

The CNB made numerous comments and suggestions on the EP's proposals and on the compromise proposals of the directive. These related to liquidity (e.g. a proposal to change the scope of binding EBA mediation in decisions on the level of application of the liquidity coverage ratio, and a request to recognise Czech government bonds as liquid assets), systemic buffers (e.g. the risk of introducing buffers on a consolidated basis, a request to include an option to reflect national specificities in the rate of the countercyclical buffer), reporting (e.g. a proposal to maintain the role of national supervisory authorities in data collection from supervised institutions and data reporting to the EBA instead of giving the EBA direct access to the databases of national supervisory authorities, a proposal to restrict the scope of data collected from institutions for ESCB purposes – the data should be requested primarily from SIFIs and should not be equal in scope for all institutions) and remuneration (e.g. a proposal to maintain supervision on an individual level).

The discussions on the draft directive and regulation were not completed by the end of 2012 and will continue in 2013. Key open issues include the flexibility package, EBA powers, transposition deadlines and remuneration.

2.2 DIRECTIVE ON RECOVERY AND RESOLUTION OF CREDIT INSTITUTIONS AND INVESTMENT FIRMS (Bank Recovery and Resolution Directive, BRRD)

The draft BRRD directive was discussed by a Council working group of which the Ministry of Finance is the member for the Czech Republic. A CNB representative also took part in the discussions in an advisory capacity. Major comments related mainly to the proposed delegation of powers from national supervisory authorities to the EBA and to home supervisory authorities, financial support within financial groups and prioritisation of group interests, sharing of resolution costs, mandatory guarantees for loans accepted in connection with resolution at group level, and mandatory involvement of deposit insurance funds in financing resolution. The draft is expected to be prepared at the Council level by mid-2013 and will subsequently be discussed with the European Parliament. The directive is expected to take effect in early 2015.

2.3 DIRECTIVE AND REGULATION ON MARKETS IN FINANCIAL INSTRUMENTS (MiFID 2, MiFIR)

The CNB prepared comments on an ongoing basis for the Ministry of Finance's instructions on the new directive and regulation on markets in financial instruments for meetings of the Council working group. The CNB and the Ministry of Finance are in general agreement on the matter and the CNB's comments were reflected in the instructions. Further clarification of rules that were ambiguous in practice or were not being applied uniformly can be viewed as a positive step. This included the scope of exemptions from MiFID 2, such as reasonable application of certain rules to investment intermediaries, strengthening of independence of advice, clarification of the regime for securities issued by an investment firm in the capacity of an issuer, and post-trade transparency for equities transactions. Comments on the draft directive and regulation related mainly to the detailed requirements for the management boards of investment firms, the inclusion of bonds and derivatives under the new transparency rules, the powers of ESMA and the Commission to issue binding technical standards (for example for exercising supervisory powers), the powers of ESMA to forbid the offering or distribution of certain products or financial activities, the obligations of entities engaged in high-frequency trading to supply liquidity, and the refusal to regulate emission allowances in MiFID 2.

2.4 OMNIBUS II DIRECTIVE

The draft Omnibus II directive complements the Solvency II directive following the establishment of EIOPA as a European supervisory authority and defines the areas in which EIOPA is authorised to submit proposals for binding technical standards to the European Commission. Trialogue negotiations took place in 2012 but were not completed due to conflicting opinions. The only outcome was a decision on the future approval process for Omnibus II. First, an impact study will be carried out to assess the proposed adaptations of the risk-free yield curve (the long-term package). The discussion of the Omnibus II proposal itself will continue only after the study has been assessed. An EIOPA report on the impacts on the European insurance market is planned to be submitted to the Commission in mid-June 2013. The subsequent final assessment of the impact study by the Commission is expected in July 2013.

2.5 DEFERRAL OF THE SOLVENCY II DIRECTIVE

August 2012 saw the publication of Directive 2012/23/EU, which deferred the date of transposition of the Solvency II directive to 30 June 2013 (originally 31 October 2012) and the date of effect to 1 January 2014 (originally 1 November 2012). As the directive was being adopted the Czech Republic was already pointing out that the proposed dates were unrealistic in light of the delays in the Omnibus II approval process. Shortly after the publication of the directive the trialogue parties started to discuss a further postponement of the date of effect (and transposition) of Solvency II to 2015/2016.

2.6 REGULATION ON OTC DERIVATIVES, CENTRAL COUNTERPARTIES AND TRADE REPOSITORIES (EMIR)

The final negotiations on the draft EMIR took place in the first half of 2012. The CNB presented comments and proposals by means of instructions at meetings of EU committees. The main comment at this stage of the negotiations related to ESMA's powers (in particular binding mediation by ESMA when deciding on the licensing of central counterparties). The EMIR was published on 4 July 2012. Within ESMA, the CNB took part in the preparation of draft implementing regulations for EMIR defining more detailed requirements for compulsory clearing, capital and counterparty risk management, risk mitigation techniques for OTC derivatives, reporting of derivative transactions to trade repositories and so on. On the basis of the draft implementing regulations drawn up by ESMA, the Commission in December 2012 issued three implementing technical standards (taking the form of a regulation) and submitted additional draft regulatory technical standards to the European Parliament and Council for scrutiny.

2.7 REGULATION ON IMPROVING SECURITIES SETTLEMENT IN THE EU AND ON CENTRAL SECURITIES DEPOSITORIES

The CNB commented on the instructions for a Council working group meeting and promoted its stance on the draft regulation. Key comments related to the request for an exemption or a significant broadening of the exceptions from the applicability of the regulation for central banks operating a settlement system, the strengthening of the powers of the Commission and ESMA, recognition of third countries' depositories, penalties for natural persons, the need for clear determination of capital for central depositories, and the retention of activities of existing settlement systems. On the key issue of the applicability of the draft regulation to central banks the exceptions for central banks were broadened (senior board requirements and capital requirements), but the CNB proposed further changes (extension of the exceptions to the obligation to set up user committees, the obligation to offer separate client accounts, and an exemption from all prudential rules).

2.8 REGULATION AND DIRECTIVE ON INSIDER DEALING AND MARKET MANIPULATION

As regards the draft regulation on insider dealing and market manipulation, the CNB proposed changes relating to the Commission's broad powers to adopt delegated acts, the inclusion of spot commodity contracts and emission allowances in the regulation, special regulation for small and medium-sized enterprises and harmonisation of sanctions at the EU level. The Ministry of Finance accepted these comments as part of the instructions for a Council working group meeting. The CNB succeeded in restricting the Commission's powers to adopt delegated acts, in changing the regulation of small and medium-sized enterprises, and in changing the harmonisation of sanctions at the EU level. The CNB's remaining comments (e.g. reservations about the inclusion of emission allowances and commodities in the directive) were rejected at the meeting by other EU Member States.

As regards the directive on criminal sanctions for market abuse, the CNB supported the instructions of the Czech Ministry of Justice, which, in agreement with the CNB, proposes a minimalist version of the directive leaving room for appropriate national legislation.

2.9 REVISION OF THE TRANSPARENCY DIRECTIVE

In its comments on the revision of this directive the CNB supported a reduction in unnecessarily burdensome regulations (such as refraining from requiring issuers to publish quarterly reports) and clarification of existing definitions (such as notification of voting rights). By contrast, the CNB expressed reservations about the introduction of broad powers for the Commission to adopt delegated acts and about the harmonisation of sanctions at the EU level. The comments were presented at Council working group level. In subsequent negotiations on the draft directive the CNB also advocated that unification of the format (XBRL) for reporting by issuers should not be introduced without a cost-benefit analysis.

2.10 REGULATION ON PACKAGED RETAIL INVESTMENT PRODUCTS (PRIPs)

In July 2012 the Commission released a draft regulation defining unified requirements for informing customers about packaged retail investment products. This regulation complements the single rules of conduct contained in the MiFID 2 and IMD 2 proposals. The regulation is based on the current legislation on the disclosure of key information for standard collective investment undertakings (UCITS). The CNB prepared comments for the Ministry of Finance's instructions for a Council working group meeting. The positions of the Ministry of Finance and the CNB are very close in this area (general support for a harmonised regime for the sale of financial products except national pension products, disagreement with the number of delegated acts).

2.11 AMENDMENT OF THE DIRECTIVE ON UNDERTAKINGS FOR COLLECTIVE INVESTMENT IN TRANSFERABLE SECURITIES (UCITS)

In July 2012, the Commission released a proposal for a directive amending certain provisions of Directive 2009/65/EC[4] regulating standard collective investment undertakings. The proposed directive regulates three aspects of the operation of standard funds: the duties of a depository of a standard fund, remuneration rules for UCITS managers and administrative sanctions for regulated entities. It also contains a number of powers for the Commission to adopt implementing measures for the directive. The CNB prepared comments for the Ministry of Finance's instructions for a Council working group meeting. Its main reservations concerned detailed remuneration rules, the imposition of sanctions on natural persons, and the large number of implementing measures that are to be adopted as delegated acts.

2.12 INSURANCE MEDIATION DIRECTIVE (IMD 2)

In July 2012, the Commission published a proposal for a revision of the insurance mediation directive. The proposal suits the Czech Republic, as it strengthens the professional requirements, introduces the same requirements for direct and mediated sale of insurance and harmonises the rules with MiFID 2, including disclosure of commissions. The CNB's comments on the draft directive related mainly to the large number of implementing measures to be issued by the Commission. Such measures go against the principle of minimum harmonisation and the subsidiarity principle and by their nature cannot reflect the specificities of national markets (such as if single and detailed professional requirements were set). The CNB's request was accepted as part of the position of the Czech Republic. The negotiations on the proposed directive are still ongoing.

4 Directive 2009/65/EC of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS IV).

3. FINANCIAL MARKET SUPERVISION IN 2012

3.1 LICENSING, APPROVAL AND AUTHORISATION ACTIVITIES

Credit institutions

Table A.I – Numbers of entities in the credit institution sector

	As of 31 Dec. 2011	Entries in 2012	Exits in 2012	As of 31 Dec. 2012
Banks[i]	23	0	0	23
Foreign bank branches (under the single licence)	21	1	2	20
Credit unions	14	0	1	13
Credit institutions, total	58	1	3	56

i) Of which five building societies.

No new banking licence was granted in 2012. The Royal Bank of Scotland plc, organizační složka was established and the branches of the Royal Bank of Scotland N.V. and Crédit Agricole Corporate and Investment Bank S.A. Prague, organizační složka closed down.

UNIBON – spořitelní a úvěrní družstvo closed down on the basis of a CNB decision to revoke its credit union licence, which came into force on 8 March 2012. This was due to long-term contravention of exposure limits vis-à-vis some of its members and groups of connected persons and to failure to implement a related remedial measure. At the proposal of the CNB, the courts appointed a liquidator on 9 March 2012. The Deposit Insurance Fund was activated on 2 July 2012, and payment of compensation for all insured deposits was commenced on 23 July 2012. More than 97% of all compensation had been paid by the end of 2012.

Meinl Bank AG and Vanquis Bank Limited announced their intention to provide services in the Czech Republic through an organisational unit (but they have not yet been incorporated and are therefore not included among the entries of foreign bank branches)

Table A.II – Numbers of administrative proceedings in the credit institution sector

Continuing from 2011	Opened in 2012	Completed in 2012	As of 31 Dec. 2012
10	44	43	11

Of the 54 administrative proceedings conducted by the CNB in the credit institution sector, six related to banks and 48 to credit unions. A total of 43 administrative decisions were issued in 2012, 11 of which related to prior consents to the acquisition of qualifying holdings. One proceeding, filed in 2011, was discontinued due to withdrawal of an application for a credit union licence. In 2012, one proceeding was discontinued owing to withdrawal of an application for a banking licence and conversion of a credit union into a joint stock company. In all, 24 proceedings related to the approval of members of bodies and senior officers of credit unions.

Insurance companies

A total of 34 domestic insurance companies (excluding the Czech Insurers' Bureau) and one reinsurance company were subject to supervision by the CNB as of the end of 2012. A total of 18 branches of insurance companies were subject to supervision by the CNB to a limited extent.

Table A.III – Numbers of entities in the insurance sector

	As of 31 Dec. 2011	Entries in 2012	Exits in 2012	As of 31 Dec. 2012
Insurance companies (including branches and reinsurers)	54	2	3	53
of which:				
domestic insurance undertakings (excluding the CIB)	35	0	1	34
branches of insurance companies from the EU/EEA	18	2	2	18
branches of insurance companies from third countries	0	0	0	0
reinsurance companies	1	0	0	1

Table A.IV – Numbers of administrative proceedings in the insurance sector

Continuing from 2011	Opened in 2012	Completed in 2012	Continuing into 2013
10	65	63	12

The CNB conducted 75 administrative proceedings and issued 63 administrative decisions in the insurance sector in 2012.

The concentration of the life insurance sector continued to increase in 2012. The MetLife group (which took over Amcico pojišťovna, a.s, from AIG in 2010 after the latter was bailed out by the US government) strengthened its international position by taking over Aviva životní pojišťovna, a.s. Amcico pojišťovna and Aviva životní pojišťovna merged at the end of 2012 so that MetLife could start operating on the Czech market as MetLife pojišťovna, a.s. in 2013.

Direct pojišťovna, a.s., which has decided to wind down its activities, is leaving the Czech market. This insurance company, which was granted a licence on 24 April 2007, has not concluded any new agreements since 25 June 2012 (but is providing other services to an unchanged extent).

Owing to the pension reform, numerous insurance companies are trying to extend their licences so that they can broker pension products.

One administrative proceeding was held regarding registration in the register of responsible actuaries maintained by the CNB. In all, 64 entities were entered in the above register as of the end of 2012.

Collective investment and pension funds

In 2012, the CNB's licensing activities and the related administrative proceedings were concentrated mainly on the management and timely completion of the conversion of pension funds into pension management companies under the ongoing pension reform in the Czech Republic so that licensing and approval proceedings for new participation and retirement funds could be conducted in compliance with the Act on Supplementary Pension Savings and the Act on Retirement Savings. These funds came into being on 1 January 2013 as part of the second and third pillars of the pension reform.

Table A.V – Numbers of entities in the collective investment and pension fund sectors (active or newly licensed)

	As of 31 Dec. 2011	Entries in 2012	Exits in 2012	As of 31 Dec. 2012
Management companies	21	1	1	21
Investment funds	60	18	1	77
Open-end mutual funds	156	25	16	165
of which: standard funds	37	3	0	40
Closed-end mutual funds	1	4	0	5
Pension funds[i)]	9	0	0	9
Depositories	8	0	1	7
Accredited entities[ii)]	0	5	0	5

i) Pension funds pursuant to Act No. 42/1994 Coll., on State-Contributory Supplementary Pension Insurance. In accordance with Act No. 427/2011 Coll., on Supplementary Pension Savings, all nine existing pension funds were granted a pension management company licence and were converted into pension management companies with effect from 1 January 2013.
ii) Entities accredited to organise examinations of supplementary pension savings and retirement savings distributors.

In 2012, licences were granted to one new management company and 18 investment funds (one autonomous and 17 non-autonomous). One management company[5] and one investment fund[6] terminated their activities. Authorisations were also granted to establish 25 mutual funds. Six authorisations to establish a mutual fund were revoked at the request of the management company and four decisions were taken on changes in depositories of collective investment funds.

Table A.VI – Numbers of administrative proceedings in the collective investment and pension fund sectors

	Continuing from 2011	Opened in 2012	Completed in 2012	Continuing into 2013
Collective investment	75	186	239	22
Pension funds [7]	2	91	84	9
Accredited entities [7]	0	17	5	12

A total of 261 administrative proceedings were conducted (and 239 decisions made) in the collective investment area in 2012.

There were 116 proceedings regarding the approval of changes in the statutes of mutual funds. A total of 29 administrative proceedings were conducted concerning prior consents to the discharge of office of director of a management company or an investment fund (ten of which were discontinued because of withdrawal of the application). Three proceedings were held regarding mergers of mutual funds. There were 23 proceedings concerning authorisation to convert an investment fund (with one exception these involved mergers of special funds for qualified investors with an unregulated entity).

5 On 29 May 2012, Hanover Asset Management, investiční společnost, a.s. had its management company authorisation revoked.
6 GLADIUS uzavřený investiční fond, a.s. was dissolved with liquidation on 8 August 2012 at the decision of the general meeting.
7 Proceedings conducted in 2012 regarding pension management company and participation and retirement fund licences are also included.

The CNB conducted five administrative proceedings concerning prior or subsequent consents to the acquisition of a qualifying holding in a management company or an investment fund. One of the most significant acquisitions was the entry of the NATLAND group into AVANT investiční společnost, a. s. The CNB granted authorisation to offer the securities of three foreign special funds to the public in the Czech Republic.

In the pension reform area, a procedure was opened in 2012 for the accreditation of entities to organise professional examinations aimed at proving the competence of supplementary pension savings and retirement savings distributors. Five accreditations were granted in 2012.

Licensing procedures for distributors of supplementary pension savings and retirement savings were commenced at the end of 2012.[8]

In all, 93 administrative proceedings were conducted (and 84 decisions made) in the pension fund sector in 2012.

All nine existing pension funds were granted pension management company licences and authorisation to operate supplementary pension schemes through a transformed (pension) fund (through the process of conversion of pension funds into pension management companies, assets and liabilities relating to supplementary pension insurance were moved to transformed fund, i.e. the assets of pension fund shareholders were separated in the books from the assets of supplementary pension insurance participants). The CNB granted licences to the newly established pension management companies Conseq penzijní společnost, a. s., and Raiffeisen penzijní společnost, a. s. As pension management companies differ in terms of the scope of their activities, six companies will be able to operate a retirement savings scheme under the second pillar and nine companies a supplementary pension savings scheme under the third pillar as from 1 January 2013.

By the end of 2012, the CNB had granted 24 licences to establish retirement funds (eight proceedings were held, two of which were discontinued)[9] and 34 licences to establish participation funds (36 proceedings, two of which had not been completed by the end of 2012).[10]

Prior consent to the election of persons to pension fund bodies was granted in 17 cases in the area of supplementary pension insurance (one proceeding was discontinued owing to withdrawal of the application). One proceeding concerned a change in a depository and one concerned the approval of a change to the statute of a pension fund. The CNB granted prior consent to CP Strategic Investments B.V. to the transfer of shares of Generali penzijní fond a.s. and Penzijní fond České pojišťovny, a. s., exceeding 10% of their capital. Based on the above permissions, CP Strategic Investments B.V. became the 100% shareholder of these pension funds.

8 See section 3.3 Registration of representations of banks and financial institutions for details.

9 Under Act No. 426/2011 Coll., on Retirement Savings, four types of retirement funds are always the subject of applications for licences to establish retirement funds, namely government bond retirement funds, conservative retirement funds, balanced retirement funds and dynamic retirement funds.

10 Pursuant to Articles 198 and 199 of Act No. 427/2011 Coll., on Supplementary Pension Savings, licences to pursue the business of a pension management company, to establish retirement funds and to establish a participation fund can take effect on 1 January 2013 at the earliest. Based on the licences granted, the CNB as of 1 January 2013 registered a total of 11 pension management companies, 24 retirement funds, 34 participation funds and nine transformed funds.

Investment services providers

At the start of both 2011 and 2012, the CNB registered 35 entities holding investment firm licences. The licence of Conseq Investment Management, a.s. was extended in 2012.

Table A.VII – Numbers of investment firms

	As of 31 Dec. 2011	Entries in 2012	Exits in 2012	As of 31 Dec. 2012
Investment firms, of which	35	0	0	35
banks	12	0	0	12
non-banks	23	0	0	23
Branches of investment firms, of which	22	8	4	26
banks	14	1	2	13
non-banks	8	7	2	13

The largest number of administrative proceedings completed in 2012 (1,720) related to the withdrawal of registration of investment intermediaries (279 decisions were issued, 1,408 proceedings were closed due to a merger into a joint proceeding and 33 proceedings were discontinued).

Of the remaining 19 proceedings, three concerned investment firm licences (one new licence proceeding and one licence extension proceeding discontinued, one licence extended), 12 concerned prior consent to the discharge of office of director of an investment firm (nine consents, three proceedings discontinued), three were connected with prior consent to the acquisition of qualifying holdings in investment firms (all proceedings discontinued) and one was connected with the annulment of registration of further business of an investment firm (consent).

Table A.VIII – Numbers of administrative proceedings in the investment services provider sector

Continuing from 2011	Opened in 2012	Completed in 2012	Continuing into 2013
9	1,787	1,739	57

Payment service providers and electronic money issuers

At the start of 2012, the CNB registered 12 payment institutions. In 2012, licences for the pursuit of business of a payment institution were granted to three new entities (Global Payments Europe, s.r.o., Patria Direct, a.s., and PES - Peněžní expresní service, s.r.o.). One branch of a foreign payment institution was established in 2012.

Table A.IX – Numbers of payment institutions and electronic money institutions

	As of 31 Dec. 2011	Entries in 2012	Exits in 2012	As of 31 Dec. 2012
Payment institutions	12	3	0	15
Branches of payment institutions	4	1	0	5
Electronic money institutions	0	2	0	2
Branches of electronic money institutions	1	0	0	1

Table A.X – Numbers of administrative proceedings in the sector of payment institutions and electronic money institutions

	Continuing from 2011	Opened in 2012	Completed in 2012	Continuing into 2013
Payment institutions	4	7	10	1
Electronic money institutions	2	1	2	1

A total of ten administrative proceedings were closed in the payment system area, nine of which concerned a licence for the pursuit of business of a payment institution or an extension thereof (three licences granted and three extended, three proceedings discontinued) and one proceeding concerned the withdrawal of a small-scale payment service provider's registration.

Two electronic money institution licences were granted in 2012.

Handlers of domestic banknotes and coins

A new type of a business licence was introduced under Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins and on the amendment of Act No. 6/1993 Coll., on the Czech National Bank, as amended. This activity had not previously been regulated separately and had been regarded as the free business of "production, trade and services not elsewhere classified". It had not required the consent of the CNB or any other authority. Authorisation for the activity of handler of domestic banknotes and coins is required as from 1 July 2012.

Table A. XI – Numbers of handlers of domestic banknotes and coins

	As of 31 Dec. 2011	Entries in 2012	Exits in 2012	As of 31 Dec. 2012
Handlers of domestic banknotes and coins	0	3	0	3

All three business entities already engaged in this activity in the Czech Republic, namely ABAS CiT Management s.r.o., G4S Cash Solutions (CZ), a.s., and Loomis Czech Republic a.s., applied for the relevant authorisation. Positive decisions were issued in all cases.

Table A. XII – Numbers of administrative proceedings in the sector of handlers of domestic banknotes and coins

	Continuing from 2011	Opened in 2012	Completed in 2012	Continuing into 2013
Handlers of domestic banknotes and coins	0	3	3	0

Securities issues and regulated markets

At the start of 2012, a total of 63 companies whose securities had been admitted to trading on a regulated market (issuers of listed securities) were registered, 18 of which were located outside the Czech Republic (two outside the EU). The number of issuers of listed securities increased to 67 in 2012. Securities of seven issuers (bonds in four cases, shares in three cases) were newly admitted to trading on a regulated market. Securities of three issuers were excluded (two cases involved bonds and were linked with their maturity, and one case involved shares).

In 2012, regularly published reports (annual, semi-annual and mid-term reports) were subject to formal and content inspections. Compliance with the duties of issuers of listed securities and related persons was supervised at the same time. The annual reports of seven selected companies were subject to detailed checks as regards correct application of IFRS in annual accounts.

Table A.XIII – Numbers of securities issues, regulated markets and settlement systems

	As of 31 Dec. 2011	Entries in 2012	Exits in 2012	As of 31 Dec. 2012
Issuers of listed securities	64	7	4	67
of which: foreign	18	1	1	18
Regulated market operators	3	0	0	3
Settlement systems	3	0	0	3
Central depository	1	0	0	1

The number of licensed regulated market operators (RM-SYSTÉM, česká burza cenných papírů a.s. (RM-S), Burza cenných papírů Praha, a.s. (BCPP, Prague Stock Exchange – PSE) and Power Exchange Central Europe, a.s. (PXE)) and the number of settlement systems (the RM-S transaction settlement system (SVYT), the CNB's short-term bond market system (SKD), and the Central Securities Depository Settlement system (CSDP)) remained unchanged from the previous year. The activity of central depository was performed by the CSDP.

The CNB conducted 149 administrative proceedings in the area of securities issues, securities registers and regulated markets in 2012. Most of the decisions (147) concerned the approval of documents relating to new securities issues.

The two remaining decisions were issued in the area of market infrastructure. The CNB granted one request by the CSDP for the approval of changes in the settlement system rules and one request for the approval of changes to the rules of operation of the CSDP.

Table A.XIV – Numbers of administrative proceedings in the area of securities issues and regulated markets

Continuing from 2011	Opened in 2012	Completed in 2012	Continuing into 2013
1	148	148	1

3.2 NOTIFICATIONS (UNDER THE SINGLE LICENCE)

Table A.XV – Numbers of cross-border service provision notifications

	As of 31 Dec. 2011	Entries in 2012	Exits in 2012	As of 31 Dec. 2012
Credit institutions	302	33	7	328
Electronic money institutions	13	5	2	16
Insurance companies [i]	696	48	14	730
of which branches	168	2	1	169
Funds	1,239	67	133	1,173
Management companies	46	1	2	45
Investment service providers	1,389	206	59	1,536
Payment institutions	99	40	1	138
Institutions for occupational retirement provision	1	0	0	1

i) Both insurance companies and insurance company branches operating in other EU/EEA countries provide notification.

Four domestic insurance companies (Hasičská vzájemná pojišťovna, a. s., MAXIMA pojišťovna, a. s., ERV pojišťovna, a. s. – until 30 September 2012 Evropská cestovní pojišťovna, a.s. – and KUPEG úvěrová pojišťovna, a. s.) provided notification of their intention to expand insurance activities within the territory of host Member States. At the same time, Komerční banka provided notification of its intention to carry on business within the territory of other host countries under the free movement of services.

Two domestic insurance companies provided notification of the establishment of a branch in the EU/EEA (Česká pojišťovna, a. s. in Poland and KUPEG úvěrová pojišťovna, a. s. in Slovakia). One investment firm (HighSky Brokers, a.s.) provided notification of its intention to operate within the territory of a host EU Member State through a branch. Two investment firms (42 financial services s.r.o. and HighSky Brokers, a.s.) provided notification of their intention to operate within the territory of host Member States under the freedom to provide services. One payment institution (FORTISSIMO, spol. s r.o.) provided notification of its intention to provide services within the territory of a host Member State under the free movement of services.

Three domestic banks have branches in Slovakia. Two domestic insurance companies have branches in Slovakia, one has a branch in Poland and one has branches in Slovakia and Norway. One domestic credit union operates in Slovakia. Five investment firms have a total of eight branches in four host EU Member States. Two payment institutions have branches in three EU Member States.

In 2012, two insurance companies (Chartis Europe Limited, organizační složka pro Českou republiku and Union poisťovňa, a.s., pobočka pro Českou republiku), seven non-bank investment firms (Admiral Markets AS, Noble Securities S.A., Global Markets OOD, LaSalle Investment Management, BMFN EAD, GKFX Financial Services Limited and Sympatia Financie, o.c.p., a.s.) and one payment institution (Lufthansa AirPlus Servicekarten GmbH) provided notification of the provision of services in the Czech Republic in the form of establishment.

The CNB received 142 prospectus notifications from foreign regulators.

The CNB also received notifications of the intention to carry on business in the Czech Republic from 405 insurance intermediaries having a home Member State other than the Czech Republic (99 of them from Slovakia). At the same time, 267 insurance intermediaries residing or having their registered office in the Czech Republic notified the CNB of their intention to commence business in host Member States.

3.3 REGISTRATION OF REPRESENTATIONS OF BANKS AND FINANCIAL INSTITUTIONS

Table A.XVI – Numbers of registered and listed entities

	As of 31 Dec. 2011	Entries in 2012	Exits in 2012	As of 31 Dec. 2012
Registered representations of foreign banks[i]	22	2	6	18
Investment intermediaries	10,072	68	1,683	8,457
Tied agents	14,729	9,979	4,663	20,045
Small-scale payment service providers	50	14	3	61
Small-scale electronic money issuers	17	3	14	6

i) Registration of a representation of a foreign bank in accordance with Article 39 of Act No. 6/1993 Coll., on the CNB, does not entitle it to carry on business in the Czech banking sector, but only entitles it to intermediate and promote the services of its head office in the Czech Republic.

In 2012, as part of the pension reform, authorisations started to be provided for supplementary pension savings and retirement savings distribution. This activity may be carried on by certain entities that already have authorisation to provide investment services and whose authorisation has been widened (bank and non-bank investment firms, investment intermediaries and tied agents). Tied agents of a pension management company may also act as distributors. Entities interested in distributing supplementary pension and retirement savings products were able to submit applications from 27 November 2012.[11] By the end of 2012, only six investment intermediaries, three bank investment firms and one non-bank investment firms had registered for this activity. No tied agents or tied agents of a pension management company were granted authorisation to distribute pension products in 2012. Most distributors applied for the relevant licence in January 2013.

A total of 11,818 applications for entry in the register of insurance intermediaries and independent loss adjusters (ILAs) were submitted in 2012, and 11,496 insurance intermediaries and ILAs were registered (this figure does not include foreign intermediaries listed in the register due to notifications of insurance intermediation from another EU/EEA Member State).

The CNB holds professional examinations of insurance agents and insurance brokers to verify whether the applicants are competent to perform such activities at a medium and higher level of competence. In all, 442 candidates took these examinations in 2012 and 401 passed.

3.4 OFF-SITE SURVEILLANCE

Off-site surveillance performed by the CNB consists in continuously monitoring the activity and financial performance of individual financial market entities and assessing the evolution of the market as a whole and its key segments. The CNB's supervisory work involves checking compliance with the relevant legal rules, prudential rules and professional care rules and regularly assessing the financial condition of individual regulated entities.

Information is obtained mainly from the statements and reports regularly submitted by individual entities on a solo and consolidated basis. Where more intensive monitoring of the financial situation is needed, an extraordinary reporting duty is imposed on financial institutions. In addition to the regular reports, information from other sources is used for continuous monitoring of entities and the market. These sources include financial statements, annual and auditors' reports, information from on-site inspections, public presentations and press releases.

11 The original deadline for applying for the relevant licence of 1 January 2013 was brought forward to 27 November 2012, when Act No. 399/2012 Coll., amending Act No. 427/2011, on Supplementary Pension Savings, took effect.

Submissions made by the public are an important source of information about the approach of supervised entities to clients for supervision of compliance with the duties of financial market service providers in the area of professional care. The findings are used not only to eliminate shortcomings in the activity of the supervised entity, but also to identify possible systemic shortcomings. The findings obtained when examining submissions are used as a basis for sector-wide surveys focusing on the breadth of occurrence of unlawful conduct. These findings are used to identify supervised entities to be included in the on-site inspection plan as well as the areas to which attention should be paid during on-site inspections. If systemic shortcomings are indicated for a large proportion of supervised entities, the preparation and publication of a CNB interpretation regarding a specific duty imposed by legislation, or, as the case may be, a clarification or tightening of legal provisions, are initiated.

3.4.1 Supervision of credit and payment institutions

Supervision of credit institutions involves supervision of banks, foreign bank branches, building societies and credit unions. The main analytical instrument employed in off-site surveillance is regular comprehensive analyses of the financial condition of individual entities and the sector as a whole. An analysis of the credit institution sector is produced quarterly. The observance of prudential limits is monitored on a monthly basis for credit institutions.

Early warning information is assessed every month. This helps supervisors to identify potential negative tendencies in financial indicators. Branches of foreign banks from EU countries are assessed under a simpler regime.[12]

Ratings dividing banks and credit unions into five categories according to their risk profiles are regularly prepared for internal CNB supervisory purposes. Risk profiles are determined on the basis of a quantitative and qualitative assessment of credit institutions' exposures to individual types of risks and an evaluation of each institution's risk management system and internal control environment.

In 2012, CNB Banking Supervision obtained auditors' reports on control system areas in four banks and two credit unions as of 31 December 2011. For 2012, requests for such audits were made with regard to five banks and four credit unions.

Banking supervision was performed under the standard regime in 2012. Owing to persisting problems in the global economy, attention was devoted primarily to the quality of credit portfolios, provisioning, sufficiency of capital to cover potential losses, and banks' liquidity and overall performance. For selected entities, the extraordinary reporting duty was extended in 2012, the frequency of sending information about quick assets and intra-group exposures was increased from weekly to daily, and a duty to report data on the structure of deposits and other financial liabilities on a weekly basis was introduced. Extraordinary monitoring of the situation of building societies continued owing to changes in the conditions applying to building savings schemes.

In 2012, the CNB performed its regular half-yearly stress-testing of banks' loan portfolios. The stress-testing methodology is being refined on the basis of the experience gained since 2009. The two rounds of stress tests assessed banks' resilience to adverse economic developments using data as of 31 December 2011 and 30 June 2012. Nine selected banks which have received approval to use the special IRB approach[13] for calculating the capital requirement for credit risk, or which are in the process of IRB pre-validation by the CNB, took part in the testing. The aggregated results of the two rounds of stress tests confirmed the good resilience of domestic banks. In addition to these bottom-up tests, the CNB conducts quarterly stress tests of the banking sector (top-down tests). The results are regularly published on the CNB website.

12 Primary responsibility for supervision of foreign bank branches lies with home country supervisors. In the case of branches of foreign banks from EU Member States, the CNB monitors their liquidity and compliance with the obligations in the Act on Banks.
13 The Internal Ratings Based Approach – see Articles 90–101 of Decree No. 123/2007.

In 2012, CNB supervision of the credit union sector concentrated in particular on assessing the current situation and developments in individual credit unions and on resolving their regulatory problems, mainly with respect to specific risks undertaken by individual entities. Given the numerous shortcomings identified, supervision is focused mainly on credit portfolio categorisation, sufficiency of provisioning, financing of economically connected groups, compliance with regulatory limits and the origin of credit unions' capital. The CNB's decision to revoke the credit union licence of Unibon came into force in March 2012.

A total of 81 decisions were issued, relating to the assessment of the competence and integrity of proposed senior officers in banks, the approval of external auditors of banks and credit unions, the approval of the list of shareholders for the purposes of a bank's general meeting, consent to the inclusion of subordinated debt in Tier 2 capital and the approval of early repayment of subordinated debt.

Some systemic shortcomings were identified in professional care in the sector of credit and payment institutions consisting in non-compliance with some mandatory provisions of the Payment System Act.[14] Some banks had charged their clients fees for cancelling payment orders (single and standing orders and direct debits).[15] Mishandling of complaints about unauthorised payment transactions was identified in some banks. These banks had dealt initially with the legitimacy of the complaint and had returned the amount[16] to the payer only after assessing the legitimacy of the complaint without such action having been justified by a strong suspicion that the payer had acted fraudulently. The CNB ensured that the shortcomings were remedied in the banks where they had been identified and contacted the Czech Banking Association to ensure remedy across all its members.

3.4.2 Capital market supervision

In the capital market area, the CNB supervises investment firms, investment instrument markets, collective investment entities, pension funds and other entities operating in the capital market.

Fulfilment of the information duty and the disclosure duty were continuously assessed in the investment firm sector as part of off-site surveillance. The inspections covered compliance with exposure limits following the introduction of a stricter limit for exempting exposures to foreign financial institutions from the group (from 75% to 50%) on 1 July 2012, the calculation of capital adequacy and the calculation of contributions to the guarantee fund. Investment firms in which shortcomings were detected were called on to remedy the shortcomings and to adopt measures to prevent them recurring.

In the area of supplementary pension insurance, monitoring of pension funds' performance according to agreed prudential mechanism principles continued into 2012. This helped to maintain the financial stability of pension funds. CNB off-site supervisors worked with the Licensing Division to assess applications for pension management company licences and authorisations to operate supplementary pension insurance via a transformed (pension) fund.

Submissions made by the public revealed that the engagement of investment intermediaries in the provision of investment services relating to shares and investment certificates associated with receiving inadmissible incentives from investment firms was the main problem in the area of capital market service provision. The payment of bonuses derived from the volume of transactions carried out by clients to which an investment intermediary provides investment advice often leads to investment firms' interests being given preference over clients' interests. To increase their commissions, investment intermediaries to a greater or lesser extent commit unlawful conduct consisting in providing unclear, false or misleading information about potential profits from recommended transactions or about the profitability of recommendations provided to the client in the past. In most cases investment intermediaries conceal or suppress

14 Act No. 284/2009 Coll., on the Payment System, as amended.
15 This is in contradiction with Article 77(1) in conjunction with Article 106(1) and (4) of the Payment System Act.
16 This is in contradiction with Article 115(1) of the Payment System Act.

information about incentives received from investment firms. The above shortcomings in the activity of investment intermediaries give rise to distorted perceptions of the capital market among investors. Imposing fines or an obligation to adopt remedial measures or withdrawing the registration of investment intermediaries is not sufficient to deal effectively with this situation. Those responsible for the unlawful conduct of investment intermediaries can easily apply for a new registration. The law does not provide for any assessment of qualifying holdings and does not lay down any capital or other requirements to complicate the transfer of activities between entities. The existing legislation setting forth the rights and obligations of investment intermediaries and the supervisory powers of the CNB thus prevents capital market supervisors from achieving their main objective, namely to strengthen the confidence of investors and investment instrument issuers in the capital market. The CNB therefore intends to propose to the Ministry of Finance that legislative measures be adopted to limit unlawful conduct by investment intermediaries and regulatory arbitrage. Several options are possible, some of which may be applied simultaneously. One option is to completely abolish investment intermediaries[17] or to tighten the conditions for their registration so that they are comparable with those for the licensing of investment firms, whose scope of authorisation to provide investment services is comparable with that of investment intermediaries.[18] Another possibility is to narrow the scope of authorisation of investment intermediaries to the provision of investment services related, for example, exclusively to simple investment instruments or securities of collective investment funds.[19] Another measure that might prove useful would be to limit the set of entities to which investment intermediaries may transmit orders to entities resident in the Czech Republic that are authorised and obliged to inspect the activities of investment intermediaries with whom they collaborate in providing investment services.

3.4.3 Supervision of insurance companies and insurance intermediaries

Off-site surveillance of insurance companies is based on regular assessments of their financial condition and compliance with prudential rules, as well as the imposition of remedial measures. Economic and insurance technical indicators are assessed on the basis of regularly submitted reports. Insurance companies that belong to insurance groups are also subject to supplementary supervision of insurance companies in groups.

Changes in the financial situation of insurance companies are indicated primarily using an early warning system assessing the current trends in an insurance company's development at quarterly frequency and identifying potential weaknesses in its finances. Semi-annual assessments of the level of risk associated with insurance companies based on their financial condition, the significance of their risk exposures and the adequacy of their management and control processes were prepared for internal supervisory needs. Further analytical and supervisory activities were performed for systemically important or risky entities.

Information-gathering visits were carried out in the majority of insurance companies in 2012. These visits focused mainly on the current financial and business situation of insurance companies and their other plans and strategies. Insurance companies' preparations for the future Solvency II regulatory regime were also discussed.

In 2012, increased supervisory attention was paid to premium sufficiency in motor third party liability insurance and to sufficiency of the technical reserves of some insurance companies in this category. Supervisors also focused on "open fleets" in motor third party liability insurance, i.e. insurance policies under which multiple motor vehicles are insured and there is no insurable interest between the policy holder and the insured. Frequency of claims and profitability in insurance of open fleets, the manner of determining premiums, and insurance risk management procedures and processes were examined in the analyses of this insurance segment. Shortcomings identified in this area of insurance were communicated to the insurance companies concerned.

17 This is not a transposition issue – the MiFID 2 proposals further equalise the requirements for investment intermediaries and investment firms. In this event, existing investment intermediaries would, subject to compliance with the conditions stipulated by law, be converted into investment firms or tied agents of investment firms, which are tried-and-tested and easier-to-supervise forms of capital market undertaking.

18 See Article 8a(4) of the Capital Market Undertakings Act.

19 There is no reason for anyone except investment firms to offer services relating to leverage products, i.e. not only the main investment services for derivatives, but also intermediation of margin trading.

A third round of stress tests of selected insurance companies took place in April 2012. The tests are used to assess the stability of the insurance sector as a whole, and the individual results are used in supervisory work. In the stress tests, the effect of major changes in risk parameters on the value of the insurance company's assets and liabilities and on the available solvency margin and the required solvency margin were assessed at the one-year horizon in line with Solvency I principles. The tests confirmed that the sector as a whole has sufficient capital to withstand significant changes in selected risk factors. The next round of stress testing is scheduled for the first half of 2013.

Preparation for the future Solvency II regulation was a significant activity, especially in terms of methodological changes and appropriate revisions of supervisory procedures. Emphasis was placed on improving supervisors' knowledge of the principles and rules of Solvency II. Numerous insurance companies that are members of large insurance groups plan to determine their solvency capital requirement under the future Solvency II regime using internal group models. In 2012, in a preliminary assessment of internal models for the calculation of capital requirements, these models were inspected for individual risk modules in the insurance companies wishing to apply internal models.

Cooperation with foreign supervisory authorities – especially in the form of attendance of coordination meetings relating to the supervision of insurance companies in groups and attendance of evaluations of internal models at group level – was stepped up during 2012.

Some systemic shortcomings were identified in the professional care of insurance companies. The CNB recorded a several-fold increase in complaints about the conduct of the CIB[20] when enforcing contributions to the guarantee fund. Most of these complaints were evaluated as fully or at least partly justified. It should not be ignored that in many cases the Central Vehicle Register does not provide the CIB with up-to-date information for the CIB to use when enforcing contributions to the guarantee fund from owners of vehicles operated without mandatory vehicle liability insurance. In addition to shortcomings in the CIB's activities, it was found that insurance companies do not always properly fulfil the statutory duty to report to the CIB on the creation, suspension, amendment and expiration of vehicle liability insurance and losses and claims. In particular, the prescribed one-month time limit following the occurrence of a relevant event is not observed in all cases. The CNB called on insurance companies that offer the above-mentioned statutory insurance to eliminate the shortcomings identified.

In connection with the distribution of investment life insurance, it was confirmed that the insurance intermediaries sector is not functioning properly in the Czech Republic and cases of unlawful conduct are common. Owing to shortcomings in the Act on Insurance Intermediaries, if serious cases of unlawful conduct are identified the CNB may require such intermediaries to bring their activities into compliance with the said act and/or impose a fine, whose amount, however, must not jeopardise the insurance intermediaries' future existence. For this reason, it is impossible to perform effective supervision of the activities of insurance intermediaries (which numbered around 133,000 as of 31 December 2012). The problem of unlawful conduct by insurance intermediaries is exacerbated by insufficient checks of such intermediaries by insurance companies. Therefore, the CNB has opened an administrative proceeding with one insurance company and is preparing to start administrative proceedings with several others accused of insufficient management and control of their distribution networks. The CNB proposes legislative changes to the Ministry of Finance on an ongoing basis in order to enhance the tools for enforcing ethical principles in the insurance market. The CNB also works to enforce these principles in a less formal manner by influencing insurance companies through the Czech Insurance Association and by drawing the attention of individual insurance companies to systemic shortcomings in their activities and demanding information about remedial measures taken.

20 The Czech Insurers' Bureau, established in accordance with Article 18 of Act No. 168/1999 Coll., on vehicle liability insurance and on the amendment of some related acts, as amended.

3.4.4 Supplementary supervision of financial conglomerates

The CNB performs supplementary supervision of financial conglomerates under Act No. 377/2005 Coll. and Decree No. 347/2006 Coll. Supplementary supervision of financial conglomerates focuses on capital adequacy, intra-group transactions, risk concentrations, internal control systems and risk management systems. Entities active within financial conglomerates are subject to financial market supervision by various supervisory authorities, so a coordinator is appointed for the purposes of supplementary supervision based on criteria stipulated by law. The coordinator's role consists mainly in coordinating the collection and provision of significant information at financial conglomerate level, monitoring defined indicators and coordinating supervisory authorities' practices in the performance of supplementary supervision. In 2012, the CNB acted as a coordinator in one case. In the other cases, the role of coordinator was entrusted to foreign supervisory authorities, with which the CNB cooperates on an ongoing basis.

3.4.5 Supervision of other regulated entities

In accordance with the transposition of the payment services directive and the e-money directive, the CNB supervised payment institutions, electronic money institutions, small-scale payment service providers and small-scale electronic money issuers in 2012.

Supervision of these entities focuses mainly on monitoring compliance with the prudential rules and private law as laid down by the Payment System Act. The scope of supervision differs depending on the type of institution supervised. The supervisory remit is broadest for payment institutions and electronic money institutions.

Compliance with disclosure duties by the supervised entities is the main source of information for prudential supervision. Compliance with disclosure duties in the sector of non-bank payment service providers is specific in that the supervised entities report not only total data for all their activities, but also data for activities associated solely with payment services.[21] The data received still show shortcomings affecting their information value. Discrepancies are communicated with the supervised entities on an ongoing basis with the aim to remove them. This is done in compliance with the CNB's requirements.

3.5 ON-SITE EXAMINATIONS

The Czech National Bank performs financial market supervision that is based on "a forward-looking" system for assessing the risk profile and systemic importance of the supervised institutions. The current situation in the financial sector is also taken into account. On-site examination work follows an annually approved plan of activity based primarily on outputs from an internal analytical system for risk assessment of supervised institutions,[22] information obtained during off-site surveillance and on-site examinations, and, last but not least, on the requirements of foreign regulators. In addition to conducting examinations, supervisors are responsible for approving advanced methods for calculating capital requirements. Owing to the links between financial markets, cooperation with foreign regulators is being stepped up systematically.

3.5.1 On-site examinations in credit institutions

Both comprehensive and partial examinations were conducted in the credit institution sector in 2012.

A total of 15 examinations were commenced or conducted in banks in 2012. Two of these were comprehensive and the remainder were partial. One comprehensive examination commenced at the end of 2012 falls mostly within the first half of 2013 and is not taken into account in the table below.

21 An implementing requirement arising from Directive No. 2007/64/EC on payment services.
22 This system is based on quantitative and qualitative assessment criteria and also on the systemic importance of the supervised institutions.

One comprehensive examination and three partial examinations were conducted in credit unions in 2012.

Table A.XVII – Number of on-site examinations in credit institutions by type

	ICAAP	Credit risk	Market risks and liquidity risk	Operational risk	IS/IT risks	AML/CFT	Remuneration
Banks	2	3	2	2	4	6	5
Credit unions	1	1	1	1	1	4	0

Examinations of credit risk management

Three examinations in banks and one examination in a credit union were conducted in the area of credit risk management. One examination focused on a transfer of assets from the parent company to the bank and on the conditions of that transfer. The examination identified serious shortcomings in the process of assessment of the credit quality of the transferred assets, the pricing of those assets, the traceability of procedures and the decisions taken by approval bodies. The bank had failed to ensure that the relevant bodies had access to up-to-date and reliable information relating to all the risks of these transactions when taking decisions. The examination revealed frequent breaches of the bank's internal rules and regulations when approving the said transactions, the monitoring of claims and the revision of debtors. An administrative proceeding was opened against the bank on this matter.

The other examinations identified only less serious shortcomings relating, for example, to the valuation and records of collateral in the process of assessment of the balance-sheet value of claims.

The credit union examination revealed fundamental shortcomings in the credit union's activities. The system for measuring and monitoring credit risk was not commensurate with the size and nature of the credit union's portfolio, and the resulting credit risk was magnified by shortcomings in the documentation of transaction provision and monitoring processes. Shortcomings were found in the valuation and records of collateral, the assessment of risks stemming from links between entities and the settings of control mechanisms. Based on these findings[23] an administrative proceeding was opened with the credit union.

Examinations of management of market risks, liquidity risks and risks associated with trading on financial markets

In 2012, on-site examinations were also conducted focusing on evaluating the internal capital systems (ICAAP) being put in place by credit institutions under Pillar 2 of the Basel II framework. Two ICAAP examinations were carried out in banks. Shortcomings were identified in the verification of the assumptions used (especially the going concern assumption) and also partially in the method for setting internal capital requirements for some risks. The shortcomings identified did not jeopardise the ability of the examined banks to cover the internal capital requirements with available capital.

One ICAAP examination was carried out in a credit union. Significant shortcomings were identified in the area of organisational arrangements for risk management (fragmentation, non-segregation of conflicting duties), determination of the significance of risks and allocation of economic capital to some risks. The credit union was called on to submit a timetable of remedial measures specifying their material content.

Market risk management was examined in two banks as part of on-site examinations. Only insignificant shortcomings were identified regarding a documentation update and late performance of internal validation of advanced approaches and the settings of the methods applied. No material shortcomings were identified in the areas of liquidity risk management and preparations for the new European regulation, which were examined in two banks.

23 Also on the basis of findings regarding ICAAP, market risk management and liquidity risk management – see the next section.

Market and liquidity risk management was subject to one examination in the credit union sector. The major findings related to organisational arrangements, non-segregation of conflicting duties and inconsistent specification of responsibilities in regulations, shortcomings in market risk measurement methods, the setting and updating of limits, stress testing of market and liquidity risks and significant shortcomings in underlying analysis for medium-term liquidity risk management. The credit union was called on to submit a timetable of remedial measures specifying their material content.

Examinations of operational risk management, including IS/IT risks
Six examinations were conducted in the credit institution sector in 2012.

Two of them focused on operational risk management and information systems and information technology risk. One focused on the operational risk management system. In 2012, the CNB also conducted a specialised examination focusing on IS/IT risks abroad in an IT services provider for a financial group containing a bank operating in the Czech Republic. Two foreign supervisors participated in this examination together with the CNB. Two examinations focusing on selected areas of IT/IS risks were also conducted.

As regards operational risk, CNB supervision focuses on the risks of losses due to shortcomings in internal processes, the human factor, systems, external events and non-compliance with legal regulations. Verifying whether the causes of risks identified are assessed and whether effective measures are adopted to minimise their negative impact on banks was of key importance in this respect. Significant attention was paid to business continuity and outsourcing.

Checks of the risks associated with information systems and information technology were a significant component of examinations of operational risk in 2012. This is linked with the rising influence of this area on the overall risk profile of the institutions examined.

Both partial and systemic shortcomings were identified in the institutions examined. These shortcomings related mainly to the system for identifying, monitoring and assessing operational risk, collecting data on operational risk events, testing and updating contingency plans, managing risks associated with outsourcing, setting responsibilities and segregating conflicting duties, identifying and assessing risks associated with IT systems and ensuring secure access to information systems. The CNB invited the institutions examined to submit a timetable of remedial measures specifying their material content. It is monitoring the elimination of the shortcomings on an ongoing basis.

Anti-money laundering and combating the financing of terrorism (AML/CFT)
The CNB conducts AML/CFT examinations based on authorisation contained mainly in Act No. 253/2008 Coll., on Certain Measures against Money Laundering and Terrorist Financing. The CNB verifies the efficiency and effectiveness of the system implemented by the entity examined in order to prevent it from being used for money laundering and terrorist financing and also verifies the conditions created for detecting such conduct.

In 2012, ten AML/CFT examinations were conducted in banks and credit unions. Both systemic and partial shortcomings were identified. The main shortcomings detected related to the vetting of clients, the determination of risk factors, the application of procedures to risky clients, the application of the requirements of sanction legislation and the monitoring of transactions in the AML/CFT area. The CNB called on the institutions to submit a timetable of remedial measures specifying their material content. It is monitoring the elimination of the shortcomings on an ongoing basis.

The CNB continued to work with the Ministry of Finance's Financial and Analytical Unit. The CNB was involved in the evaluation being conducted by the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). In July 2012, the plenary meeting of MONEYVAL discussed and approved "A Progress Report" which reflected the measures taken on the basis of the above evaluation. Another round of the evaluation of progress made in the AML/CFT area in the Czech Republic will take place towards the end of 2013.

Principles and procedures of remuneration

One on-site examination and four on-site inspections were conducted in credit institutions in 2012, focusing on checking compliance with the regulatory rules and application of the remuneration principle in the context of risk, liquidity and capital adequacy management. Both partial and systemic shortcomings were identified, primarily in independent verification, identification of employees having a significant effect on the risk profile of institutions, the application of specific remuneration instruments for this group of employees, the application of multi-annual criteria and the part of the flexible component of pay in the non-monetary instruments of the parent company. The link between the flexible pay element and risk, liquidity and capital management characteristics was also inspected. The CNB called on the entity to submit a timetable of remedial measures specifying their material content. The elimination of the shortcomings identified is being monitored on an ongoing basis.

Control systems

Internal audit (IA) activities were examined in one bank in 2012. Very serious shortcomings were identified. The risk map and plans were purely formal documents creating no conditions for effective internal auditing. Between the establishment of the bank and the examination, no assurance audits of risk management and ICAAP systems had been performed, no systematic IS audit activities had been carried out and the audits performed had often been formal ones with wrong and misleading conclusions. The capacity of the unit was insufficient, and none of the auditors were sufficiently qualified to audit the most important areas of the bank's activities. Remedial measures were imposed on the bank in an administrative proceeding. Among other things, a change in the person of the IA department director was demanded.

Basel II implementation as regards advanced methods for determining capital requirements

Under the capital adequacy framework (Basel II) in the wording of EU Directives 2006/48/EC and 2006/49/EC as transposed into Decree No. 123/2007 Coll., banks are allowed to use advanced approaches based on mathematical models in order to calculate capital requirements. In 2012, the CNB's expert teams (for IRB, AMA and VaR) continued their consultations with all regulated institutions that had shown an interest in using the special approaches for the calculation of capital requirements for credit, operational and market risks under the Basel II rules. The teams communicated with foreign supervisors on an ongoing basis.

In 2012, discussions took place with two banks which had applied for consent to extend the IRB approach by means of a joint application from their parent bank. Four banks had applied for consent to change their IRB models. The discussions between the CNB and the banks focused on assessing the compliance of the banks' procedures with the relevant decree. All applications were approved with conditions attached. The IRB approach was subsequently verified as part of a standard on-site examination in the bank which already applies this approach.

In 2012, the CNB completed its assessment of an application for, and issued authorisation for, a change in an approved AMA approach. This change was linked with the possibility of taking insurance into account in the calculation of the capital requirement for operational risk. The CNB also commenced an examination of another entity in connection with its plan to extend the AMA approach to another member of a bank group. In 2012, the CNB continued to examine compliance with the conditions under which banks were allowed to switch to the AMA approach, verified the elimination of previously detected shortcomings and assessed refinements of operational risk management systems in banks applying this approach.

In addition to regularly monitoring approved internal VaR models, the CNB conducted a follow-up assessment of a VaR model and the changes made to it in previous periods in one bank as part of a comprehensive examination in 2012. One bank declared its intention to change the VaR model it uses. These changes will be validated in 2013.

3.5.2 On-site examinations in capital market institutions

In the area of private pension insurance, on-site examinations were completed in three pension funds in 2012. In two cases, the examinations focused on compliance with the obligation to manage pension fund assets with professional care, compliance with the rules of conduct of the pension fund and compliance with the prudential rules for pension funds. The findings regarded both breaches of the duty to act with professional care (inefficient use of funds, shortcomings in the execution of transactions under the best conditions, insufficient control of delegated persons) and shortcomings in the control system. In one case, the examination focused on verifying compliance with remedial measures in connection with previous communication with the CNB. The output of this examination was only a recommendation.

As regards investment service providers, eight on-site examinations were completed in 2012, of which six were in investment firms and two were in investment intermediaries, one of which operates on the multi-level marketing principle. All these inspections were comprehensive, focusing on verifying compliance with the rules laid down in legal regulations connected with the duty of investment firms to provide investment services with professional care and compliance with rules of conduct and professional care in the provision of investment services. In one case, the examination included verification of an internal initiative concerning a suspicion of churning[24] on client accounts. In this regard, two on-site examinations were commenced outside the plan of examinations in two investment intermediaries working with the investment firm in question, and ten investment intermediaries were called on to submit the required documents.

The most common shortcomings found were in the areas of the provision of information to clients, the obtaining of information about clients, compliance with the archiving duty, traceability of control processes, the control system and the transactions and orders book. Formal shortcomings, especially in the internal regulations of the entities examined, were identified in the examinations.

CNB branches also conduct examinations of investment intermediaries. The entities examined are smaller-scale ones (individuals and legal entities) whose activities are usually limited to the relevant region. In all, 21 examinations of investment intermediaries were completed in 2012. The most common breaches included shortcomings in the prudent provision of investment services and the provision of information to clients.

Based on the examinations conducted, the above-mentioned entities took remedial measures. Administrative proceedings were opened in more serious cases.

3.5.3 On-site examinations in insurance companies and insurance intermediaries

Six partial on-site examinations were carried out in insurance companies in the area of prudential supervision in 2012.

In connection with the results of the examinations, the entities were called on to submit a timetable of remedial measures specifying their material content. Less serious shortcomings were identified in loss adjustment and related to late registration and updating of RBNS reserves, early release of RBNS reserves, ineffective checks of payment instructions when revising and further processing payments of insurance claims, and failure to comply with statutory time limits for loss adjustment and also with internal regulations.

Shortcomings with a low to medium degree of seriousness were identified in the process of paying out life insurance (payments of insurance claims, refunds of insurance), especially in insufficient systemic support for ensuring segregation of conflicting duties (administration of insurance policies vs. loss adjustment) and for ensuring follow-up checks (payment authorisation), as well as in the management of rights of access to business systems (checks of logs, reassessments of whether assigned rights are justified).

24 Churning is an unlawful practice consisting in excessive trading by an investment firm on a client's account. The negative consequence for the client is that he pays a larger amount in commissions to the investment firm for transactions on his account, in interest on margin trading, in market fees and potentially in other fees. This practice increases the costs, risk and the probability of loss for the client.

In the underwriting of insurance risk, less serious shortcomings were identified in failure to set limits for concentration risk management. Insurance rates did not reflect debtors' credit risk and shortcomings were identified regarding the accumulation of conflicting duties (business activities vs. risk management).

As regards financial placement and financial risk management, shortcomings were identified in the investment process (especially where outsourced) and also in the system of financial risk measurement and management. Further shortcomings included the absence of a long-term strategy and independent continuous monitoring of the structure of financial placements, insufficient reporting and minor shortcomings increasing operational risk. The shortcomings identified were of low to moderate severity.

Problems were identified in the reporting of deferred acquisition costs for the purposes of annual financial statements in contravention of the accounting legislation and with a significant distorting effect on the insurance company's profit (overvaluation). Owing to the said shortcomings in the cost accrual calculation method, the statutory auditor of the insurance company was rejected by the CNB.

Partial shortcomings were identified during an on-site examination focusing on IT/IS risk management. These shortcomings related to incomplete and out-of-date regulations in respect of the procedures applied by the insurance company, incident management, checking of compliance with security principles, classification of assets and IT/IS risk analysis.

In 2012, on-site examinations were conducted in three insurance companies focusing on management and control of distribution networks, professional care when concluding policies with clients, registration and administration of policies, and handling of complaints and loss adjustment. The findings related mainly to insufficient control mechanisms when concluding policies and monitoring the quality of activities of distributors, and insufficient compliance and reputational risk management. Shortcomings were identified in professional care, with insufficient or misleading information having been provided to clients, and in the obtaining and assessment of information from clients. In one case, non-compliance with the duties under the Act on Insurance Intermediaries was identified, as agreements to complete a job had been concluded. Payments of commissions without legal title were also identified. In 2012, on-site examinations were conducted in two other insurance companies focusing on the above-mentioned areas.

In 2012, on-site examinations were conducted in two insurance intermediaries focusing on compliance with duties in insurance intermediation. In one case, the findings related mainly to insufficient control of the network of intermediaries, circumvention of the Act on Insurance Intermediaries in the registration area, insufficient determination of the client's needs and payments of commissions to subordinated insurance intermediaries without legal title. The findings of the examination in the other entity related mainly to shortcomings in professional care and fulfilment of information duties to clients.

CNB branches also conduct examinations in the area of insurance intermediation. A total of 67 examinations of investment intermediaries were completed in 2012. The most common findings included shortcomings in the duty to act with professional care, shortcomings regarding the extent and form of the provision of information to clients or potential clients and shortcomings relating to the notification of changes in data recorded in the register.

Based on the examinations, the above-mentioned entities took remedial measures. Administrative proceedings were opened in more serious cases.

3.5.4 On-site examinations in other regulated entities

One on-site examination was completed in a payment institution in 2012 focusing on the rules laid down by the Payment System Act and its implementing legal rules. The shortcomings identified related mainly to the provision of information to customers, risk management and compliance with the reporting duty.

CNB branches conduct on-site examinations of small-scale payment services providers and small-scale electronic money issuers. In 2012, 17 examinations were completed in small-scale payment services providers and three examinations in small-scale electronic money issuers. The most common findings included shortcomings in contractual documentation connected with the fulfilment of information duties to users.

The CNB also uses its branches to conduct on-site inspections in the foreign exchange area. The CNB carried out 156 on-site examinations and inspected a total of 216 establishments in the foreign exchange area in 2012. The most common foreign exchange offences included shortcomings in the area of informing clients about exchange rates and fees for services and shortcomings in compliance with the reporting duty.

Based on the examinations, the above-mentioned entities took remedial measures. Administrative proceedings were opened in more serious cases.

3.6 ENFORCEMENT[25]

In 2012, activity in the enforcement area consisted mainly in the investigation of petitions for the opening of administrative proceedings, decision-making on the opening of administrative proceedings or the deferral of cases, and the conduct of first-instance administrative proceedings, within which fines and remedial measures were imposed, licences revoked and registrations cancelled. In addition to the conduct of administrative proceedings with supervised entities, administrative proceedings with entities offering financial market services without authorisation are also conducted in those financial market sectors where the law enables penalties to be imposed for the carrying on of unauthorised business.

Table A. XVIII – Numbers of penalty administrative proceedings

Continuing from 2011	Opened in 2012	Concluded in 2012 (by final and conclusive ruling)	Continuing into 2013
50	127	120	57

Five penalty administrative proceedings were opened in the area of supervision of credit institutions in 2012. Eight decisions became final and conclusive (four decisions imposed remedial measures, two decisions discontinued the administrative proceeding, one decision revoked the licence of UNIBON – spořitelní a úvěrní družstvo, and one decision imposed a fine of CZK 100,000).

A total of 37 penalty or offence proceedings were opened in the capital market area in 2012. In all, 29 decisions became final and conclusive. Fines totalling CZK 17,465,000 were imposed.

In all, 47 administrative proceedings were opened in the area of supervision of the insurance industry in 2012. A total of 41 decisions became final and conclusive. A remedial measure was imposed on three insurance companies and one insurance intermediary, a procedural fine for non-cooperation was imposed on one director of an insurance

25 Statements of final decisions in the capital market area are published on the CNB website (*Supervision, regulation > Financial market supervision > Conduct of supervision > Final administrative decisions*). Sanctions imposed on insurance intermediaries are entered in the Register of Insurance Intermediaries.

intermediary and one insurance intermediary, the registration of 21 insurance intermediaries was withdrawn, in three cases a remedial measure was imposed and the activity of an insurance intermediary was suspended, in one case a fine and a remedial measure were imposed, in eight cases a fine was imposed and in two cases the administrative proceeding was discontinued. Fines totalling CZK 2,250,000 were imposed.

A total of 33 administrative proceedings were opened due to violation of foreign exchange regulations in 2012. The CNB issued final decisions in 34 cases – fines were imposed in all these cases. The fines amounted to CZK 2,787,000 in all.

Two administrative proceedings were opened in the consumer protection area in 2012, of which eight were completed by a final and conclusive ruling. A fine was imposed in three cases and the administrative proceeding was discontinued in five cases. The fines imposed amounted to CZK 8,700,000.

Three administrative proceedings were opened in the area of the payment system, but no decision became final and conclusive.

3.7 MONITORING OF FINANCIAL MARKET ENTITIES IN LIQUIDATION

The CNB monitors the process of liquidation of financial market entities on the basis of a statutory disclosure duty and information requested ad hoc. In 2012, the CNB conducted oral proceedings with liquidators, provided consultations and opinions on liquidation processes and provided information and documentation on the requests of courts and law enforcement agencies.

Table A.XIX – Numbers of financial market entities in liquidation

	As of 31 December 2011	Entries in 2012	Exits in 2012	As of 31 December 2012
Banks	3	0	0	3
Credit unions	23	1	8	16
Management companies	7	0	1	6
Investment funds	20	1	2	19
Mutual funds	3	1	1	3
Pension funds	0	0	0	0
Investment firms	0	0	0	0
Total	56	3	12	47

The number of financial market entities in liquidation, which are monitored by the CNB, declined by nine year on year. Eleven companies in liquidation ceased to be subject to financial market supervision by the CNB as a result of the completion of liquidation and the subsequent deletion of the company from the Companies Register, and one company ceased to be subject to supervision by the CNB because liquidation was terminated by payment of all shares in the assets of the mutual fund and by settlement of all claims and obligations of the mutual fund's unit holders. The credit union UNIBON - spořitelní a úvěrní družstvo "v likvidaci", the investment fund GLADIUS uzavřený investiční fond, a.s. v likvidaci and Allegro, an open-end mutual fund of Hanover Asset Management, investiční společnost, a.s., went into liquidation in 2012.

3.8 CENTRAL CREDIT REGISTER

The Central Credit Register (CCR) is an information system administered by the CNB since 2002 which enables banks and foreign bank branches operating in the Czech Republic (hereinafter referred to as banks) to exchange information on the credit commitments and payment discipline of businesses.

In 2012, the CCR's activity concentrated mainly on the CNB's involvement in international data exchange across the credit registers of EU countries. In the first quarter of 2012, communication tests with all connected countries were completed and a new international data exchange module was tested. In May 2012, live operation was launched. The first data exchanged related to the stock of claims as of the end of March 2012. The central credit registers of Germany, Austria, France, Italy, Spain, Portugal, Romania and the Czech Republic are currently involved in sharing data. The data received by the CCR from foreign registers contain information on Czech clients with loans abroad and on foreign clients with loans in the Czech Republic. A total of 1,826 clients were identified for data sharing.

In the second half of 2012, work in the CCR was focused on finalising technical adjustments to the international data exchange module and especially on converting data received into standard CCR outputs and on preparing to make the shared data accessible to users from banks and the CNB. At the same time, account statements for clients were complemented with information from abroad. The adjusted output module was put into operation on 1 March 2013.

Table A.XX – Main operational characteristics of the CCR

	31 Dec. 2009	31 Dec. 2010	31 Dec. 2011	31 Dec. 2012
Number of registered borrowers	497,726	539,540	576,583	609,503
of which: individual entrepreneurs	291,458	313,129	330,372	345,243
legal entities	206,268	226,411	246,211	264,260
Total loans outstanding (CZK billions)	1,200	1,219	1,290	1,328
Number of CCR users	2,245	2,362	2,569	2,767
Ad hoc enquiries about credit commitments (thousands/year)	205	213	215	184
Number of enquiries about client credit commitments in monthly reports (thousands per year)	3,038	3,640	3,198	3,843
Number of extracts made for clients (pieces per year)	453	492	514	490

A Task Force pilot project for credit registers took place in 2012. It focused on assessing the usability of data from credit registers and recommending areas in which harmonisation is necessary. As part of the project, anonymised data was transmitted from the individual registers to the ECB as specified in five-year time series with quarterly or monthly frequency. The project was assessed positively and the data from the credit registers were assessed as being useful and relevant to users from financial stability, economic research, monetary policy and statistics units.

A meeting of the ECB's Working Group on Credit Registers (WGCR) was held at the CNB in early October 2012. In addition to discussing its main agenda, the WGCR favourably assessed the incorporation of the Czech Republic and Romania into regular data sharing.

4. SUPERVISION OF COMPLIANCE WITH CONSUMER PROTECTION REGULATIONS

The consumer protection competences of the CNB are defined in Act No. 6/1993 Coll., on the Czech National Bank, as amended, and in Act No. 634/1992 Coll., the Consumer Protection Act, as amended, with effect from 12 February 2008. In this area, the CNB supervises entities carrying on activities in the Czech Republic under a licence, registration or other authorisation from the CNB. It oversees their compliance with the duties laid down in the Consumer Protection Act and in Act No. 40/1964 Coll., the Civil Code, for distance contracts for financial services, with the information duties (especially pre-contract information duties) stipulated in Act No. 284/2009 Coll., the Payment System Act, and with the obligations set forth in Act No. 145/2010 Coll., on Consumer Credit.

4.1 SUMMARY OF CONSUMERS' COMPLAINTS

The CNB received 1,177 consumer complaints in the consumer protection area in 2012. The largest number of complaints pertained to insurance product providers. These complaints outnumbered complaints concerning credit institutions by almost two to one. The number of complaints in the capital market segment remained low.

A total of 543 complaints – representing almost one half of all the complaints received – concerned the insurance sector. The largest number of these related to insufficient provision of information on products offered and on product costs. Many of these complaints had been submitted at least two years after the execution of the insurance contract, with consumers requesting that the contract be annulled immediately due to insufficient information provided by the intermediary. This fact is associated with the well-known phenomenon where insurance products are confused with savings products that allow clients to withdraw their savings after two years. As regards complaints involving rejections of insurance claims, the CNB assessed whether insurance companies unnecessarily ask consumers who assert their rights under insurance contracts to present documents which cannot be deemed reasonable for assessing the justifiability of such claims. In the area of non-life insurance, the CNB assessed, among other things, complaints about refusals to terminate motor third party liability insurance where the grounds for termination were higher insurance premiums for the upcoming insurance period. In such a situation the consumer is entitled by law to notify the insurance company of his disagreement with the proposed changes and withdraw from the policy. The CNB dealt mainly with issues concerning compliance with time limits and provision of proper information by the insurer so that the consumer has all the relevant information when deciding on whether to continue a policy.

A total of 317 complaints relating to credit institutions were received. These pertained to all banking products. The complaints regarding terms and conditions involved contract changes associated with insufficient provision of information. In the area of fees, the complaints pertained to unjustified charging of fees. Insufficient information about the offering and selling of payment cards was predominant in the payment system area. A rising number of complaints related to the specific conduct of credit institutions' employees who use misleading practices consisting in providing insufficient or inaccurate information to the consumer in order to sell as many high-commission products as possible. Such conduct was recorded in the case of agents of building societies, who provided insufficient information on the fees charged for services rendered and failed to evaluate whether the client's financial situation was commensurate with the building savings target amount, from which the fee paid by the client and the commission received by the agent are derived.

A total of 39 consumer complaints were investigated in the capital market area in 2012. These most often related to shortcomings in the administration of entrusted funds and in information provided about the risks associated with products offered. Consumers complained about the provision of false information in trading and a lack of professional care pursuant to the Consumer Protection Act. Most cases were closed by a written explanation. The rules and risks in trading in investment instruments were explained to consumers, the possibilities of obtaining information via electronic channels were emphasised and the issues of trading in leveraged certificates and the possibility of their hedging were explained.

A total of 111 complaints concerning non-bank foreign exchange entities were received. Such complaints are investigated and dealt with by branch employees depending on the region in which companies carrying on bureau-de-change activities operate. As in the previous period, the complaints related to shortcomings in information provided by the foreign exchange entity before the exchange and the foreign exchange entity's refusal to deal with requests for immediate cancellation of the exchange and return of the money exchanged. This problem is being dealt with on a long-term basis. In 2012, administrative proceedings were conducted with several supervised entities. These resulted in the imposition of sanctions.

In addition, 149 complaints that cannot be regarded as complaints against specific entities were received. This category includes enquiries or requests for expert opinions submitted to the CNB by consumers, consumer organisations and law firms (in the area of consumer credit). As part of its consumer-oriented approach, the CNB endeavours to answer these requests and, where possible, recommend how to proceed in resolving the consumer's problem. The CNB also recorded an increased number of requests by consumers for information on whether an entity is authorised or licensed to provide financial services, whether it is covered by deposit insurance and whether it is subject to CNB supervision.

A total of 18 complaints pertaining to the activities of non-bank consumer credit providers were received. The CNB investigated only those cases where consumer credit had been provided in connection with a payment service, in particular credit card loans. The other complaints were referred to the Czech Trade Inspectorate as the competent supervisory authority.

4.2 LEGAL AND METHODOLOGICAL ACTIVITIES

An important piece of domestic legislation for the CNB's work was an amendment to the Consumer Credit Act, which the CNB actively commented upon. In particular, the amendment transposes Directive 2011/90/EU, which lays down additional provisions for the calculation of the annual percentage rate of charge, regulates consumer credit agreements, prohibits the use of bills of exchange, promissory notes or cheques to repay consumer credit or secure its repayment, and fully covers the duties under the Consumer Credit Act with corresponding administrative offences. The comments were accepted and incorporated into the draft amendment.

The CNB dealt with an increased number of enquiries about the justification of charging fees for maintaining credit accounts following a media campaign in this area and following a decision by the German Federal Court of Justice that charging a fee for a service which offers no benefit to the consumer is in conflict with good morals. The CNB has no legal power to regulate the types and amounts of bank fees, as these are the subject of private law contracts, and the well-developed competitive environment on the domestic market should ensure some degree of self-regulation in this area. However, the Czech Civil Code also declares that the execution of rights and obligations resulting from private law relationships must not be in conflict with good morals and consumer contracts must not contain provisions which – in contradiction with the requirements of good faith – give rise to significant imbalances between the rights and obligation of the parties to the detriment of the consumer. However, it is down to the courts, and not the CNB, to make decisions in this area.

In the area of European legislation, the CNB continued to comment on the draft directive of the European Parliament and of the Council on credit agreements relating to residential property. The first version of this directive, introduced by the Commission in March 2011, was significantly reworked as a result of extensive comments made by Member States, so the CNB worked with several consecutive compromise proposals. Also important from the perspective of consumer protection are the Insurance Mediation Directive (IMD 2) and the PRIPs regulation, as well as the directive on alternative dispute resolution systems (ADR) and the regulation on on-line resolution of consumer disputes. The CNB is monitoring these proposals and the Czech Republic is commenting on general positions for the negotiations.

In 2012 CNB representatives continued to give lectures at Universities of the Third Age. A cycle of lectures "The Financial Market and Us" took place at the university in Děčín in partnership with the Ústí nad Labem branch.

5. INTERNATIONAL COOPERATION

5.1 NEW FINANCIAL MARKET SUPERVISORY SET-UP IN THE EU

The rising number of European Commission legislative proposals caused the workload of the European Supervisory Authorities (ESAs) – the EBA, the ESMA and the EIOPA – and the European Systemic Risk Board (ESRB) to increase significantly in 2012. Owing to the debt and banking crisis in some euro area countries, a fundamental decision was made to start work on institutional and structural changes in EU banking supervision. In the second half of 2012, the Commission submitted proposals for the creation of a Single Supervisory Mechanism (SSM), specifically a draft regulation under which some macroprudential supervisory powers would be delegated to the European Central Bank and a related proposal to amend the EBA regulation. At the end of 2012, EU ministers of finance agreed on the final wording of both regulations, then the proposals were submitted to the European Parliament and trialogue negotiations subsequently took place between the Council, the European Parliament and the Commission. Throughout the negotiations, the CNB campaigned to maintain an arrangement that would allow national authorities to keep key powers to fulfil their objective of maintaining the stability of the financial system as a whole. Among other things, a two-chamber voting system in the EBA board of supervisory authorities was proposed. This would prevent the automatic outvoting of members of EBA bodies from countries outside the banking union, as had been implied by the Commission's original proposal. This fairer voting system was eventually pushed through in the Council. The CNB promoted its proposals by actively participating in meetings of the ESRB and the ESAs, working closely with the Ministry of Finance in EU policy committees and cooperating with the supervisory authorities of EU Member States. The Czech Republic managed to achieve many partial successes in promoting its standpoints.

5.2 COOPERATION WITHIN EUROPEAN SUPERVISORY AUTHORITIES

European Banking Authority (EBA)

CNB representatives were actively involved in the EBA's activities in 2012. The CNB was represented and actively involved at the level of the Board of Supervisors, standing committees and working groups. In the first half of 2012, the CNB also had a representative in the EBA's Management Board. A CNB representative acted as Chairman of the Standing Committee on Regulation and Policy.

In the area of regulation, attention was paid mainly to the draft regulation and recast directive on capital requirements (CRD IV/CRR). In 2012, the EBA published six approved guidelines regarding procedures to be followed by supervisory authorities and financial institutions. These included two guidelines concerning the setting of capital requirements on the basis of VaR, as well as guidelines on setting capital requirements on the basis of advanced AMA approaches to operational risk, additional capital requirements for default risk and migration of external or internal ratings, on collection of data on remuneration practices, on collection of data by supervisory authorities on persons with high income and on the assessment of the suitability of members of the management body and key function holders. The EBA prepared and published for consultation a number of binding technical standards, especially in the areas of equity, accounting and supervisory reporting. The CNB contributed with comments and proposals to the creation of all the guidelines, recommendations and binding technical standards (e.g. the proposal for a binding technical standard on reporting on large exposures and a binding technical standard stipulating the calculation of specific and general valuations of credit risk).

In connection with the preparation of the framework for the recovery and resolution of credit institutions and investment firms, the EBA drafted a reply to the Commission's public consultation on bail-in.[26] The EBA launched the preparation of a recommendation that should become the basis for an exercise to prepare recovery plans conducted by major European banking groups in the EU in 2013. Among other things, the CNB rejected the exclusion of short-term claims

26 A measure proposed as a crisis management instrument consisting in a write-down of a financial institution's liabilities or conversion of liabilities to equity.

from the bail-in regime and the application of a minimum volume of liabilities in the bail-in regime at the consolidated level. The CNB requested that future recommendations for the preparation of EBA recovery plans be addressed not to the consolidating supervisory authority, but to supervisory colleges, and that group recovery plans be founded on the recovery plans of the individual financial group members.

In 2012 the EBA continued to monitor and evaluate a recapitalisation exercise under which it stipulated – in the form of a recommendation of December 2011 – an obligation for selected banking groups to reach a Tier 1 capital adequacy ratio of 9% by end-June 2012. The CNB supported the EBA's intention to maintain stricter capital requirements and advocated the issuance of a new recommendation which will lay down the obligation of selected banking groups to maintain Tier 1 capital adequacy at this level.

In connection with the CRR regulation under preparation, the EBA drew up an opinion requiring harmonisation of the calculation of transitional floors, which should prevent capital requirements from decreasing below a certain level. In particular, the CNB rejected the plan that the EBA should present an opinion requiring harmonisation of the capital requirement floors under Basel I.

In response to the revelation that the LIBOR and EURIBOR reference rates had been manipulated, the EBA and the ESMA prepared an analysis of benchmarks-setting processes and proposed specific recommendations for national supervisors and Euribor-EBF.

European Securities and Markets Authority (ESMA)
CNB representatives were involved in ESMA's activities at the level of the Board of Supervisors, standing committees and groups and actively contributed to ESMA's outputs.

The CNB participated in the preparation of draft implementing measures for the proposed MiFID 2/MiFIR, in areas covering, among other things, organisational requirements for trading venues, the pre- and post-trade transparency regime for transactions in investment instruments and disclosure of data. The CNB participated in a questionnaire survey focusing on measures taken by regulated markets to manage volatility, the fee structure of regulated markets, the setting of the tick value and the placing of computer servers in organised markets.

The CNB monitored the preparations for the launch of the short position reporting regime according to the regulation on short selling and certain aspects of credit default swaps (hereinafter the regulation), which took effect on 1 November 2012. It also contributed to the preparation of the methodology of calculation of short positions in government bonds, guidelines and recommendations on the exemption of certain entities (market makers and primary dealers) from the regulation (i.e. from the obligation to report short positions), a recommendation for the Commission on delegated acts relating to the regulation, which among other things discusses exemptions from the regulation, a definition of share and bond holdings and the method of calculation of a net short position.

The CNB participated in the preparation of an ESMA joint declaration concerning common European priorities for the enforcement of IFRS in financial statements of quoted issuers for the accounting year 2012 and an ESMA report on the recognition of impairment losses on goodwill and other intangible assets in financial statements for 2011.

The CNB was also involved in the preparation of recommendations for the Commission on future delegated acts relating to the directive on the prospectus (the second recommendation mainly included proposals concerning the essential elements of the prospectus for cascade offers and the third recommendation dealt with the essential elements of the prospectus of a convertible bond).

In addition, the CNB contributed to documents implementing the EMIR regulation. This included a proposal of regulatory and implementing technical standards governing the conditions under which OTC derivatives may be obligatorily settled through central counterparties, exemptions for non-financial institutions, prudential and capital requirements for the activities of central counterparties (CCP) and trade repositories, and a proposal of guidelines and recommendations on the introduction of unified and effective assessment of agreements on interlinkages between systems operated by central counterparties.

The CNB was also involved in the preparation of guidelines on compliance in investment firms and on suitability tests[27] under MiFID. A CNB representative participated in a working team which continued the preparation of guidelines on remuneration of sales force staff of investment firms which provide investment services to retail clients.

The CNB contributed to the preparation of guidelines proposing a model text of a memorandum of understanding between EU supervisory authorities and third-country supervisors under the AIFMD, draft regulatory technical standards defining the types of managers of alternative investment funds (AIF) and draft guidelines on remuneration under the AIFMD.

The CNB monitored the creation of draft ESMA guidelines and recommendations on the extent of application of the regulation on credit rating agencies and a recommendation for the Commission on its decision on equivalence of the legal frameworks of the USA, Canada and Australia in the area of supervision of credit rating agencies.

European Insurance and Occupational Pensions Authority (EIOPA)

In 2012, CNB representatives were actively involved in EIOPA's activities, both at the level of the Board of Supervisors and within standing committees and working groups.

The implementation of Solvency II remained EIOPA's key task in 2012. According to the latest information, a further postponement of its date of effect, probably to 2016 or 2017, can be expected in the first half of 2013. In December 2012, EIOPA approved a procedure leading to partial application of Solvency II from 1 January 2014 by means of special guidelines and recommendations especially in the areas of reporting and the internal control system, with an emphasis on the risk management system. The CNB did not support this procedure, as it believes that a combination of the current and new regulatory frameworks is unsuitable for both legal and material reasons.

In the context of the implementation of Solvency II, the CNB participated in the preparation of third-level regulations relating in particular to the solvency and minimum capital requirements, technical provisions, internal models and internal control system requirements. It contributed to guidelines and recommendations on the process of inspection by the supervisory authority, an increase in the capital requirement by the supervisory authority, and external auditing.

During discussions on IT architecture, the CNB proposed that EIOPA should work with all data at a higher level of security to prevent risks arising in connection with the sending of data from national supervisors to EIOPA. It was decided that the EIOPA would adjust its data security to the highest level used by national supervisors. The CNB supported the standpoint that the EIOPA should use individual data collection only as a measure for extraordinary situations and on the basis of a justified request.

As part of EIOPA's activities, the CNB also contributed to guidelines and recommendations focusing on dealing with complaints by insurance companies and a report containing best practices in this area. It also participated in the preparation of a methodology for identifying consumer trends and a survey aiming to map the number and quality of web applications for comparing insurance products in individual EU Member States.

Joint Committee of European Supervisory Authorities (JC)

The CNB was involved in the activities of working groups of the Joint Committee of the European Supervisory Authorities in 2012. The Committee is a forum for cooperation between the EBA, ESMA and EIOPA.

The activities of the Joint Committee focused on the preparation of a binding technical standard on consolidation methods to determine capital adequacy at the financial conglomerate level under the FICOD[28] and replies to a call for advice by the Commission regarding the assessment of the Financial Conglomerates Directive. The CNB was actively involved in the drafting of a report on requirements in the area of anti-money laundering measures and supervision of

27 Tests verifying the suitability of an investment service for the client. A suitability test pertains to investment advice and client asset management and is used by the investment firm to evaluate the (a) knowledge, (b) experience, (c) financial situation and (d) investment objectives of the client.

28 Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate.

electronic money issuers and their sales representatives and distributors. As part of activities connected with consumer protection on the financial market, implementing legal rules linked with the PRIPs regulation and proposals of binding technical standards for the approval of products in financial institutions were under preparation.

5.3 COOPERATION WITHIN EUROPEAN SYSTEMIC RISK BOARD (ESRB) STRUCTURES

CNB representatives were actively involved in the activities of the European Systemic Risk Board at the level of both the General Council and the Advisory Technical Committee (ATC) and its standing substructures – the Analysis Working Group (AWG) and the Instruments Working Group (IWG).

In line with the ESRB's mandate and tasks, the key areas of activity were the assessment and analysis of the primary sources of systemic risk and financial vulnerability in the EU and the preparation and implementation of macroprudential policy in the EU. The ESRB discussed proposals for countercyclical capital buffers and other aspects of macroprudential policy contained in CRD IV/CRR. It formulated its positions in March 2012 in an ESRB letter to EU institutions, which the CNB supported, advocating the possibility of flexibility for macroprudential policy at the national level. The ESRB General Board also discussed the issue of forbearance of problem loans (adjusting and relaxing the credit conditions for existing claims). With regard to some regulatory proposals, the CNB warned against the risk of prioritising group interests over the interests of a specific business entity/subsidiary (intra-group support). Other topics included macroprudential aspects of the reform of interbank reference rates, drawn up in the context of the manipulation of the LIBOR, and the macroprudential implications of the banking union. ESRB recommendations on bank financing and money market funds were approved. They will be implemented in 2013–2015. The Czech Republic will apply the principle of proportionality (this issue is not important in the Czech Republic and the recommendations have no systemic effects).

In 2012, the ESRB started preparatory work on a planned revision of the regulations on the ESRB (Regulation (EU) No 1092/2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board and Regulation (EU) No 1096/2012 conferring specific tasks upon the European Central Bank concerning the functioning of the European Systemic Risk Board). Pursuant to the regulations, the revision should be performed by 17 December 2013, with the Parliament and the Council determining what, if any, amendments are necessary on the basis of a report by the Commission and the opinions of the ECB and the European Supervisory Authorities. A high-level group (comprising the ATC Chair, the ASC Chair and the ECB Vice-President) was set up for this purpose within the ESRB. The CNB has carefully monitored this issue from the beginning, especially with regard to the impact on the ESRB of the Single Supervisory Mechanism, in which the ECB will play a pivotal role.

In 2012, the ESRB started to use some regular communication tools. These mainly included ESRB macroprudential commentaries (the first four commentaries issued in 2012 concerned the organisation and functioning of the ESRB, the macroprudential mandate of national authorities, foreign currency lending and systemic risk connected with the offering and marketing of complex products to retail investors by banks). ESRB dashboards are another communication tool. They consist of a set of charts showing macroeconomic and systemic risk indicators. During discussions on these products, the CNB actively influenced their form.

In June and December 2012 the CNB fulfilled its reporting duty stemming from the following ESRB recommendations issued in 2011:

(i) on lending in foreign currencies (ESRB/2011/1);
(ii) on US dollar denominated funding of credit institutions (ESRB/2011/2);
(iii) on the macroprudential mandate of national authorities (ESRB/2011/3).

The requested data were transmitted, and the ESRB's assessment of the degree of implementation in the Czech Republic was favourable.

5.4 COOPERATION WITHIN EUROPEAN CENTRAL BANK (ECB) STRUCTURES

Financial Stability Committee (FSC)

The FSC was active for the second year with the primary aim of assisting ECB bodies in fulfilling their mandate in the area of supervision of financial institutions and maintaining EU financial sector stability. The FSC commented on the ECB's Financial Stability Review. In 2012, it discussed the Commission's positions on shadow banking and the inclusion of deposit insurance in the bail-in process.

CNB representatives are actively involved in the following groups in the FSC. The Crisis Management and Resolution Working Group submitted a case study to the FSC dealing with adjustments in the financing of the consequences of the financial crisis. In 2012, the activities of the Working Group on Credit Registers focused mainly on the launch of data sharing with the Czech Republic and Romania. Multilateral tests were conducted during the preparations, and regular data exchange was launched in mid-2012. In 2012, the CNB became involved in the work of the Task Force on Credit Registers (TFCR). This task force aims to analyse the consistency of data in central credit registers in the EU and formulate recommendations for their future convergence and harmonisation at both the material and legislative level.

The activities of the Joint Expert Group on Reconciliation of Credit Institutions' Statistical and Supervisory Reporting Requirements (JEGR) followed up on the previous results of the group's work, focusing on a new concept for the formulation of variables in banking system structures needed to meet the requirements for external reporting.

Payment and Settlement Systems Committee (PSSC)

In 2012, the activities of the PSSC in its extended composition, where the CNB is represented, consisted mainly in discussing SEPA (Single Euro Payment Area), general payment system issues, supervision of payment and settlement systems, and the development of the TARGET system. The Committee monitors progress in the implementation of the SEPA project and draws up progress reports. As regards the development of TARGET, the link to the planned T2S (TARGET2-Securities) settlement system is the main focus of work. The PSSC makes active comments on proposals for changes in EU payment system legislation (suggestions regarding the planned amendment to the Payment Services Directive, and a document on innovative payments). The PSSC has standing working groups on Payment Systems Policy, Oversight and TARGET2, in which the CNB also has representatives.

5.5 COOPERATION WITH THE EU COUNCIL AND ITS STRUCTURES

ECOFIN, Economic and Financial Committee (EFC), Financial Services Committee (FSC)

The CNB was involved in the preparations for the ECOFIN Council meeting already as part of the preparations for the meetings of lower working bodies. It made proposals for changes and additions to the instructions for meetings of working groups (on indirect taxation, EU's own resources, FTT) and also for COREPER II meetings. The CNB also prepared opinions for the representatives of the Czech Republic attending EFC and FSC meetings. The CNB proposed that the mandate of the Ministry of Finance for ECOFIN meetings be extended.

The creation of the banking union was the key topic discussed in the ECOFIN Council. From the start, the CNB warned against possible risks to the Czech banking sector and requested adequate safeguards to eliminate or minimise those risks. The priorities for the CNB were to maintain the stability of the Czech banking sector, to defend the independence and powers of the CNB, to reject obligatory participation in cost- and resource-sharing for the recovery and resolution of banks in the EU, to preserve the integrity of the internal market and to achieve balanced voting procedures in the EBA. The position of the Czech Republic on the Single Supervisory Mechanism in the euro area focused on the requirement that the responsibilities and powers of national supervisory authorities be respected, especially as regards the protection of financial stability in the context of a possible change of legal form of a financial institution from a subsidiary to a branch.

During discussions on the proposal for a directive on recovery and resolution of credit institutions and investment firms (BRRD) in the relevant working group, the CNB preferred to reject the entire proposal in view of the potential limitation of the CNB's crisis prevention and resolution powers, the prioritisation of the interests of financial groups over the public interests of individual countries, the obligation to share national funds to finance resolution, etc. The CNB called for the replacement of this legislative proposal with a set of acceptable measures or for its adoption only by a narrower group of Member States, with the CNB opting out.

During discussions at the FSC and EFC level on the Liikanen Report, which introduces plans to reform the banking system so as to separate traditional banking activities, i.e. deposits and loans, from risky investment banking, the CNB suggested that the measures already adopted and proposed in the EU should be implemented and evaluated first, and only then should any further reform proposals be submitted.

MONEYVAL Committee

The Mutual Evaluation Report (MER) on the Republic of Lithuania was discussed at the 40th plenary meeting of the Moneyval Committee of the Council of Europe, which took place in Strasbourg in December 2012. A CNB representative prepared the evaluation of the financial part. The CNB representative also informed the plenary meeting of the MONEYVAL Committee about the interim results of the working team set up within the CNB Licensing and Enforcement Department to strengthen AML/CFT supervision on the capital market. In 2012, the team carried out AML/CFT examinations in two management companies and one investment firm.

5.6 COOPERATION WITHIN OTHER INTERNATIONAL ORGANISATIONS AND ASSOCIATIONS

Committee on Financial Markets (CFM) – OECD

In April and October 2012, the CNB participated in the meetings of the OECD Committee on Financial Markets. The Committee approved global standards for financial education and a plan of activities for 2013 and 2014. It paid great attention to recent developments on global financial markets and discussions with industry representatives, who emphasised that the EU had responded to the financial market situation in a delayed and insufficient manner and it was not until the ECB intervened that the markets calmed. On the basis of an analysis of financial market developments, the CFM agreed at its October meeting that the debt and banking crisis in the euro area poses a great threat to the functioning and stability of the global financial system. The CFM exchanged views with representatives of large internationally active banks regarding the regulatory structural reform of the banking system proposed in the USA, the UK and the EU. Bank representatives disagreed with the reform, stating that it was unnecessary and ill-timed and that it would limit banks' resources for lending to the real economy. The CFM also acquainted itself with an OECD international comparative study on factors increasing the probability of bankruptcy of systemically important banks. These include excessive use of leverage,[29] a high share of funds from the interbank and capital markets and high bank exposures in derivatives. The main item on the organisational and policy agenda was the approval of the postponement of negotiations between the CFM and the Russian Federation on OECD accession. The CNB used the conclusions of the CFM meetings when preparing its European agenda connected with financial market supervision and in its analytical activities.

Basel Committee on Banking Supervision (BCBS) – BCG

The CNB was represented at the BCBS in the BCG (Basel Consultative Group), which maintains contacts with BCBS non-member countries. In 2012, the BCG mainly discussed liquidity, systemically important banks, supervisory colleges, the impacts of international regulatory standards on emerging markets and the possibility of actively contributing to the application of simpler regulatory methods given the generally increasing complexity of regulatory rules.

29 The ratio of debt to equity.

International Organisation of Pension Supervisors (IOPS)
As part of cooperation with the IOPS, the CNB provided opinions on draft instructions in the areas of governance of pension scheme supervisory authorities, the use of risk-oriented supervision, supervision of pension intermediaries and supervision of default funds,[30] and contributed to the updating of a study of the costs and charges of pension funds. The CNB also prepared a questionnaire for the IOPS on the application of FSB principles and provided an opinion on a draft IOPS report on pension fund stress tests.

International Organization of Securities Commissions (IOSCO)
In 2012, the CNB was actively involved in IOSCO's work on surveys focusing on the mapping of national regulatory and supervisory measures, the use of the IFRS at national level, the use of the Multilateral Memorandum of Understanding (MMoU) in practice, investor education in practice and also, for example, the new organisational structure of the IOSCO, which entails greater involvement of representatives of the emerging markets groups in IOSCO's regulatory activities.

5.7 COOPERATION WITH PARTNER SUPERVISORY AUTHORITIES

As regards cooperation with partner supervisory authorities, the CNB signed agreements within the supervisory colleges for the Raiffeisen Bausparkasse and LBBW banking groups in 2012. The CNB also became a signatory of the regional Memorandum of Understanding on Cross-Border Financial Stability covering the groups of Erste Group Bank, Raiffeisen Bank, Ősterreichische Volksbanken and Hypo-Alpe Adria-Bank.

In addition, the CNB attended several meetings of supervisory colleges for insurance groups, which focused above all on discussing the process of preliminary assessment and approval of internal models for the calculation of the capital requirement under Solvency II and providing information on the financial situation of insurance groups and individual group members.

In the capital market, the CNB continued to work in partnership with other supervisory authorities on the basis of IOSCO and ESMA (CESR) multilateral memoranda of understanding.

The CNB also worked closely with financial market supervisors from Central and Eastern Europe. This cooperation involved exchange of information and coordination, as well as the exchange and formulation of opinions of national supervisory authorities from the region on certain European regulatory issues, e.g. CRD IV/CRR, Solvency II, BRRD and the banking union, especially from the perspective of host supervisors performing supervision of subsidiaries of foreign financial groups. At these meetings, the CNB warned of risks associated with the potential conversion of subsidiary banks into foreign branches and proposed possible solutions aimed at mitigating these risks.

30 Default funds are pension funds in which contributors are automatically included if they fail to make an active withdrawal.

PART B
THE FINANCIAL MARKET IN 2012

1. THE ECONOMIC ENVIRONMENT IN 2012[31]

In 2012, the Czech economy went through a recession, which intensified slightly as the year progressed. A contraction in real GDP of 1.2% was recorded for the year as a whole. The unfavourable economic situation was mainly due to falling domestic demand of households for goods and services for final consumption and of investors for fixed capital. The decline in domestic demand was due among other things to lower household expenditure, which was affected by falling average real wages and a rising saving rate. Foreign trade was the only component of demand to have a positive effect on GDP growth. Despite the rising surplus, however, even foreign trade was no longer able to offset the fall in domestic demand.

Inflation increased in 2012 compared to the previous year, to 3.3% on average. The rise in inflation was due mainly to a VAT increase introduced in January 2012, rising administered and food prices and higher global fuel prices. By contrast, core inflation remained negative, reflecting the anti-inflationary effect of the domestic economy.

The koruna depreciated overall against the euro and the dollar in 2012 compared to 2011. The average CZK/EUR exchange rate depreciated from 24.6 in 2011 to 25.1 in 2012. The average CZK/USD rate weakened as well, from 17.7 in 2011 to 19.6 in 2012.

The current account deficit decreased to 2.4% of GDP in 2012. In absolute terms it amounted to CZK 94.0 billion. The decrease in the current account deficit mainly reflected trade balance developments. As in previous years, the financial account showed a surplus in 2012. The surplus reached CZK 121.8 billion, up by CZK 62.4 billion on a year earlier.

At 8.6%, the average registered unemployment rate was basically unchanged from 2011. Growth in the average nominal wage in the national economy was modest in 2012, reaching 2.7%. The average real wage dropped by 0.6% for 2012 as a whole given the higher inflation rate. Aggregate labour productivity also saw a change in trend. It fell by 1.7% year on year in 2012, in contrast to the previous two years, when it had recorded growth.

Measures taken to reduce the public finance deficit led to a decrease in the structural deficit, but the general government deficit under ESA95 methodology increased to CZK 167.9 billion (4.4% of GDP) due to one-off factors. As a result of this – and also due to the creation of a debt reserve of 1.8% of GDP – the government debt-to-GDP ratio increased again in 2012, reaching 45.8% at the year-end.

31 The data in this section are based on CZSO data available as of 22 April 2013.

The Czech National Bank responded to current and forecasted economic developments by lowering its key interest rates three times during 2012. The two-week repo rate fell from 0.75% to 0.05%, the discount rate from 0.25% to 0.05% and the Lombard rate from 1.75% to 0.25%.

2. CREDIT INSTITUTION SECTORS

Data from the reporting statements submitted by banks for CNB supervisory purposes were used to prepare this Report. The information on the Czech banking sector consists of data on all banks and foreign bank branches operating in the Czech Republic, including data on the branches of these banks operating abroad. The Czech National Bank is not included in the data. This is expressly stated in the sections using data from monetary statistics reporting statements. For this reason, some values are not fully comparable with the data in other parts of this Report or in other CNB publications. For details see http://www.cnb.cz – Supervision – Aggregate information on the financial sector – Basic indicators of the financial market – Banks.

2.1 THE STRUCTURE OF THE BANKING SECTOR

As of 31 December 2012, the Czech banking sector consisted of 43 banks and foreign bank branches (hereinafter referred to as "banks"). No new banking licences were granted during the year and no bank closed down. The branch Royal Bank of Scotland plc, organizační složka was established and the branches Royal Bank of Scotland N.V. and Crédit Agricole Corporate and Investment Bank S.A. Prague, organizační složka closed down.[32]

The banking sector saw no major changes in structure. It consists of four large, eight medium-sized and six small banks and five building societies and 20 foreign bank branches.[33] The breakdown of banks into groups was unchanged in 2012. The group of four large banks[34] still has the dominant share of total banking sector assets (57.1%).

Since EU accession the Czech financial market has been part of the EU single financial market and has been open to other institutions, which may carry on business on this market and benefit from the free movement of services under the single licence without establishing a branch. A total of 329 banks from EU countries were thus able to

TABLE II.1

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

	2010	2011	2012
BANKS, TOTAL	41	44	43
of which:			
banks	17	18	18
foreign bank branches	19	21	20
building societies	5	5	5

TABLE II.2

Shares of bank groups in total assets
(in %, for banks with licences as of the given date)

	2010	2011	2012
BANKS, TOTAL	100.0	100.0	100.0
of which:			
large banks	58.0	57.2	57.1
medium-sized banks	13.1	19.0	20.6
small banks	6.4	1.6	2.5
foreign bank branches	11.4	11.5	9.4
building societies	11.2	10.6	10.4

32 Meinl Bank AG and Vanquis Bank Limited, which announced their intention to provide services in the Czech Republic through an organisational unit, have not yet been incorporated and are therefore not included in the total number of banks or in the assessment and analyses of banks for 2012. The medium-sized bank Volksbank CZ, a.s. has been operating under the name of Sberbank CZ, a.s. since 28 February 2013, and the branch Fortis Bank SA/NV, pobočka Česká republika changed into BNP Paribas Fortis SA/NV, pobočka Česká republika on 1 January 2013.

33 In 2012, the total assets necessary for inclusion in the groups of large and medium-sized banks were increased and some banks were transferred from the small to the medium-sized category due to an increase in their total assets. As from 2012, the breakdown of banks by total assets is as follows: large banks with total assets of more than CZK 250 billion, medium-sized banks with total assets of between CZK 50 billion and CZK 250 billion, and small banks with total assets of less than CZK 50 billion. The other two groups are foreign bank branches and building societies. For more details, see http://www.cnb.cz – Supervision, regulation – Aggregate information on the financial sector – Basic indicators of the financial market – Banks – Methodology.

34 At the end of 2012, the group of four large banks consisted of Česká spořitelna, ČSOB, Komerční banka and UniCredit Bank, for details see Part C – Annexes.

provide banking services in the Czech Republic as of 31 December 2012. Banks that may offer banking services without establishing a branch in the Czech Republic must – under the notification framework – inform the CNB in detail about the range of their activities, but they are not subject to a reporting duty and their operations in the domestic banking sector are not subject to CNB supervision and regulation.

As of the end of 2012, six domestic banks (Komerční banka since 2004, GE Money Bank since 2005, PPF banka and LBBW Bank since 2009, Česká exportní banka and Česká spořitelna since 2010) were operating in EU countries under the single licence without establishing a branch (i.e. were not carrying permanent economic activity). Foreign activities are not significant for these banks.

2.1.1 Ownership structure

The ownership structure of the Czech banking sector is stable. Foreign capital with a direct share (i.e. direct foreign shareholders holding shares directly) has long dominated the domestic banking sector's capital. This share increased slightly to 79.2% at the end of 2012. Ten banks are wholly owned by foreign capital, and foreign capital predominates in five banks. Two banks are majority owned by Czech shareholders. Six banks are wholly Czech-owned (Fio banka, Hypoteční banka, J&T Banka and Modrá pyramida stavební spořitelna plus two state-controlled banks specialising mainly in export and business promotion – Českomoravská záruční a rozvojová banka and Česká exportní banka).

At the end of 2012, foreign owners directly or indirectly controlled 95.4% of the total assets of the banking sector.[35] Owners from EU countries had a direct share in the banking sector's capital of about 74%, and their share in the sector's foreign capital was almost 94%. The breakdown of ownership by EU country remains diverse.

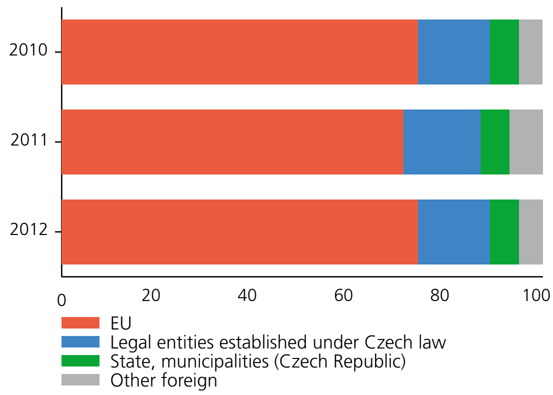
2.1.2 Employees and banking units

The number of banking sector employees[36] both within and outside the Czech Republic increased by 0.7% in 2012 to 40,308 at the year-end. Banks' strategic and business objectives are reflected in their personnel policy and the expanding range of services they offer through their branch networks and via electronic banking. The total year-on-year increase of 374 persons in the registered number of new

35 This refers to the share of total bank assets controlled by foreign entities (i.e. foreign owners holding directly or indirectly at least 50% of the bank's shares) in the total assets of the banking sector.
36 The total number of banking sector employees (full-time and part-time).

CHART II.1

Bank ownership structure
(in %; for banks with licences as of the given date)



Note: Shares in capital

CHART II.2

Capital origin
(in %; for banks with licences as of 31 December 2012)

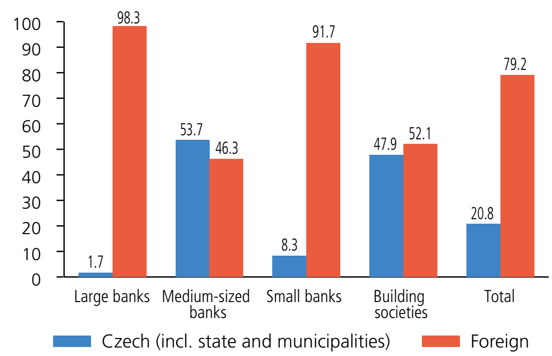


CHART II.3

Number of employees and number of branches
(inside and outside Czech Republic; for banks with licences as of the given date)

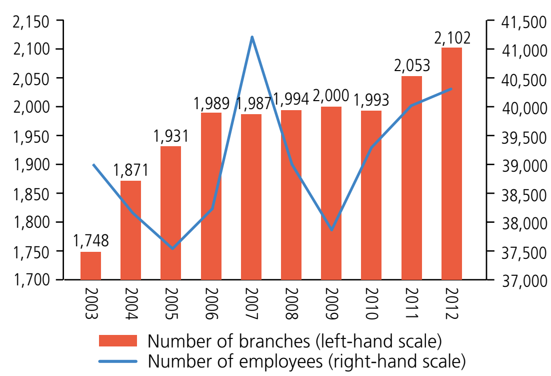


Table II.3

Number of employees and banking units in Czech banking sector
(for banks with licences as of the given date)

	2010	2011	2012
Number of employees	39,150	39,822	40,128
Number of banking units	1,990	2,049	2,098
Number of employees			
per bank	955	905	933
per banking unit	19.7	19.4	19.1
Number of citizens			
per bank (thous.)	256.9	238.7	244.6
per banking unit (thous.)	5.3	5.1	5.0
per employee	269.0	263.8	262.1

Table II.4

Electronic banking
(for banks with licences as of the given date)

	2010	2011	2012
Number of ATMs	3,742	3,935	4,106
Number of cards issued (thous.)			
total	9,566	9,810	10,162
debit cards	7,889	7,988	8,280
credit cards	1,678	1,822	1,882
Current accounts (households; thous.)			
total	9,001	9,716	10,510
with cards issued	6,199	6,836	7,087
with PC access	5,282	6,270	6,949
with telephone access	4,072	4,179	4,816
without electronic access	974	951	1,114

Table II.5

Card transactions
(for banks with licences as of the given date)

	2010	2011	2012
NO. OF TRANSACTIONS (thous.)			
TOTAL	114,076	130,040	147,472
a) in the Czech Republic	108,267	122,792	139,860
i) ATM withdrawals	48,833	50,978	53,418
ii) over-the-counter withdrawals	2,178	1,906	1,726
iii) payments to retailers	57,256	69,908	84,716
b) outside the Czech Republic	5,809	7,248	7,612
i) ATM withdrawals	1,583	1,633	1,593
ii) over-the-counter withdrawals	7	8	6
iii) payments to retailers	4,219	5,607	6,013
VOLUME OF TRANSACTIONS (CZK millions)			
TOTAL	259,976	287,017	300,892
a) in the Czech Republic	248,434	272,683	284,728
i) ATM withdrawals	182,286	190,165	194,730
ii) over-the-counter withdrawals	19,641	18,902	17,003
iii) payments to retailers	46,507	63,616	72,995
b) outside the Czech Republic	11,542	14,333	16,164
i) ATM withdrawals	5,995	5,710	6,555
ii) over-the-counter withdrawals	74	71	84
iii) payments to retailers	5,473	8,552	9,525

banking sector employees was mostly due to new employees of small start-up banks. By contrast, foreign bank branches contributed to reducing employment in the banking sector. The group of large banks accounts for 66% of the sector's workforce.

At the end of 2012, a total of 2,098 units were ready to serve clients and there were thus around 5,000 citizens per banking unit in the Czech Republic.

Productivity, as measured by total assets administered per employee, rose slightly year on year to CZK 115.5 million at the end of 2012.

2.1.3 Electronic banking

Bank clients are increasingly using various forms of electronic banking. This trend is being supported by banks' fee policies.

The number of current accounts for households (individuals) with payment cards and remote access continued rising in 2012. More than 67% of all current accounts of households enable access by card. The number of accounts with remote access is constantly rising.

The numbers of ATMs in the Czech Republic are rising steadily. A total of 4,106 ATMs were ready to serve clients at the end of 2012, an increase of 171 compared to 2011 (up by 4.3% year on year). Banks prefer self-service zones, where almost 60% of the total number of 171 new ATMs were installed in 2012. Clients have 24-hour access to ATMs.

The use of payment cards – both debit and credit cards – is increasing. Cards are also being used increasingly to pay smaller amounts. The year-on-year growth rate of the number of card transactions with retailers in the Czech Republic was 21.2%. The overall volume of card transactions rose by 14.7%. The total volume of payments to retailers exceeded 27% of the total volume of card transactions at the end of 2012, up by 2.3 percentage points compared to the end of 2011 and by 7.4 percentage points compared to the end of 2010.

2.2 ACTIVITIES OF THE BANKING SECTOR

The Czech banking sector's total assets rose by CZK 157.8 billion (3.5%) to CZK 4,633.4 billion in 2012. Banks did not contribute proportionately to the growth in total assets. The assets of large banks increased by 3.3% (CZK 85.4 billion), whereas those of medium-sized banks rose by CZK 74.2 billion (11.4%). All small banks recorded annual growth in total assets. By contrast, the total assets of foreign bank branches fell by 15.2% year on year. The assets of building societies as a whole rose by 0.8%. Of the total of 43 banks and foreign bank branches active in the domestic market, 29 recorded higher total assets at the end of 2012 than at the end of 2011. Ten foreign bank branches saw a decrease in total assets, mainly as a result of changes in their operational strategies in the Czech Republic or of changes in the business policies of their parent banks.

TABLE II.6

Banking sector assets
(for banks with licences as of the given date; at net value; in CZK billions)

	2010	2011	2012	Structure 2012 in %
TOTAL NET ASSETS	4,189	4,476	4,633	100.0
Cash	40	40	39	0.8
Cash balances with central banks	396	389	384	8.3
Financial assets held for trading	225	271	263	5.7
Financial assets designated at fair value through profit or loss	45	29	26	0.6
Available-for-sale financial assets	400	443	532	11.5
Loans and receivables	2,575	2,734	2,780	60.0
Held to maturity investments	338	380	405	8.7
Derivatives – hedge accounting (positive fair value)	25	34	47	1.0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	1	0.0
Tangible and intangible assets	45	46	46	1.0
Investments in associates, subsidiaries and joint ventures	72	78	77	1.7
Other assets	26	30	34	0.7

The share of large banks in total banking sector assets still predominates, although it was down slightly year on year at the end of 2012 (by 0.1 percentage point to 57.1%).

The degree of concentration of the banking sector, as measured by the Herfindahl index, decreased in terms of total assets to 0.100. The degree of concentration on the client deposit market was also lower (0.107). Client receivables showed the opposite trend, as the degree of concentration increased (0.096).[37] Competition is thus growing both in the banking sector as a whole (as measured by total assets) and on the deposit market.

37 The Herfindahl index (HI) is the sum of the squares of the market shares of all entities operating in the market. It takes values between 0 and 1; the closer it is to zero, the lower the concentration, or the stronger the competition, in the market. Values below 0.10 mean a low degree of concentration, values of 0.10–0.18 mean a moderate degree of concentration and values above 0.18 mean a very concentrated market.

CHART II.4

Herfindahl indices of market competition

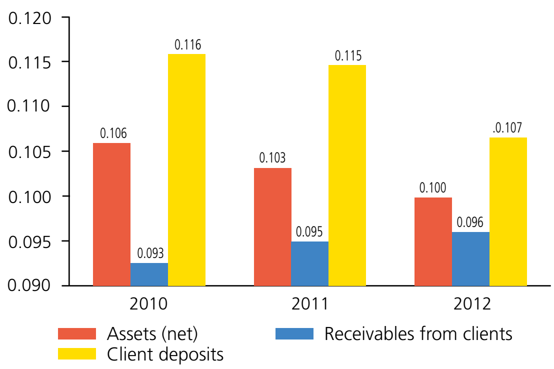


CHART II.5

Concentration of banking sector
(as of 31 December 2012; in %)

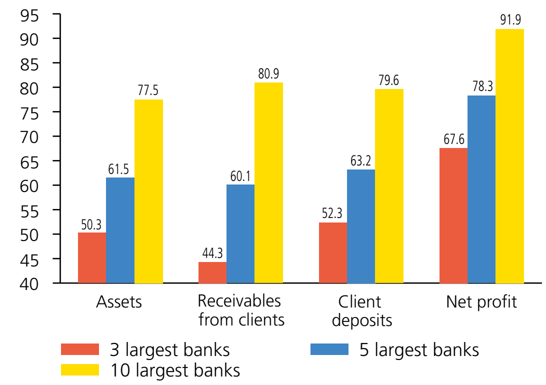


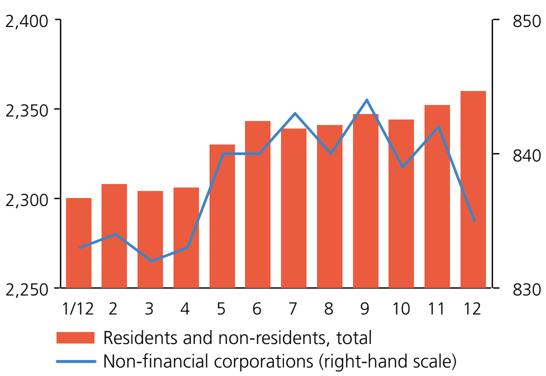
TABLE II.7

Receivables by sector

	Volume in CZK bn 2010	2011	2012	Change 2012/2011 in %
TOTAL	2,175	2,304	2,360	2.4
A. RESIDENTS	2,008	2,107	2,148	1.9
non-financial corporations	780	828	835	0.9
financial institutions	118	117	116	-0.6
general government	65	64	62	-4.2
households	1,028	1,095	1,132	3.4
trades	40	38	36	-5.0
individuals	961	1,009	1,045	3.6
other – owners' associations	27	48	51	5.9
non-profit institutions	16	3	2	-21.7
B. NON-RESIDENTS	167	197	212	7.8

CHART II.6

Receivables in 2012
(in CZK billions)



The concentration of the total assets and deposits of the domestic banking sector, as measured by the shares of the three, five or ten largest entities in the market, decreased slightly in 2012 compared to the previous year. By contrast, client receivables and profits are showing higher concentration in market-leading bank groups. The greatest concentration is traditionally recorded for net profit. The three largest banks generated more than 67% of the total net profit of the domestic banking sector and the ten largest banks accounted for almost 92% of this indicator.

The Czech banking sector is traditionally oriented towards traditional banking based on deposit-taking and lending. Loans and receivables, which increased by 1.7% year on year, accounted for the largest share of total assets[38] (60%) at the end of 2012. The increase in the sector's assets was due mainly to client receivables, which account for more than half of total assets. These receivables rose by 2.5% compared to the end of 2011. By contrast, receivables from credit institutions declined for the second consecutive year (by 0.6% year on year). Banks' exposure to the Czech National Bank fell by 1.3% compared to the end of 2011.

2.2.1 The loan portfolio (sectoral breakdown)[39]

In 2012, the total receivables of the banking sector increased slightly throughout the year. Domestic banks' total loans to clients rose by CZK 55.6 billion (2.4%) year on year to CZK 2,360.1 billion as of 31 December 2012. The rate of growth of loans is decreasing year on year, however. It was 3.6 percentage points lower than at the end of 2011.

Loans provided to households[40] (individuals, trades and owners' associations) and non-financial corporations form the basis of lending. The modest growth recorded in 2012 was mostly due to loans to individuals. Receivables from households as a whole rose by CZK 37.0 billion during 2012, to CZK 1,132.2 billion. Loans to households have the largest share of the banking sector's loan portfolio. This share is constantly rising and reached 48.0% at the end of 2012. By contrast, the share of loans to the corporate sector in total loans is almost constant. As a result, the share of loans to households exceeded that of loans to the corporate sector by 12.6 percentage

38 The assets of the banking sector comprise cash, receivables, securities, tangible and intangible assets and other assets.
39 Data from the monetary statistics reporting statements submitted by banks were used to prepare this section. These comprise loans provided to residents in the Czech Republic only. These statements use a different methodology than the banking supervision statements, so some of the resulting values (e.g. the total volume of loans provided) are not fully comparable with the data in other parts of the text. For details see http://www.cnb.cz – Statistics – Monetary and financial statistics – FAQs. The quality (degree of risk) of the loan portfolio is dealt with in section 2.4.1 Credit risk.
40 Starting from 2010, the household sector is divided into trades, individuals and other households – owners' associations.

points. The household category is dominated by loans to individuals (92.3%), although their growth was not as high as in previous years. Loans to individuals rose by CZK 36.0 billion (3.6%) in 2012, accounting for 44.3% of the total receivables of the banking sector. Receivables from other households – owners' associations – rose by CZK 2.9 billion year on year.[41]

Interest rates were at historical lows throughout 2012. Falling interest rates on new loans, together with the evolution of prices on the real estate market, contributed to a rise of 6.3% in mortgage loans for house purchase overall and to an increase of 4.8% in housing loans. The share of loans to non-financial corporations was flat at 36%, while the volume of such loans rose by CZK 7.4 billion (0.9%) to CZK 835.4 billion in 2012. The banking sector's exposure to non-financial corporations increased in the case of both private domestic owners (by 1.3%, or CZK 7.4 billion) and public non-financial corporations (by 10.7%, or CZK 2.5 billion). Public non-financial corporations account for only 3.2% of non-financial corporations. Loans provided to foreign-owned private non-financial corporations decreased by CZK 2.6 billion (1.1%) compared to the end of 2011 and their shares in non-financial corporations' loans and total loans were 28.6% and 10.1% respectively at the end of 2012.

The amount of open market operations continued falling. The share of loans to financial institutions in total banking sector loans fell further from 5.1% at the end of 2011 to 4.9% in 2012. At the same time, these loans declined by CZK 0.6 billion to CZK 116.4 billion. This represents a decrease of 0.6%.

Loans to general government also decreased in 2012 (loans adjusted for bond holdings). Banks' exposure to general government declined by 4.2% year on year and the share of these loans in the total loans of the banking sector fell to 2.6%. Total receivables from these institutions decreased by CZK 2.7 billion to CZK 61.5 billion at the end of 2012. This decrease was due mainly to a 21% (or CZK 3.6 billion) decline in loans to central government, which account for more than 22% of the total volume of such loans.

2.2.2 Loans to individuals[42]

Loans to individuals (excluding trades) account for almost 49% of domestic bank lending. Such loans with domestic banks increased, although the year-on-year rate of growth is slowing. As of the end of 2012, bank loans to individuals totalled CZK 1,045.0 billion.

41 Subsidies granted under the "Green Light to Savings" programme, which – combined with the possibility of borrowing money – enable housing stock to be reconstructed, were a strong stimulus in 2011.

42 This section describes loans to individuals who are residents of the Czech Republic. Individuals are a subcategory of the household sector.

Chart II.7

Sector structure of loan porfolio
(in CZK billions)

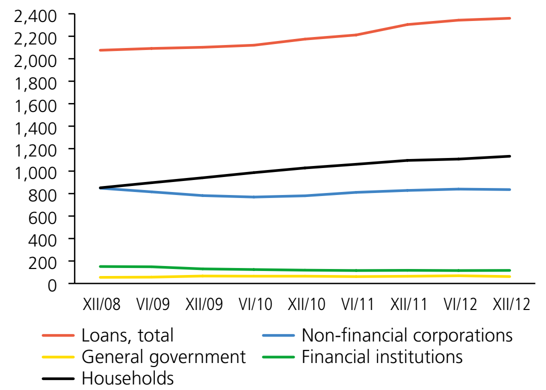
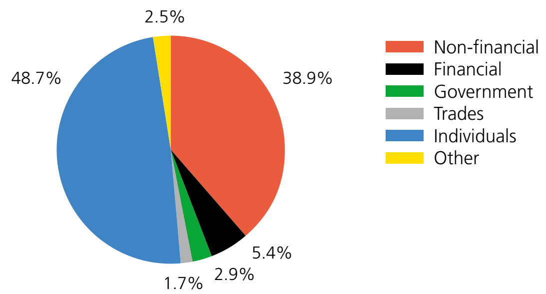


Chart II.8

Structure of loans by economic sector
(as of 31 December 2012)



Note: Only loans granted in the Czech Republic

Chart II.9

Receivables in 2012
(in CZK billions)

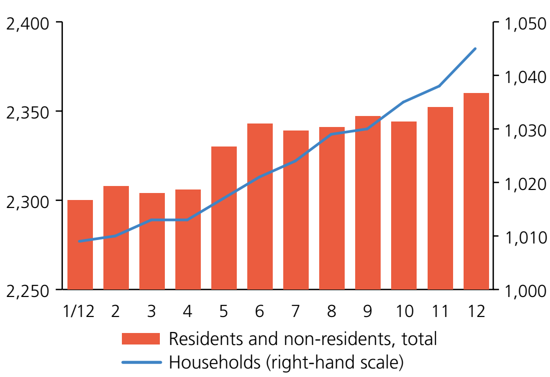


Table II.8

Loans to individuals by time and type

	Volume in CZK bn			Change 2012/2011 in %
	2010	2011	2012	
TOTAL LOANS AND RECEIVABLES	961	1,009	1,045	3.6
of which:				
short-term	39	42	45	6.0
medium-term	47	42	41	-2.5
long-term	875	924	959	3.7
of which:				
housing loans	728	773	810	4.8
of which: mortgage loans for housing purposes	605	659	700	6.3
consumer credit, including current account overdrafts	199	196	195	-0.7
other	33	40	40	0.8

Chart II.10

Interest rates on new loans in 2012
(in %)

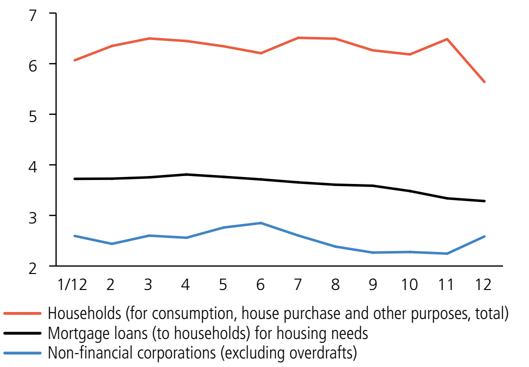


Table II.9

Basic indicators of building saving schemes

	2010	2011	2012	Change 2012/2011 in %
No. of new schemes (thous.)	533	410	433	5.5
No. of schemes in saving phase (thous.)	4,845	4,550	4,317	-5.1
Amount saved (CZK billions)	430	433	435	0.4
Total loans (CZK bilions)	293	293	282	-3.9
of which:				
building savings loans (CZK billions)	53	56	56	0.0
bridging loans (CZK billions)	240	237	227	-4.4
Total loans/amount saved (%)	68.2	67.6	64.9	-4.0
State support granted (CZK billions)	11.7	10.7	5.3	-50.6

Their year-on-year growth rate decreased by 1.4 percentage points compared to 2011, to 3.6%. New loans to individuals amounted to CZK 241.2 billion in 2012.

Household debt consists mostly of loans for house purchase, which accounted for more than 77.5%[43] of all loans to individuals at the end of 2012. This roughly three-quarter share has been stable over the last few years. Loans for house purchase were CZK 37.1 billion higher in 2012 than in the previous year, but the year-on-year growth rate was 1.3 percentage point lower at 4.8%.

Demand for loans for house purchase and housing investment financing is concentrated mainly on mortgage loans,[44] which rose by CZK 41.5 billion (6.3%) in 2012 to CZK 700.5 billion, making up about 67% of total loans to individuals. Loan financing of housing needs is reflected in the time structure of lending. Mortgage loans are long-term in nature. The share of long-term loans in total loans to individuals is stable and stood at 91.7% at the end of 2012.

Building societies are still an important source of co-financing of housing needs and financing of home modernisation and reconstruction. This market was affected by changes in building saving conditions, and particularly by a reduction in state support. As of the end of 2012, building societies provided loans totalling CZK 282.2 billion, representing a year-on-year decline of CZK 10.9 billion.[45] This decline was reflected in the loans-to-savings ratio, which fell to 64.9%. By contrast, the number of new building savings contracts increased year on year.

In 2012, building savings clients signed 5.5% more new contracts than a year earlier (433,100 new contracts). The number of building savings contracts in the saving phase is falling (down by 5.1% year on year to 4,317,000 as of 31 December 2012). The increase in the number of new contracts reflected the very low level of interest rates on bank deposits and the cyclicality of building savings. A total of CZK 5.3 billion in state support was paid to building savings scheme participants in 2012. This represents a year-on-year decrease of more than 50% (CZK 5.4 billion) in this state budget expenditure item.

The value of consumer credit fell by CZK 1.4 billion year on year. Consumer credit provided to households totalled CZK 194.7 billion as of 31 December 2012.

43 In addition to mortgage loans, housing loans include building society loans (standard and bridging) and consumer credit for real estate purchase or reconstruction.
44 Total mortgage loans (residents and non-residents) are given for all sectors.
45 Table II.9 also includes loans provided by building societies which are of a mortgage loan nature (i.e. secured with a lien on property).

2.2.3 Other asset items

Receivables from the interbank market are a major item of domestic bank's assets. At the end of 2012 they accounted for 10.0% of banking sector assets (CZK 462.5 billion).

Receivables from central banks are another significant item, accounting for 8.7% (CZK 389.2 billion) of banks' balance-sheet assets. They consist mainly of receivables arising from repo operations with the Czech National Bank.

The total value of securities in banks' assets in the period under review was CZK 1,197.0 billion, of which debt securities totalled CZK 1,110.0 billion. The value of debt securities held by banks increased by 13.0% year on year. Debt securities issued by general government in banks' portfolios accounted for 75.9% (CZK 824.6 billion) of all debt securities held by banks. The value of debt securities held to maturity (33.9%) and held for trading (13.4%) in banks' portfolio increased. Available-for-sale securities have the largest share (47.2%) in the securities portfolio. Their value increased to CZK 523.7 billion as of the end of 2012.[46]

The total value of equity instruments[47] dropped to CZK 9.4 billion year on year, down by CZK 0.5 billion from the end of 2011. Their share in the securities of the banking sector remains stable below 1%.

In 2012, domestic banks slightly reduced the value of their interests in associates[48] and subsidiaries[49] (by 0.3% to CZK 77.6 billion). Of this total, 95.9% (CZK 74.4 billion) were controlling shares.[50]

The securities are held mainly by large banks (71.9%) and building societies (10.6%). Ownership interests are even more concentrated, the bulk of them (87.4%) being held by large banks (CZK 67.8 billion).

46 Available-for-sale securities cannot be classified as securities for trading or as securities held to maturity or as ownership interests.

47 This indicator expresses the total volume of equity instruments regardless of the portfolio where the instrument is placed or of the issuer. It includes shares, units and other equity instruments.

48 An associate is an entity whose direct or indirect holding treated separately or the sum thereof represents 20% or more of the capital or of the voting rights.

49 A subsidiary is an entity over which a direct or indirect controlling influence is exercised de facto or de jure over the management or operation of the business (by a parent undertaking).

50 A controlling influence means a share of at least 50% in the capital or the voting rights. Such an influence may also exist in the case of a smaller share where contracts or company statutes/articles of association so provide.

2.2.4 Banking sector funds[51]

Table II.10

Banking sector liabilities
(for banks with licences as of the given date)

	Volume in CZK bn			Structure
	2010	2011	2012	2012 in %
TOTAL LIABILITIES	4,189	4,476	4,633	100.0
Deposits, loans and other financial liabilities vis-à-vis central banks	2	4	10	0.2
Financial liabilities held for trading	122	323	249	5.4
Financial liabilities designated at fair value through profit or loss	132	19	21	0.5
Financial liabilities measured at amortised cost	3,524	3,684	3,832	82.7
Derivatives - hedge accounting (negative fair value)	19	23	26	0.6
Negative fair value changes of hedged items in portfolio	0	0	2	0.0
Provisions	10	10	10	0.2
Other liabilities	38	50	57	1.2
Equity, total	343	362	427	9.2
of which:				
issued capital	79	85	88	1.9
retained earnings	126	136	160	3.5
profit for accounting period	56	53	64	1.4

Chart II.11

Client deposits in 2012
(in CZK billions)

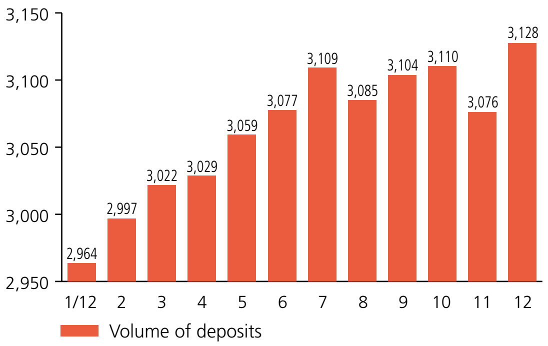


Table II.11

Client deposits by sector
(for banks with licences as of the given date)

	Volume in CZK bn			Change 2012/2011 in %
	2010	2011	2012	
TOTAL	2,789	2,914	3,128	7.3
A. RESIDENTS	2,700	2,829	3,022	6.8
non-financial corporations	633	673	716	6.4
financial institutions	117	117	138	18.2
general government	285	305	374	22.4
households	1,642	1,711	1,770	3.4
trades	85	91	89	-2.3
individuals	1,536	1,594	1,651	3.5
other – owners' associations	20	26	31	17.8
non-profit institutions serving households	23	23	23	1.6
B. NON-RESIDENTS	89	85	106	24.9

The Czech banking sector as a whole has long had sufficient funds. The ratio of deposits to loans[52] is almost 120%. Total client deposits amounted to CZK 3,166.0 billion as of the end of 2012, rising by 7.3% year on year. Deposits of other clients increased by 5.5% and general government deposits rose by 23.0%. Deposits of credit institutions decreased by CZK 87.8 billion and the domestic banking sector reduced its liabilities to credit institutions by 17.6% to CZK 412.6 billion. Loans provided by the central bank increased by 6.1% during the year, reaching CZK 9.6 billion at the end of 2012.

Non-government client accounts recorded an increase of CZK 144.5 billion in 2012, i.e. more than in 2011. Clients continue to prefer current account deposits, which increased by 11.9% year on year.[53] Demand deposits accounted for 61.4% of total client deposits at the end of 2012. Time deposits are virtually unchanged (up by 0.8%) and are dominated by short-term deposits up to three months (62.2%).

Liabilities from debt securities issued fell by 2.6% year on year, totalling CZK 384.9 billion at the end of 2012.

Domestic banks have long generated profits and retain a major part of their profits in their balance sheets as retained earnings and reserves.

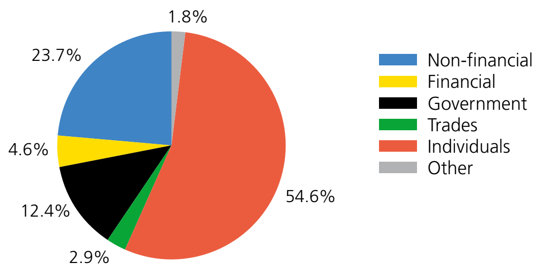
51 Data from the monetary statistics reporting statements submitted by banks were used to prepare the part of this section dealing with the breakdown of client deposits by sector. These statements use a different methodology than the banking supervision statements, so some of the resulting values are not fully comparable with the data in other parts of the text. For details see http://www.cnb.cz – Statistics – Monetary and financial statistics – FAQs.
52 Calculation of the ratio of deposits to loans based on the data reported for other clients, i.e. excluding general government. Total client deposits (other clients and general government).
53 In the Czech Republic (as in other EU countries), deposits are 100% insured, but with a ceiling of EUR 100,000.

The increase in retained earnings, serving to strengthen capital, was CZK 24.6 billion (18.1%) in 2012. Reserves were increased in line with legal requirements.[54]

The shares of sectors in total deposits were broadly unchanged.[55] Household deposits rose by 3.5% and account for almost 53% of total deposits. The share of non-financial corporations fell slightly to 22.9% and their deposits grew by CZK 42.9 billion. Trades did not contribute to the increase in deposits, as their deposits decreased by CZK 2.1 billion and their share fell to 2.8% in 2012.

CHART II.12

Structure of deposits by economic sector
(as of 31 December 2012)



Note: Only deposits accepted in the Czech Republic (residents)

2.2.5 Off-balance sheet transactions

The nominal value of off-balance sheet transactions fell slightly during 2012, mainly because of a lower volume of derivatives transactions, which make up a substantial part of these transactions. This is a long-term trend observed since 2008, when the volume of derivatives operations started to decline overall. At the end of 2012, the volume of derivatives transactions was around 48% of the mid-2008 level.

Derivatives transactions comprise transactions for clients, derivatives for banks' own trading purposes and hedging transactions to close banks' open positions vis-à-vis the risks they undertake. Transactions

TABLE II.12

Banking sector off-balance sheet
(for banks with licences as of the given date)

	Volume in CZK bn			Change
	2010	2011	2012	2012/2011 in %
SELECTED OFF-BALANCE SHEET ASSETS	6,344	6,704	5,796	-13.5
of which:				
commitments and guarantees given	731	729	686	-5.9
pledges given	9	23	25	8.4
receivables from spot transactions	36	48	24	-51.3
receivables from futures, forwards, swaps etc.	5,137	5,513	4,760	-13.7
receivables from options transactions	366	316	211	-33.4
write-off receivables	35	39	41	3.6
values given to asset management	0	0	0	-100.0
values given to custody	29	34	50	45.4
SELECTED OFF-BALANCE SHEET LIABILITIES	9,734	10,057	9,293	-7.6
of which:				
commitments and guarantees received	525	436	426	-2.2
pledges received	1,738	1,828	1,826	-0.1
liabilities from spot transactions	40	52	28	-45.7
liabilities from futures, forwards, swaps etc.	5,136	5,536	4,758	-14.1
liabilities from options transactions	366	298	211	-29.4
values received to asset management	58	61	65	5.9
values received to custody	1,872	1,846	1,979	7.2

54 For more details on own funds, subordinated debt and banking sector reserves, see Section 2.5 Capital adequacy.

55 The sector structure of the total deposits of the domestic banking sector is based on the monetary statistics database (this also applies to total client deposits given in Chart II.11; Chart II.12 – Structure of deposits - residents).

Table II.13

Classification of receivables from clients
(for banks with licences as of the given date)

	Volume in CZK bn			Change
	2010	2011	2012	2012/2011 in %
INVESTMENT PORTFOLIO RECEIVABLES, TOTAL	2,643	2,790	2,844	1.9
A. RECEIVABLES FROM CLIENTS	2,196	2,340	2,398	2.5
non-default	2,054	2,196	2,251	2.5
standard	1,948	2,098	2,153	2.6
watch	106	98	98	0.3
default	142	145	148	2.2
substandard	56	47	40	-14.7
doubtful	19	20	21	3.6
loss	67	77	87	12.1
B. RECEIVABLES FROM CREDIT INSTITUTIONS	447	450	445	-1.0
non-default	446	449	444	-1.1
standard	446	448	443	-1.2
watch	0.7	1.0	1.7	66.5
default	1.0	0.8	1.1	34.6
substandard	0.2	0.1	0.2	56.5
doubtful	0.1	0.2	0.3	80.8
loss	0.8	0.5	0.6	15.3
C. ALLOWANCES AND LOSS OF VALUE	79.0	80.4	81.7	1.6
allowances for individually assessed financial assets	66.4	70.6	70.1	-0.7
allowances for individually non-impaired assets	2.4	1.9	3.3	69.8
allowances for portfolio of individually immaterial assets	10.1	7.9	8.3	5.2
Allowances and loss of value by sector	79.0	80.4	81.7	1.6
allowances and loss of value for credit institutions	0.3	0.2	0.3	48.4
allowances and loss of value for clients	78.7	80.2	81.4	1.5
Allowances and loss of value/investment portfolio receivables (%)	2.99	2.88	2.87	-0.6
Allowances and loss of value/default receivables (%)	55.73	55.58	55.26	-0.2
D. RECEIVABLES IN DEFAULT (%)				
Share of receivables in default in total investment portfolio	5.40	5.22	5.24	0.4
Share of receivables in default from clients in total receivables from clients	6.45	6.18	6.17	-0.2

Table II.14

Receivables in default by sector

	Volume in CZK bn			Change 2012/2011 in %
	2010	2011	2012	
RECEIVABLES IN DEFAULT, TOTAL	135.8	137.1	140.6	2.5
non-financial corporations	70.2	67.9	61.5	-9.4
financial institutions	0.64	0.98	0.61	-37.9
general government	0.35	0.27	0.24	-12.1
households	53.3	54.3	58.7	8.1
of which:				
trades	4.97	4.71	4.96	5.3
individuals	48.3	49.5	53.7	8.3
other – owners' associations	0.01	0.04	0.06	45.2
non-profit institutions serving households	0.07	0.08	0.06	-20.2
non-residents	11.3	13.6	19.4	42.7

in interest rate instruments make up the largest share of off-balance sheet assets (63.8%), followed by transactions in currency instruments (35.2%). Banks engage only minimally in commodity, equity and credit derivatives trading. The transactions were mainly swaps, which account for more than 77% of the value of derivatives transactions. Liabilities from derivatives transactions showed similar developments.

The reduction in derivatives transactions was attributable mainly to receivables from swaps, which decreased by CZK 552.3 billion in this period (12.6% year on year). As regards the instruments used, the largest decrease (of 20.8%) was recorded by receivables from fixed-term transactions in interest rate instruments (CZK 831.2 billion).

2.3 RISKS IN BANKING

2.3.1 Credit risk

The share of total default receivables in the investment portfolio edged up to 5.24%. By contrast, the dynamics of allowance creation declined.

Loans are divided into default receivables and non-default receivables based on an assessment of their quality.[56] Non-default receivables accounted for CZK 2,694.9 billion (or 94.8%) of the total value of investment portfolio receivables of CZK 2,843.9 billion. The shares of standard receivables (91.3%) and watch receivables (3.5%) also remained broadly unchanged. The total value of default receivables rose by CZK 3.4 billion to CZK 149.0 billion in 2012. Loan portfolio quality showed mixed trends across the individual groups of banks. The shares of default receivables declined in large and small banks and in foreign bank branches in 2012. On the other hand, they deteriorated in medium-sized banks and in building societies. At the end of 2012, the share of default receivables was largest in medium-sized banks (8.5%) and smallest in foreign bank branches (2.1%).

Banks created allowances to cover their loan portfolio losses in 2012, but the dynamics of allowance creation declined compared to 2011. Despite that, allowances rose by CZK 1.3 billion (1.6%) year on year to CZK 81.7 billion. Individually assessed allowances made up the largest share of the total volume of allowances (85.8%).

The value of default receivables in the loan portfolio of the non-financial corporations subsector decreased by CZK 6.4 billion year on year, accounting for 7.4% of total loans to non-financial corporations (0.8 percentage point less than at the end of 2011).

In 2012, the rise in default receivables was most pronounced in the loan portfolio of the households (individuals) subsector, where the value of default receivables rose by CZK 4.1 billion year on year and their share in total loans provided to individuals increased to 5.1%. Loans for house purchase are traditionally higher in loan portfolio quality and record a constantly lower proportion of loans in default (3.4%). This ratio increased by 0.1 percentage point year on year. The low degree of risk attached to housing loans relative to the other loan types is supported by the higher reliability of bank clients when dwellings are used as collateral. The share of default receivables in total mortgage loans was only 3.2% for mortgage loans for house purchase. It increased slightly

56 See Decree No. 123/2007 Coll., on prudential rules for banks, credit unions and investment firms.
A debtor is in default at the moment when it is probable that he will not repay his obligations in a proper and timely manner, or when at least one repayment of principal is more than 90 days past due. Banks assess the financial and economic situation of their clients. The categorisation of receivables does not take into account collateral, which is considered only when quantifying impairment and in particular when creating allowances (impaired/non-impaired receivables).

Chart II.13

Shares of default loans in total banking sector loans
(in %)

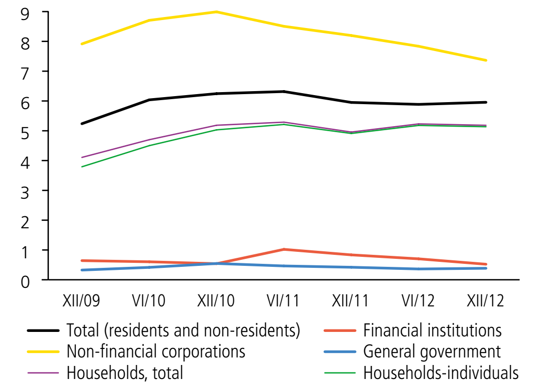


Chart II.14

Shares of default loans in loans to individuals
(in %)

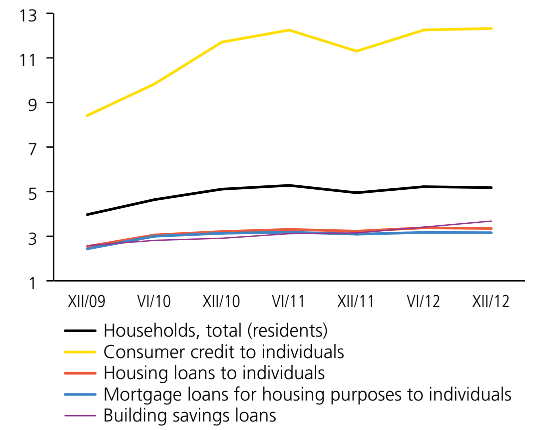


Chart II.15

Loan portfolio quality
(individually assessed client loans; in CZK billions)

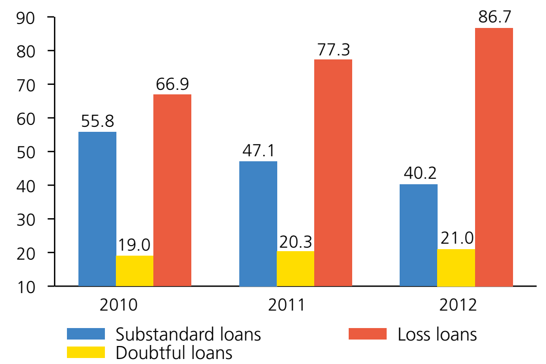


CHART II.16

Structure of loans in default provided to non-financial corporations
(as of 31 December 2012)

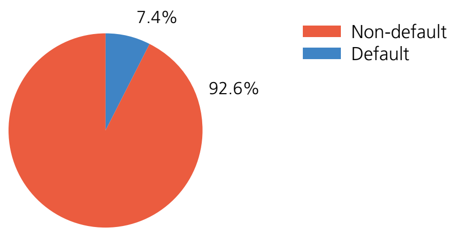


CHART II.17

Structure of loans in default provided to individuals
(as of 31 December 2012)

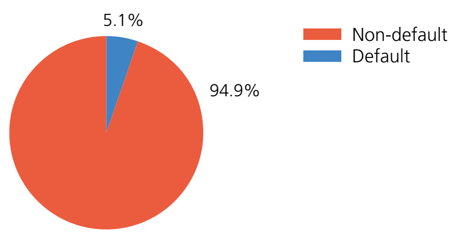


CHART II.18

Shares of foreign currencies in banking sector balance sheet and off-balance sheet
(in %)

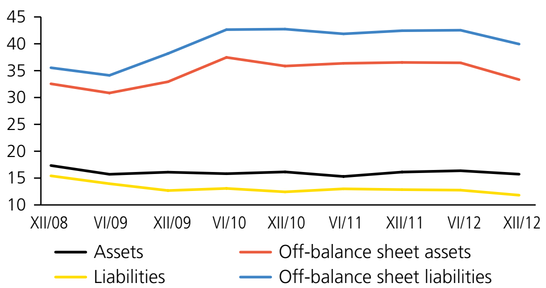
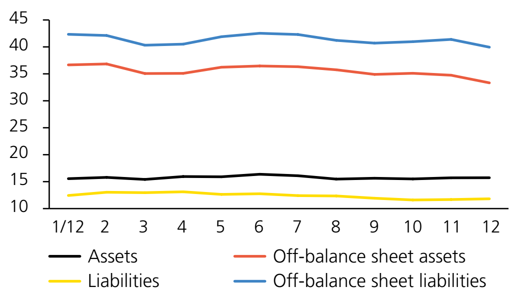


CHART II.19

Shares of foreign currencies in banking sector balance sheet and off-balance sheet in 2012
(in %)



by 0.1 percentage point. By contrast, the total default rate is higher for consumer credit (11.3%), which is generally provided in higher numbers and lower amounts. Consumer credit is provided for both specified and unspecified purposes, including current account overdrafts. The higher degree of risk of such credit is offset by the interest rate level.

2.3.2 Foreign exchange risk

As in previous years, the foreign exchange risk of the domestic banking sector was insignificant in 2012. The absolute amounts of the sector's foreign currency assets and liabilities, respectively, were almost unchanged (up by 1%) and declined (by 4.8%).

Their shares in the banking sector's total assets edged down to 15% for assets and 12% for liabilities. In absolute terms, foreign currency assets and liabilities totalled CZK 753.7 billion and CZK 547.5 billion respectively as of the end of 2012. Foreign currency off-balance sheet assets and liabilities showed similar developments. In absolute terms, foreign currency off-balance sheet assets decreased by CZK 520.4 billion, accounting for more than 33% of off-balance sheet assets. Foreign currency off-balance sheet liabilities fell by CZK 516.4 billion, accounting for almost 40% of off-balance sheet liabilities. The evolution of foreign currency assets and liabilities (both balance sheet and off-balance sheet) is reflected in the net foreign exchange position, which ended 2012 in a surplus of balance sheet assets over liabilities (of CZK 206.2 billion).

Receivables from clients and credit institutions had the largest share (almost 72%) in foreign currency assets. The highest-weight item is foreign currency receivables from clients, which rose by CZK 6 billion year on year to CZK 375.4 billion. Foreign currency securities (including ownership interests) increased the most in absolute terms, by CZK 24.8 billion to CZK 173.3 billion in 2012. By contrast, foreign currency receivables from credit institutions continued to decline (by 12.5% year on year). Banks reduced their exposure by CZK 23.3 billion and these loans declined to CZK 163.5 billion.

Liabilities to clients accounted for more than 56% of all foreign currency liabilities, totalling CZK 299.7 billion at the year-end (up by 12.0%, or CZK 32.1 billion, year on year). Foreign currency liabilities from securities were almost unchanged, amounting to CZK 62.3 billion at the end of this period. The largest absolute annual decline (CZK 75.4 billion) was recorded for foreign currency liabilities to credit institutions, which amounted to CZK 125.7 billion at the end of 2012.

Derivatives transactions account for the largest proportion of off-balance sheet foreign currency assets and liabilities (90% and 87% respectively).

2.3.3 Territorial risk (country risk)

Domestic banks' activities are mostly focused on domestic clients. Financial transactions with non-residents are conducted mainly in the interbank market, particularly as regards derivatives transactions. In addition, banks hold securities issued by foreign entities in their portfolios. Non-resident activities are largely concentrated in the off-balance sheet.

At the end of 2012, non-resident assets amounted to CZK 736.0 billion and their share in the total assets of the banking sector was broadly unchanged. Non-resident liabilities declined by CZK 62.9 billion to CZK 524.0 billion in the same period.

Interbank transactions dominate non-resident assets and liabilities. Although liabilities to banks declined, they accounted for almost 39% of total financial liabilities to non-residents as of 31 December 2012 (CZK 203.1 billion). Receivables from banks (non-residents) were also predominant on the asset side, accounting for almost 36% and amounting to CZK 261.7 billion. Non-residents' liabilities to banks recorded an annual decrease of 24.9%, while non-residents' receivables from banks showed the opposite trend, recording an annual increase of 7.5%.

The geographical orientation of the domestic banking sector has long been broadly stable, as shown by the list of ten countries to which the Czech banking sector has the largest exposures as measured by asset holdings. The countries represented were unchanged from the previous year, only with Germany and Poland switching positions. The ten countries to which the Czech banking sector had the largest exposures were almost all EU countries. The only exception was the Russian Federation, which ranked sixth in terms of holdings of the total non-resident assets of the domestic banking sector. Exposure to these ten countries amounts to 82% of the total international exposure.

The banking sector recorded its largest open net positions (i.e. the difference between assets and liabilities transactions, including off-balance sheet transactions) vis-à-vis the Netherlands (positive, CZK 74.0 billion), Luxembourg (negative, CZK 43.4 billion) and the Russian Federation (positive, CZK 41.0 billion) as of 31 December 2012.

Chart II.20

Shares of non-resident transactions in banking sector balance sheet and off-balance sheet
(in %)

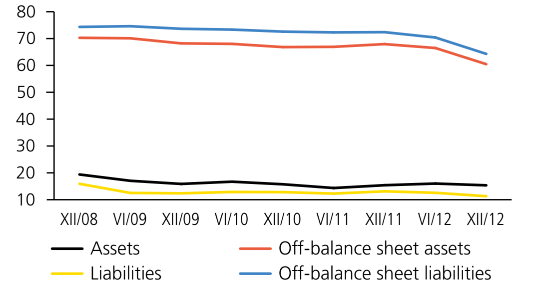


Chart II.21

Shares of non-resident transactions in banking sector balance sheet and off-balance sheet in 2012
(in %)

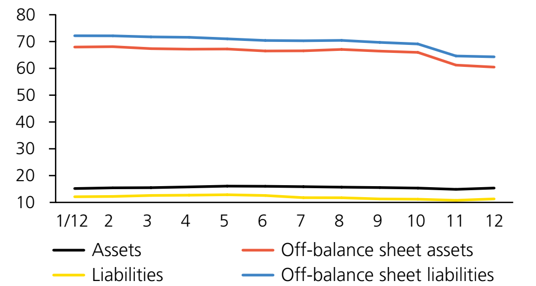


Table II.15

The ten countries to which the Czech banking sector had the largest exposures as of 31 December 2012
(in CZK billions)

	Assets, total	of which: Receivables from credit institutions	Receivables from clients	Bonds
Netherlands	116.0	66.6	24.7	12.5
Slovakia	110.6	6.3	56.8	41.6
United Kingdom	75.8	34.6	5.4	1.3
Austria	74.5	54.8	6.2	4.2
Belgium	61.5	32.3	4.1	2.9
Russian Federation	52.7	10.8	38.6	2.7
Germany	37.8	22.4	2.1	3.0
Poland	27.5	0.9	5.5	12.1
France	26.4	12.0	1.7	5.3
Cyprus	23.1	0.0	21.5	0.2

Chart II.22

Quick assets
(in CZK billions and %)

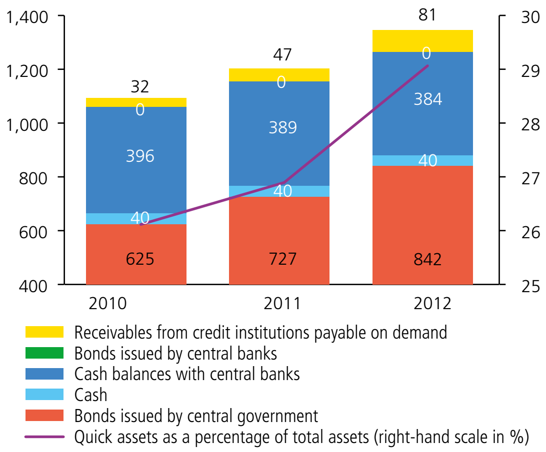


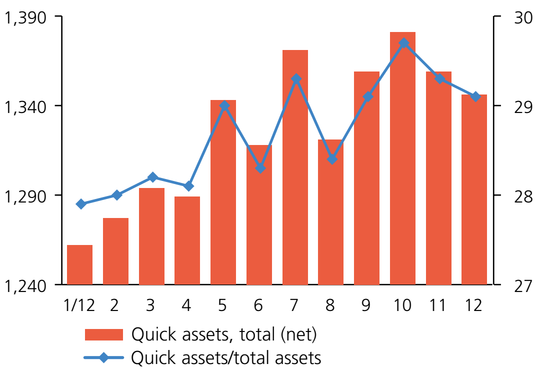
Table II.16

Selected liquidity indicators

	2010	2011	2012
TOTAL QUICK ASSETS (in CZK billions)	1,093	1,203	1,346
Total quick assets/total assets (in %)	26.1	26.9	29.1
Total quick assets/total client deposits (in %)	38.8	40.8	42.5
Cumulative net balance sheet position to 3 months net of 80% of demand deposits (in %)	-9.0	-12.9	-8.4
Position on interbank market (in CZK billions)	24	-35	50
receivables from banks	472	465	462
liabilities to banks	448	500	413
Loan coverage by primary funds (in %)	133.0	130.5	136.6
Share of demand deposits in total deposits, including banks (in %)	51.0	51.5	56.4

Chart II.23

Quick assets and quick assets/total assets in 2012
(in CZK billions and in %)



2.3.4 Liquidity risk

The CNB assesses liquidity regularly and in detail. The liquidity of the Czech banking sector remained very good throughout 2012. Quick assets[57] increased by CZK 142.8 billion (11.9%) to CZK 1,346.0 billion in the period under review. The year-on-year increase in quick assets was 8.3 percentage points larger than the rise in the banking sector's total assets and the share of quick assets in total banking sector assets thus recorded a year-on-year increase of 2.2 percentage points to 29.1%.

The liquidity position was enhanced mainly by an annual increase of CZK 115.2 billion in holdings of general government bonds. Loan coverage by primary funds is stable at 135%.

On the interbank market, liabilities to banks decreased by CZK 87.8 billion to CZK 412.6 billion at the end of 2012.

57 This indicator expresses the volume of quick assets, i.e. assets that are readily available to cover the bank's liabilities. Quick assets comprise the following items: cash, receivables from central banks, receivables from credit institutions payable on demand and bonds issued by central banks and general government (including securities put into repos). The comparability of the time series is not affected by the current methodology.

2.4 CAPITAL ADEQUACY

Capital adequacy, defined as the ratio of risk-weighted assets to the capital of a bank, is one of the principal pillars of banking regulation and supervision. It expresses the ratio of capital to the risks to which a given entity is exposed. High capital adequacy supports the bank's reliability, safeguards its market position, enhances the stability of the financial system and indicates the degree to which taxpayers are protected by moral hazard.

The Czech banking sector is well capitalised. The sector's regulatory capital increased faster than its total balance sheet assets in 2012 (by 5.7%, or CZK 17.5 billion). It stood at CZK 321.0 million at the end of the year. The capital of domestic banks is made up largely of Tier 1, which has the largest loss-absorbing capacity. Tier 1 rose by 10.5% to CZK 311.6 billion in 2012, mainly as a result of a CZK 24.7 billion boost to reserve funds due to retained earnings. The increase in regulatory capital was fostered by paid-up share premium of several banks amounting to CZK 4.3 billion.

Tier 2 recorded a year-on-year decline of 46.4% in 2012, due mainly to a decrease in subordinated debt[58] of 43.1% (CZK 12.1 billion). Five banks repaid their subordinated debt in part during the year, and one bank repaid it in full. Subordinated debt was increased in two banks

TABLE II.17

Banking sector capital structure
(in CZK billions)

	2010	2011	2012
A. TIER 1	263.4	282.0	311.6
Paid-up share capital registered in Commercial Register	79.4	85.0	87.8
Paid-up share premium	33.5	36.8	41.1
Reserve funds and retained earnings	164.3	175.9	201.6
mandatory reserve funds	29.8	30.3	31.6
other funds created from retained earnings	9.9	11.0	11.3
retained profits	124.8	135.1	159.7
profit for accounting period after tax	0.0	0.0	0.0
accumulated losses	0.2	0.3	1.0
other eligible items	0.0	0.0	0.0
Items deductible from Tier 1	13.8	15.8	18.9
current year loss	0.1	0.7	0.8
goodwill	2.7	2.7	2.7
intangible assets other than goodwill	10.7	11.7	12.7
own shares	0.2	0.7	2.6
others	0.1	0.0	0.1
B. TIER 2	35.3	30.7	16.4
Subordinated debt	34.5	28.0	15.9
Other capital funds	0.8	2.6	0.5
Items deductible from Tier 1 and Tier 2	9.4	9.1	7.0
Cap. invest. > 10% in banks and fin. inst.	2.7	3.0	0.6
Cap. invest. < 10% in banks and fin. inst.	0.0	0.0	0.0
Others	6.7	6.2	6.5
C. TIER 3	0.0	0.0	0.0
CAPITAL, TOTAL	289.4	303.5	321.0

TABLE II.18

Capital requirements and capital ratio of the banking sector
(in CZK billions and %)

	2010	2011	2012
TOTAL CAPITAL REQUIREMENTS	149.2	159.0	156.4
A. CAPITAL REQUIREMENT FOR CREDIT RISK	129.9	137.1	133.4
STA capital requirement for credit risk	51.4	41.7	43.1
IRB capital requirement for credit risk	78.5	95.4	90.3
B. CAPITAL REQUIREMENT FOR MARKET RISK	2.8	4.9	4.7
Interest rate risk	2.1	2.6	3.1
Equity risk	0.1	0.0	0.0
Forex risk	0.1	0.2	0.2
Commodity risk	0.1	0.1	0.2
Internal models	0.5	1.9	1.3
C. CAPITAL REQUIREMENT FOR OPERATIONAL RISK	16.4	16.9	18.1
BIA method	1.3	1.1	1.1
TSA method	5.6	7.3	8.4
ASA method	1.2	0.0	0.0
AMA method	8.2	8.6	8.6
E. CAPITAL REQUIREMENT FOR OTHER RISKS	0.0	0.0	0.1
Settlement risk	0.0	0.0	0.0
Trading portfolio exposure risk	0.0	0.0	0.1
Other instruments risk	0.0	0.0	0.0
Transitional capital requirements	0.0	0.0	0.0
CAPITAL ADEQUACY RATIO	15.52	15.27	16.42

58 Subordinated debt A increases the value of the supplementary capital (Tier 2). It can be no more than 50% of the value of Tier 1.

by almost CZK 50 million in total in the period under review. The share of Tier 2 in the total regulatory capital of the banking sector declined by 5.0 percentage points to 5.1% at the end of 2012. Deductible items, which reduce the value of Tier 1, rose by CZK 3.2 billion year on year. The rise was largely due to banks' own share holdings.

The total capital requirements recorded an annual decline of 1.6% (CZK 2.6 billion) to CZK 156.4 billion. The capital requirement for credit risk accounted for 85.3% of the total capital requirement of the banking sector at the end of 2012. The capital requirements for operational risk and market risk accounted for 11.2% and 3.1% respectively of the total capital requirements of the banking sector.

Banks set the capital requirements so as to cover all the risks they undertake. They set the capital requirements for credit risk using either the standardised approach (STA)[59] or the advanced approach (IRB).[60] The capital requirements for credit risk decreased by CZK 3.7 billion (2.7%) to CZK 133.4 billion in 2012. The capital requirements based on the STA and IRB methods represented more than 32% and almost 68% respectively of their total volume. In the case of the STA method, the capital requirements rose slightly in the period under review, while the advanced approach to measuring loan portfolio quality using the IRB method resulted in a decline in the capital requirements. For both methods, the highest capital requirements were applied for exposures to corporations – CZK 50.3 billion (IRB) and CZK 13.4 billion (STA). As in the previous year, nine banks used the IRB approach in 2012, while most banks continued to apply the STA approach.

According to figures reported by banks, the capital requirements for credit risk decreased slightly in 2012, while those for operational risk increased by 7.0%, or CZK 1.2 billion. The capital requirement for market risk consists of requirements for interest rate risk, equity risk, foreign exchange risk, commodity risk and internal model risk. The largest amounts of these capital requirements relate to interest rate risk coverage (64.5%) and internal model risk coverage (27.8%).

The Czech banking sector was stable with regard to capitalisation in 2012. Its capital adequacy ratio went up by 1.15 percentage points to 16.42% at the end of 2012 compared to a year earlier owing to an increase in the regulatory capital of banks and a decline in capital requirements. Although the capital adequacy ratios differed from bank to bank, no bank fell below 10% during 2012. The minimum capital ratio is set at 8%.

59 STA (Standardised Approach) is a basic technique that can be used to set the capital requirement for credit risk. The capital requirement is equal to 8% of the value of risk-weighted exposures (the value of the exposure multiplied by the relevant weighting). In this approach, risk weights are set based on the ratings of ratings agencies.

60 The IRB approach (Internal Ratings Based Approach), which is based on internal ratings, is used to measure and manage credit risk. Among other things, it is used to set risk-weighted exposures for the calculation of capital requirements for the credit risk of an institution. The use of the IRB approach is subject to prior consent of the regulator.

2.5 BANKING SECTOR PERFORMANCE

2.5.1 Profit from financial activities and profit from other operating activities

As in previous years, the banking sector recorded a profit in 2012. Banks performed better than in 2011, generating a higher profit from financial activities (up by CZK 4.5 billion, or 2.8%, to CZK 166.6 billion).

TABLE II.19

Banking sector performance
(in CZK millions)

	2010	2011	2012
PROFIT FROM FINANCIAL ACTIVITIES	157,376	162,089	166,563
of which:			
interest profit	105,308	109,935	107,954
dividend income	5,859	7,578	6,607
profit from fees and commissions	38,493	39,059	37,342
gains on financial assets not measured at FV through profit or loss	-1,451	-1,122	-110
gains on financial assets held for trading	11,016	1,149	7,706
gains on financial assets designated at fair value through profit or loss	2,398	-1,868	888
gains from hedge accounting	-208	51	-416
other gains	-4,038	7,306	6,591
ADMINISTRATIVE EXPENSES	62,381	66,049	66,695
DEPRECIATION, PROVISIONS	6,667	7,533	7,493
IMPAIRMENT	22,535	25,492	15,467
PROFIT/LOSS FROM CURRENT ACTIVITIES	94,995	96,039	99,867
other profit/loss	-157	418	-208
GROSS PROFIT before tax	65,636	63,432	76,700
tax expense	9,980	10,095	12,356
NET PROFIT	55,656	53,337	64,344

Interest profit accounted for almost 65% of total profit from financial activities in 2012, despite declining by 1.8% (CZK 2.0 billion) year on year to CZK 108.0 billion. Interest income fell slightly and interest expenses remained flat in an environment of historically low interest rates.

Interest profit from operations with other clients (CZK 82.8 billion) accounted for more than 76% of interest profit. The low interest rates in 2012 were reflected in the banking sector in growth in interest expenses of only CZK 50 million amid a higher volume of client deposits (up by 3.8% year on year). Interest paid to other clients (excluding credit institutions, central banks and general government) accounted for the largest share (more than 47% of all interest expenses). The amount paid totalled CZK 29.4 billion as of the end of 2012, up by CZK 1.5 billion (5.3%) on the end of 2011 due to the growth in the volume of deposits.

CHART II.24

Structure of profit from financial activities by profit type
(in %)

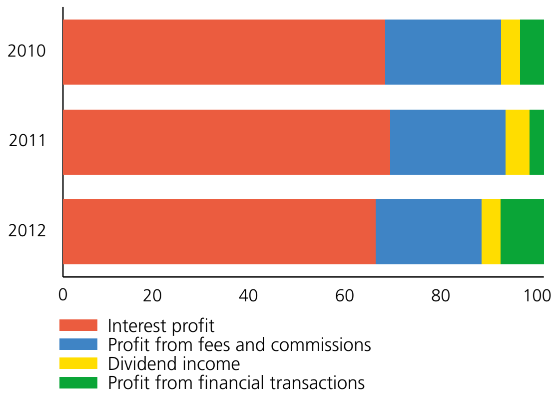


CHART II.25

Interest rate spread
(in percentage points)

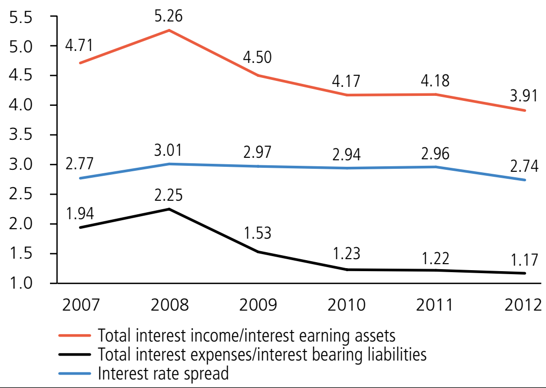


CHART II.26

Interest rate spread in 2012
(in percentage points)

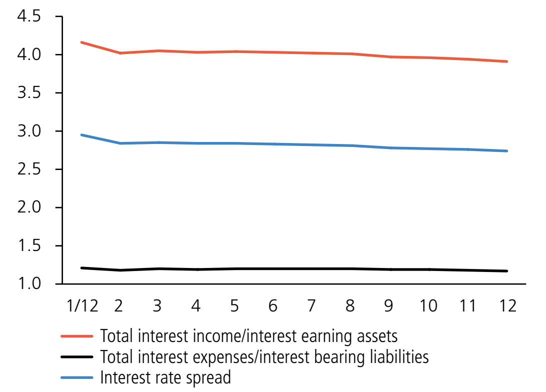
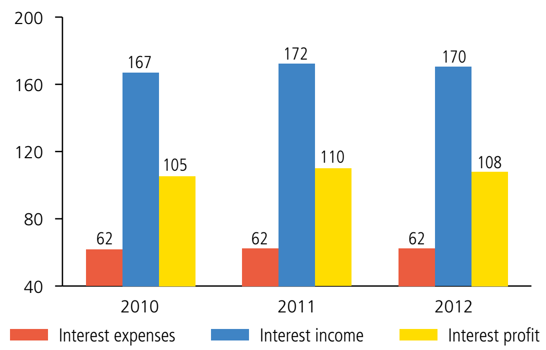


CHART II.27

Interest income and expenses
(in CZK billions)



The interest rate spread stabilised during 2012. Following a slight increase in the first half of the year, it returned to the same level, halting at 2.74 percentage points at the end of the year. The net interest rate margin continued to decline slightly to 2.44%.[61]

Profit from fees and commissions accounts for almost 64% of the non-interest profit of the domestic banking sector. In 2012, pressure was exerted for a narrower scale of fees and an overall decline in fees for bank products and services. Banks responded to this by changing their fee policies. The absolute profit from fees and commissions for the banking sector as a whole dropped by CZK 1.7 billion (4.4%). Payment system fees and commissions accounted for almost 60% of all income from fees and commissions in 2012, totalling CZK 29.2 billion (a decline of 1.9% in the period under review).

Gains on financial assets held for trading are volatile, reflecting among other things the results of derivatives transactions. These gains stood at CZK 7.7 million at the end of 2012. The increase in 2012 was based on a significant rise in gains on monetary policy instruments (including currency derivatives). This segment of the market is highly concentrated, with only two entities contributing to the rise.

Dividend income is another important source of banks' profit. Banks received dividend income totalling CZK 6.6 billion in 2012, down by almost CZK 1 billion (12.8%) from the end of 2011. This income consisted mainly of dividends from subsidiaries and associates within financial groups (CZK 6.4 billion). Concentration is also high here, with the "Big Four" accounting for almost 99% of all dividends received.

2.5.2 Administrative expenses and impairment

The total administrative expenses of the banking sector increased by just 1% year on year to CZK 66.7 billion during 2012. The share of personnel expenses (51.6%) was higher than that of other administrative expenses (48.4%). Personnel expenses rose by 1.9% year on year. Wages and salaries, which account for more than 72% of total personnel expenses (CZK 24.9 billion), increased somewhat more (by 3.4% year on year). Other administrative expenses, i.e. total administrative expenses net of personnel expenses, were broadly unchanged. Only IT costs recorded growth (of 11.1%). By contrast, outsourcing costs were down by 3.2% at the end of 2012 compared to a year earlier.

61 These indicators (the interest margin and the interest rate spread) relate to the figures reported for all economic sectors for receivables and liabilities operations.
The interest rate spread is the difference between total interest income/interest earning assets and total interest expenses/income bearing liabilities. Gains and losses from hedging interest rate derivatives are not included. This indicator does not take into account any differences in the structure and volume of the assets and liabilities for which it is calculated.
The net interest margin is a measure of interest profit relative to interest earning assets. Interest profit is the difference between interest income and interest expenses, excluding any gains and losses from hedging interest rate derivatives. Interest earning assets are given at gross book value.

While administrative expenses reflect banks' ability to manage and efficiently perform current operational activities, asset impairment losses reflect the quality of risk management in the allocation of own and external funds. In this respect, banks performed better than in 2011. At the end of 2012, losses from impairment on financial assets[62] amounted to CZK 13.7 billion, i.e. CZK 11.5 billion, or 45.6% less than at the end of 2011. Impairment on loans and receivables amounted to CZK 13.8 billion (up by 1%, or more than CZK 81 million).[63] On the other hand, losses from impairment of the banking sector's non-financial assets rose year on year in 2012, amounting to CZK 1.7 billion at the year-end.

2.5.3 Net profit

The banking sector posted a gross (pre-tax) profit of CZK 76.7 billion in 2012, up by 20.9% on 2011. Net profit showed the same increase, i.e. 20.6%, or CZK 11.00 billion, to CZK 64.3 billion as of 31 December 2012.

Banks paid CZK 12.4 billion in corporate income tax, up by CZK 2.3 billion (22.4%) on a year earlier.

The biggest contributor to the banking sector's net profit was the group of large banks, which generated a net profit of CZK 46.6 billion, accounting for 72.5% of total banking sector net profit. Most banks posted a profit in 2012. Only eight banks recorded a loss in 2012, of which five were foreign bank branches and three were small banks. The loss-making banks in 2012 make up an insignificant part of the banking sector. This group of eight banks manages 2% of the sector's balance sheet assets. All large banks generated a net profit; in each case, the profit was higher at the end of 2012 than at the end of 2011.

2.5.4 Profitability, efficiency and productivity

Return on Tier 1 (RoE), as measured by net profit generated per unit of capital, was 21.38% at the end of 2012, up by 2.1 percentage points on 2011. This can be viewed as a very good result by international standards. The increase in RoE was due mainly to the higher net profit of the sector coupled with lower capital growth. Profitability differed from bank to bank. RoE increased year on year in eleven banks (foreign bank branches do not report this indicator). Four banks reported RoE between 20% and 30%. The largest group was made up of eleven

62 This primarily involved impairment on Greek government bonds in the portfolios of three banks.

63 This refers to provisioning. The amount of provisions depends on the quality of the loan portfolio. Default receivables are associated with provisioning (see Section 2.3.1 Credit risk for details).

CHART II.28

Personnel expenses per employee
(in CZK thousands; banks with licences as of given date)

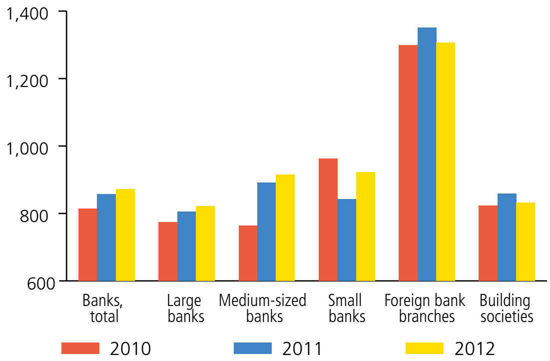


CHART II.29

Structure of income and expenses
(in CZK billions)

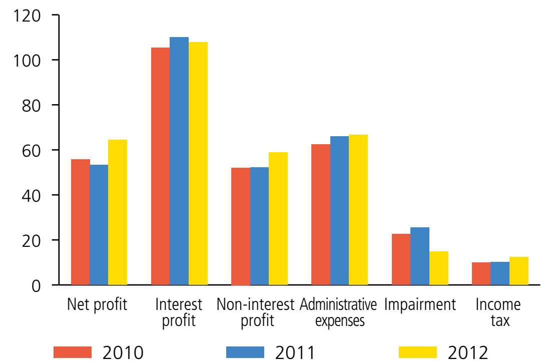


CHART II.30

Shares of bank groups in profit of sector
(in %; banks with licences as of given date)

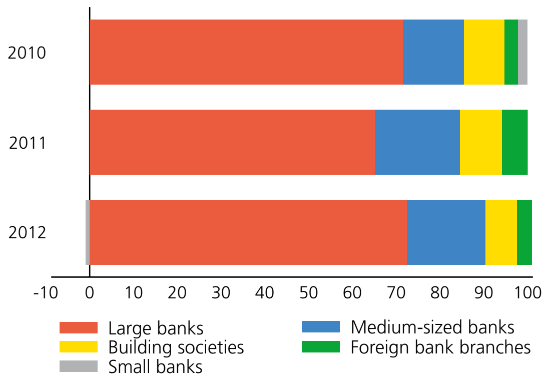


Chart II.31

RoE for bank groups
(in %)

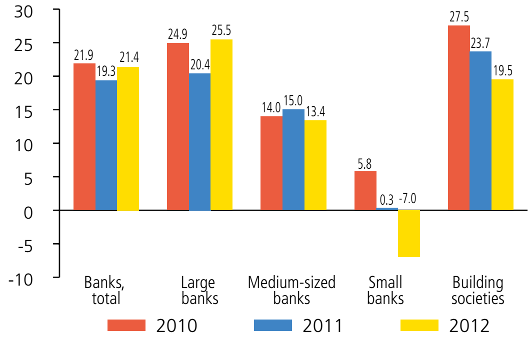
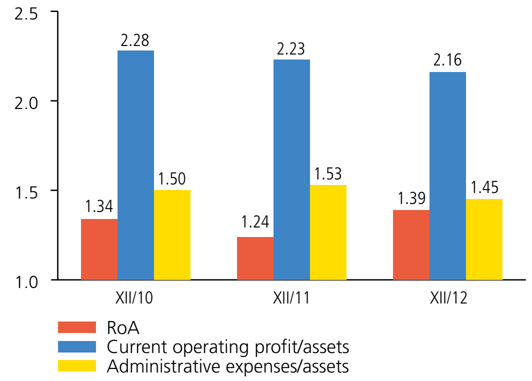


Chart II.32

RoA
(in %)



banks having RoE ratios of between 10% and 20%. Four banks had positive RoE ratios of less than 10%. Three banks posted negative values. One bank had a ratio in excess of 40%.

Return on assets (RoA) was also affected by the high net profit of the sector and modest growth in balance sheet assets. RoA for the banking sector as a whole increased by 0.15 percentage point to 1.39% as of 31 December 2012.

The ratio of administrative expenses to assets in the banking sector fell slightly. At the end of 2012, the figure was 1.45%. Net profit per employee, which rose by 20.4% to CZK 1,630,200, was again affected mainly by the higher net profit and the minimal change in the number of banking sector employees.

2.6 THE CREDIT UNION SECTOR

In 2012, a total of 13 credit unions were operating in the market, down by one from 2011. The UNIBON credit union went into liquidation on 8 March 2012. However, the decrease in the number of credit unions did not change the upward trend in the number of credit union members. The latter increased by 21.8% year on year to 54,408 as of 31 December 2012. This is the highest number in five years.

The increase in the number of members was accompanied by growth in credit unions' business activities. The total assets of the sector increased by 38.9% to CZK 39.3 billion during 2012. Receivables from clients were the largest item on the asset side, rising by CZK 8.8 billion, or 45.8%, to CZK 28.2 billion, while on the liability side deposits and other liabilities to clients also increased by CZK 8.8 billion, or 34.9%, to CZK 33.8 billion. The inflow of deposits was fuelled institutionally by the deposit guarantee system to the same extent as in the case of banks. The continuing credit expansion in the credit union sector did not rely on sources from the interbank market. Claims on credit institutions (CZK 7.7 billion) continued to far exceed liabilities to credit institutions (CZK 0.5 billion). Held-to-maturity investments increased by 15.4% to CZK 700 million, while cash and receivables from central banks as well as tangible fixed assets were almost flat, at CZK 1.1 billion and CZK 846 million respectively.

Table II.20

Number of CUs and their members

	2010	2011	2012	Change in % from 2011
Number of CUs	14	14	13	92.9
Number of members of CUs	34,003	44,687	54,408	121.8
Number of new memberships since start of year	12,968	12 181	16,005	131.4
Number of memberships terminated since start of year	1,101	1,497	1,961	131.0

Table II.21

CU sector balance sheet
(in CZK millions)

	2010	2011	2012	Change in % from 2011
TOTAL ASSETS	19,890	28,275	39,279	138.9
Cash and receivables from central banks	643	1,134	1,121	98.9
Receivables from credit institutions	5,189	6,014	7,689	127.9
Receivables from clients	12,569	19,327	28,178	145.8
Other receivables	122	124	113	91.7
Held to maturity investments	487	607	701	115.4
Tangible assets	810	824	846	102.7
Other assets	70	245	630	256.8
TOTAL LIABILITIES AND EQUITY	19,890	28,275	39,279	138.9
Liabilities, total	19,826	28,107	38,717	137.7
Liabilities to central banks	0	1	5	636.9
Liabilities to credit institutions	164	147	527	357.1
Deposits, loans and other financial liabilities to clients	17,668	25,060	33,816	134.9
Paid-up share capital of CUs repayable on demand	1,874	2,646	3,815	144.2
Other liabilities	120	253	553	218.5
Equity, total	64	168	562	335.2
Reserves	80	91	161	176.9
Retained earnings	23	-46	85	x
Profit (loss) for accounting period	-39	123	316	257.8

Table II.22

CU sector off-balance sheet
(in CZK millions)

	2010	2011	2012	Change in % from 2011
OFF-BALANCE SHEET ASSETS	255	863	2,231	258.4
Commitments and guarantees given	255	698	943	135.1
Pledges given	0	0	200	x
Receivables from spot transactions	0	100	411	410.2
Receivables from futures, forwards, swaps etc.	0	65	676	1,042.4
Receivables from options transactions	0	0	0	0.0
Write-off receivables	0	0	0	0.0
OFF-BALANCE SHEET LIABILITIES	15,191	21,398	27,078	126.5
Commitments and guarantees received	2,466	4,470	2,917	65.3
Pledges received	12,725	16,757	23,070	137.7
Liabilities from spot transactions	0	100	413	413.2
Liabilities from futures, forwards, swaps etc.	0	71	678	954.6
Liabilities from options transactions	0	0	0	0.0

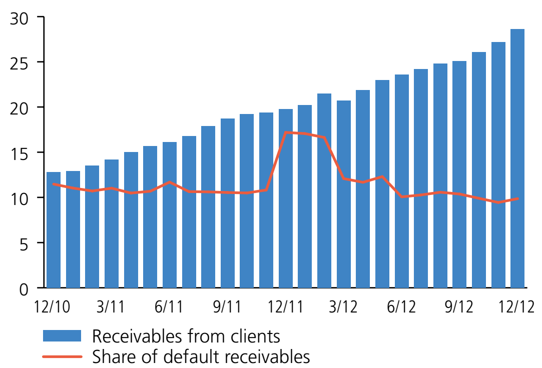
Table II.23

CU sector performance
(in CZK millions)

	2010	2011	2012	Change in % from 2011
Financial and operating profit	513	1,026	1,169	113.9
Interest profit	406	934	1,096	117.3
Profit from fees and commissions	55	72	74	102.6
Other operating profit/loss	51	19	-1	x
Administrative expenses	393	555	604	108.9
Depreciation	22	36	38	104.5
Provisions	1	3	9	306.9
Impairment	125	267	116	43.5
Tax expense	0	0	0	511.1
PROFIT OR LOSS AFTER TAXATION	-39	123	316	257.8

Chart II.33

Volumes of client loans (in CZK billions) and shares of default loans in those loans
(in %)



Default loans in the credit portfolio of credit unions fell by 7.3 percentage points year on year to 9.9% at the end of 2012. This decrease was driven by the closure of one credit institution and by credit expansion. Default loans remained high, exceeding CZK 2.8 billion at the end of 2012. In 2012, credit unions set aside allowances of CZK 462.5 million for client credit losses, 1.5% lower than at the end of 2011. Almost all these allowances were created specifically for individual receivables; allowances for receivables portfolios accounted for only 0.15% of the total.

Like the balance sheet, the amount and structure of off-balance-sheet assets and liabilities show that credit unions followed a traditional business model based on the provision of basic credit products and services. Off-balance-sheet assets and liabilities (CZK 2.2 billion) were significantly lower than balance-sheet assets (CZK 27 billion) as at 31 December 2012. As for the structure, pledges received were the largest item of the off-balance sheet, amounting to CZK 23.0 billion. Futures transactions remained small in relation to the balance sheet total. Receivables from these transactions amounted to CZK 676.3 million, i.e. only 0.3% less than liabilities, which totalled CZK 678 million. Credit unions hardly engaged in options, credit derivatives, swaps or other complex transactions at all.

The credit union sector posted better profits in 2012 than in 2011. As of 31 December 2012, profit from financial and operating activities was up by 13.9% year on year to CZK 1,168 million. This was due mainly to interest profit, which rose by 17.3% to CZK 1,096 million. Profit from fees and commissions rose by 2.6% to CZK 74 million. The balance of the remaining items of the profit from financial and operating activities, which includes valuation changes, the results of trading in financial instruments, the sale of written-off claims and property and so on, was slightly negative to the tune of less than CZK 1 million. Administrative expenses increased by 8.9% year on year in 2012, i.e. considerably slower than profit from financial and operating activities, and amounted to CZK 604 million. This, combined with a decrease in impairment charges to less than half of the 2011 figure, contributed to the fact that the sector as a whole made a net profit of CZK 316.5 million in 2012, up by 157.8% on 2011.

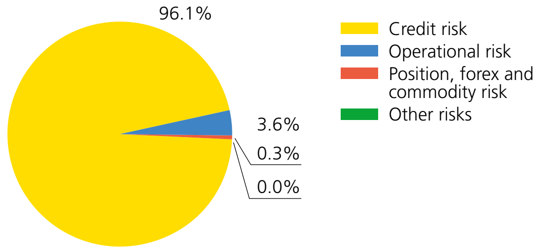
The regulatory capital of the credit union sector amounted to CZK 4.3 billion at the end of 2012. The overall capital adequacy ratio was 13.3% and the Tier 1 capital ratio was 12.3%. The allocation of regulatory capital to risks reflected credit unions' traditional business model described above. Most of the capital (96.1%) was allocated to credit risk. The capital requirements for operational risk accounted for 3.6% and those for market risks together with other regulated risks for only 0.3% of the total capital requirements.

All credit unions were compliant with the minimum capital adequacy requirement of 8%.

Quick assets amounted to CZK 5.6 billion as of 31 December 2012, i.e. 14.3% of total assets.

CHART II.34

Capital requirements of CU sector



3. THE CAPITAL MARKET

3.1 INVESTMENT FIRMS

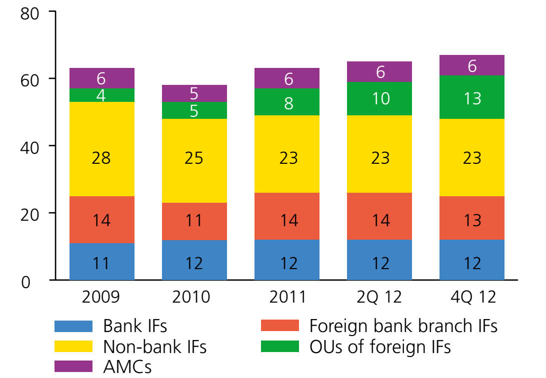
3.1.1. Licensed investment firms

The CNB registered 67 investment firms as of the end of 2012, 12 of them banks, 23 non-bank investment firms, 13 foreign bank branches and 13 organisational units of foreign investment firms. Six domestic management companies managing assets of clients under contract (asset management companies, AMCs) held investment firm licences at the end of 2012.

As of 31 December 2012, entities licensed as investment firms[64] had 875,900 clients, of which 161,800 were clients of domestic non-bank investment firms, 688,000 were clients of bank investment firms and 700 were clients of domestic AMCs. Foreign bank branches and organisational units of foreign investment firms had 19,800 and 5,600 clients respectively at the end of 2012.

CHART III.1

Total number of investment firms
(at end of period)



3.1.2 Client assets and managed funds

At the end of 2012, the assets of clients of investment firms totalled CZK 3,011.9 billion, up by 6.4% on the same period a year earlier. Of the total, the assets of clients of domestic non-bank investment firms amounted to CZK 416.1 billion (down by 10.9%), the assets of clients of domestic banks CZK 2,002.5 billion (up by 8.3%) and the assets of clients of AMCs CZK 205.9 billion (up by 89.9%). The assets of clients of branches of foreign banks and organisational units of foreign investment firms amounted to CZK 387.1 billion and CZK 0.2 billion respectively, representing a decrease of 4.6% and an increase of 38.2% year on year respectively.

As of 31 December 2012, investment firms managed funds totalling CZK 604.6 billion (up by 4.4% on a year earlier), of which CZK 336.1 billion fell to domestic non-bank investment firms (down by 18.7% from a year earlier), CZK 61.3 billion to banks (up by 12.2% on a year earlier) and CZK 207.1 billion to AMCs (up by 87.8% on a year earlier).

64 Entities licensed by the CNB and branches of entities registered in another Member State of the European Union and authorised to provide investment services in the Czech Republic.

3.1.3 Volumes of trading in securities

Investment firms carried out trades for their clients totalling CZK 9,349.4 billion in 2012.[65] Trades under a management relationship amounted to CZK 681.6 billion and trades under a non-management relationship amounted to CZK 8,667.8 billion.

Securities trades carried out for clients by bank investment firms (including branches) totalled CZK 7,727.9 billion. Non-bank investment firms carried out trades for their clients amounting to CZK 1,464.7 billion, while client trades of asset management companies reached CZK 156.8 billion.

Investment firms carried out derivatives trades for their own account totalling CZK 41,013.7 billion in 2012. Trades carried out by investment firms (including foreign bank branches) accounted for the largest share in 2012, amounting to CZK 40,676.6 billion. The trades executed by non-bank investment firms for their own account over the same period totalled CZK 337.1 billion.

3.1.4 Financial results and capital adequacy of investment firms[66]

The investment firm sector was sufficiently capitalised in 2012. The capital of the 23 domestic non-bank investment firms totalled CZK 2.8 billion (down by 19.4% from a year earlier). The capital of AMCs totalled CZK 0.6 billion (up by more than 100% year on year).

The capital requirements for the individual types of risks amounted to CZK 0.8 billion for domestic non-bank investment firms. This means a capital adequacy ratio of 26.8%. The highest capital requirements were calculated for credit risk (45.2%) and operational risk (38.8%). In the case of AMCs, the capital adequacy ratio was 31.7% and the capital requirements were CZK 0.1 billion.

Domestic non-bank investment firms recorded positive financial results in 2012. The total net profit of non-bank investment firms fell by 13.2% year on year to CZK 0.6 billion. This was largely due to a decline in fees and commissions, which fell by 17.2% compared to 2011 to CZK 2.6 billion.

65 The overall volume of trades comprises spot transactions, custody transfers, repos, buy/sell-back trades and sell/buy-back trades.
66 This section primarily analyses the capital adequacy indicators of domestic non-bank investment firms (23 entities), unless stated otherwise.

CHART III.2

Overall structure of securities trades for 2012
(in %)

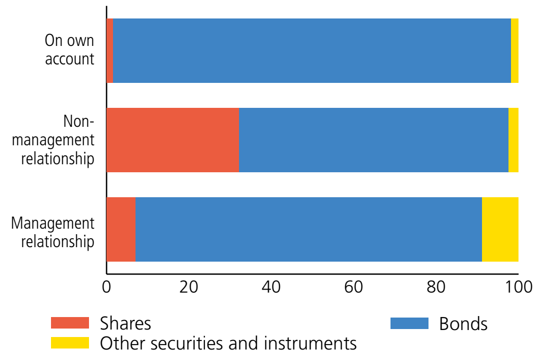


CHART III.3

Breakdown of domestic non-bank IFs by capital adequacy ratio
(as of 31 December 2012)

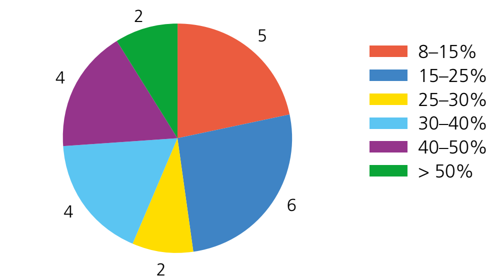


CHART III.4

Capital requirement structure of IFs
(as of 31 December 2012, in %)

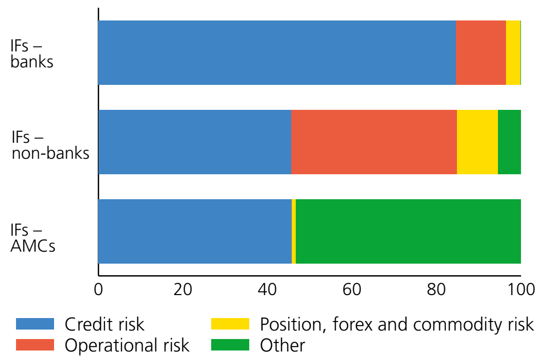


Chart III.5

Market shares in management company sector by volume of assets managed
(in %; at end of period)

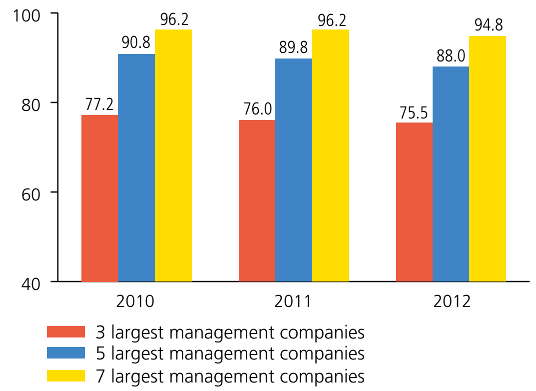


Chart III.6

Assets of CIFs open to the public by fund type
(in CZK billions; at end of period)

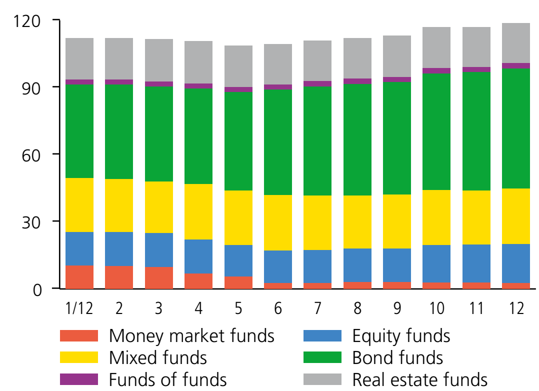
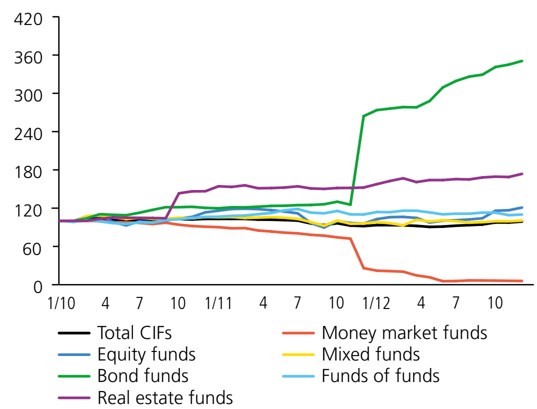


Chart III.7

Assets of CIFs open to the public by fund type
(1/2010 =100%)



3.2 COLLECTIVE INVESTMENT

3.2.1 Collective investment undertakings

A total of 21 management companies, 77 investment funds, 41 mutual funds for qualified investors and 113 mutual funds open to the public (of which 39 were standard) were active on the Czech collective investment market at the end of 2012.

Management companies were managing assets totalling CZK 118.7 billion in domestic open-end mutual funds at the end of 2012. The market shares of management companies according to assets managed in their collective investment funds open to the public remained at a similar level in 2012 as in the previous period. The three companies with the largest market shares manage approximately 75% of the assets of domestic mutual funds and the seven largest manage almost 95%.

3.2.2 Assets of mutual funds open to the public

The assets of collective investment funds open to the public amounted to CZK 118.7 billion at the end of 2012, up by CZK 8.5 billion on the end of 2011. The assets of domestic mutual funds open to the public increased by 7.8% year on year. The balance sheet total in 2012 was 4.1% lower than at the end of 2010 and 0.2% lower than at the end of 2009.

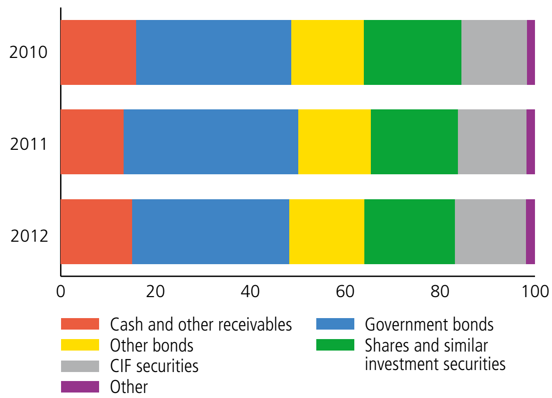
As regards fund type, the largest volume of assets at the end of 2012 was managed by bond funds, whose share in the total assets of collective investment funds open to the public was 45.2%, i.e. 8.5 percentage points higher than in the same period of 2011. At the end of 2012, the value of these funds' assets was CZK 53.6 billion, an increase of 32.7% in year-on-year comparison. Assets managed by mixed funds increased by 4.8% year on year to CZK 24.6 billion, although their share in the assets of all domestic mutual funds open to the public fell slightly by 0.6 percentage points year on year to 20.7%. Assets managed by money market funds decreased by 77.7% year on year to CZK 2.8 billion. After a fall in 2011 relating to the conversion of some money market funds into bond funds, the importance of these funds thus continues to decrease. Their share in the balance sheet total of domestic mutual funds open to the public decreased by 9 percentage points year on year to 2.4%.

The evolution of other types of funds was relatively stable. As of the end of 2012, the balance sheet total of equity funds was CZK 17.5 billion, representing 14.7% of the sector's assets (a 2.1 percentage point year-on-year rise in asset share). Funds of funds managed the same amount of funds at the end of 2012 as in 2011 (CZK 17.8 billion), representing 15.0% of the total value of assets of domestic mutual funds open to the public and a 1.2% year-on-year decrease in the share of these funds in the total assets of the sector. Real estate funds account for a minimal share of the sector's total assets (2.0%).

As regards the structure of investment instruments, the assets of mutual funds open to the public are relatively stable over time. The bulk of the assets of collective investment funds open to the public (almost one-half) were invested in debt securities at the end of 2012. Investments in shares and similar investment securities amounted to 19.0% of the assets at the end of 2012, up by 0.6 percentage point on the end of 2011. Domestic mutual funds open to the public had 15.1% of the assets invested in deposits and other receivables and 15.0% in collective investment securities. Other investments, for instance real estate and holdings in other companies accounted for the remainder (less than 2%).

CHART III.8

Asset structure of CIFs open to the public
(in %; at end of period)



3.2.3 Evolution of assets of mutual funds open to the public

The total assets of collective investment funds open to the public are significantly affected by the net value of unit purchases and sales. Positive net sales of units (especially for bond funds) were recorded in 2012. The amount paid out of the assets of collective investment funds open to the public for units redeemed (CZK 32.7 billion) was lower than the amount received for units issued (CZK 36.4 billion). The resulting net value of units issued and redeemed was positive, at CZK 3.7 billion.

Collective investment funds open to the public generated a net profit of CZK 6.7 billion in 2012, unlike in the previous year. This represents a year-on-year increase of CZK 12.7 billion.

A comparison of the volume of assets in domestic mutual funds open to the public with selected stock indices reveals that assets in mutual funds are correlated with developments in world financial markets.

TABLE III.1

Unit sales and purchases in 2012
(in CZK millions)

	Units issued	Units purchased	Balance
Money market	2,769.3	3,912.3	-1,143.0
Equity	4,183.1	3,575.7	607.4
Mixed	3,928.3	4,783.7	-855.4
Bond	19,573.8	14,986.3	4,587.5
Funds of funds	5,145.8	4,879.0	266.8
Real estate	788.3	557.4	230.9
OMFs, total	**36,388.5**	**32,694.4**	**3,694.1**

3.2.4 Funds for qualified investors

The assets managed by funds for qualified investors declined by 18.2% year on year to CZK 47.3 billion as of the end of 2012. As regards the structure of the portfolio, these funds were invested mainly in debt securities (34.3% of assets) and a significant proportion of assets (25.6%) were also invested in receivables from banks. Only 1.1% of assets were invested in shares and units.

CHART III.9

Assets of CIFs open to the public and selected stock indices
(1/2010 = 100%)

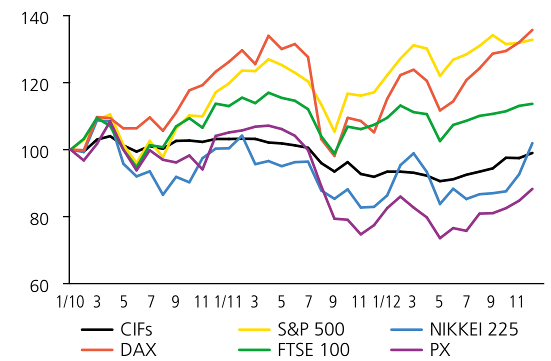


CHART III.10

Total assets and profit of pension funds
(at end of period; in CZK billions)

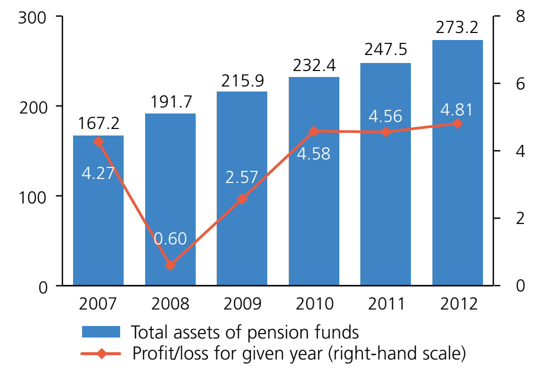


CHART III.11

Market shares in pension fund sector by volume of planholders' funds recorded in liabilities
(at end of period; in %)

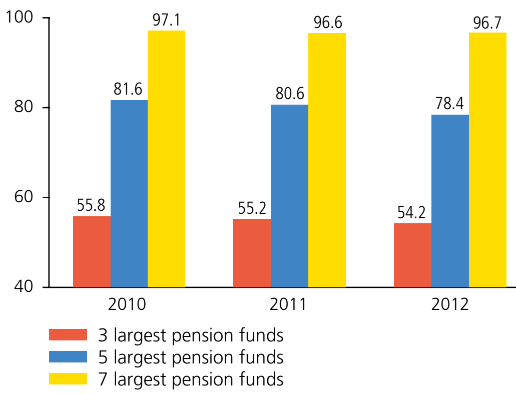
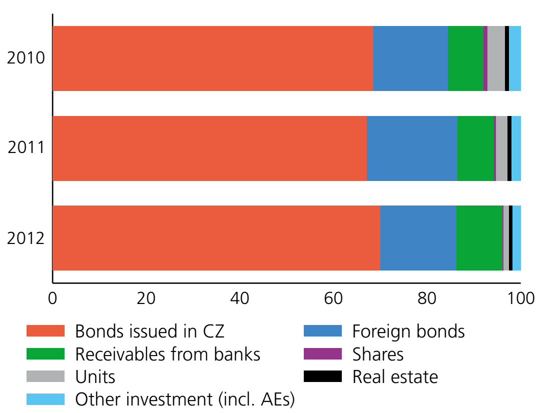


CHART III.12

Structure of pension fund assets
(at end of period; in %)



3.3 PENSION FUNDS

The pension fund sector was affected during 2012 by the ongoing pension reform. In addition to the pay-as-you-go system (first pillar) and voluntary private pension schemes or supplementary pension savings (third pillar), a new second pillar enabling fund retirement saving was introduced on 1 January 2013.

A total of nine pension funds were active in the private pension scheme market in the Czech Republic as of 31 December 2012, the same number as in previous years. All existing pension funds were granted a pension management company licence and authorisation to operate a supplementary pension scheme through a transformed (pension) fund in the course of 2012.[67] The assets of planholders were separated from the assets of the pension fund's shareholders on 1 January 2013.

3.3.1 Pension fund assets

The total assets managed by pension funds rose by CZK 25.7 billion to CZK 273.2 billion in 2012. This represents a year-on-year increase of 10.4%, confirming the rising trend. The private pension scheme market remained highly concentrated in 2012. The three largest funds by volume of planholders' funds manage 54.2% of the total value of the sector, and the five largest ones manage 78.4% of the value of funds credited to pension planholders. The situation regarding the amount of assets is similar, as the three largest pension funds manage more than half and the five largest funds 78.6% of balance sheet assets.

The bulk of pension fund assets (86.3% of the total) were invested in bonds and T-bills, while only 1.4% were in shares and units and 9.8% were in time deposits and on term accounts. Pension funds invested 0.7% of the value of the assets managed in real estate. The remaining 1.8% consisted of other asset items. Pension funds continued to apply a conservative investment strategy, reinforced by a guarantee of non-negative returns on planholders' funds.

67 During 2012, the CNB also granted licences to two newly established pension management companies: Conseq penzijní společnost, a. s., and Raiffeisen penzijní společnost, a. s. Thus, as from 1 January 2013, there will be eleven companies on the Czech market, with six companies operating a retirement savings scheme under the second pillar and nine operating a supplementary pension savings scheme under the third pillar.

3.3.2 Equity and profit of pension funds

Equity is an important indicator of the financial stability of pension funds. At the end of 2012, the equity of the pension fund sector amounted to CZK 22.9 billion. This represents a year-on-year increase of 83.3%. Equity thus exceeded 8% of the sector's total assets (8.4%), an increase of more than 3 percentage points on a year earlier. During 2012, equity was increased, inter alia, by increasing registered capital as well as reserve funds and other funds created from profit.

Total equity was positively affected most of all by reported valuation differences, which recorded a positive value of CZK 9.1 billion at the end of 2012. This represents an increase of CZK 9.8 billion on the slightly negative figure of the previous year.

The profit of pension funds corresponds to the evolution of assets in an environment of low interest rates and conservative investment strategies. The private pension scheme sector posted an accumulated book profit of CZK 4.8 billion, up by 5.7% (CZK 0.3 billion) on the previous year.

The profit was positively affected in particular by an increase in profit from financial transactions, which increased more than five times year on year to CZK 2.9 billion. Interest and similar income, which represents the largest item in nominal terms, decreased slightly by 2.6% year on year to CZK 7.3 billion at the end of 2012.

Expenditure on services used by pension funds is the largest item of expenditure in nominal terms. It comprises expenditure on fees and commissions and administrative expenses net of personnel expenses. These costs totalled CZK 5.1 billion in 2012, an increase of 56.4% on 2011. This rise was due to a year-on-year increase in administrative expenditure (of 27.4%) and in particular to a rise in expenditure on fees and commissions of 66.6% year on year to CZK 4.1 billion in 2012. Expenditure on distribution of pension fund products[68] was the largest item of spending on fees and commissions (86.2%). In 2012 it rose by 80.3% year on year to CZK 3.5 billion.

3.3.3 Planholders' funds

The funds of planholders, i.e. their contributions including state contributions, contributions paid by employers and credited returns, amounted to CZK 246.6 billion at the end of 2012. This represents an increase of 6.3% (CZK 14.5 billion) on a year earlier. The structure of planholders' funds is fairly stable. Planholders' own contributions account for around 63% of the total, contributions paid by employers

68 Compensation for intermediation of private pension policies is the amount paid to intermediaries in compensation and commissions for the intermediation of private pension policies.

CHART III.13

Structure of pension fund equity
(at end of period; in CZK billions)

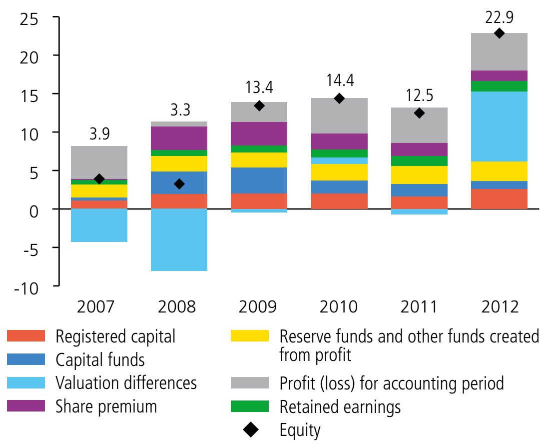


CHART III.14

Planholders' funds
(at end of period; in CZK billions)

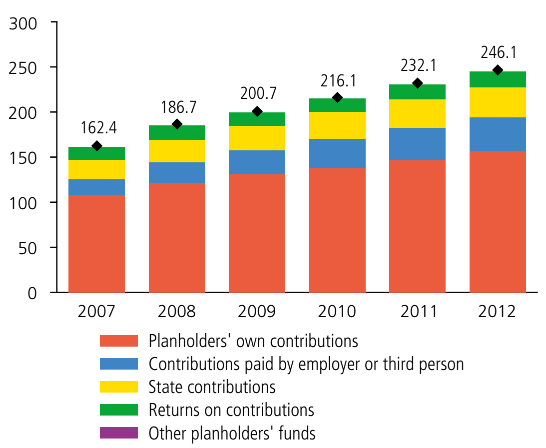
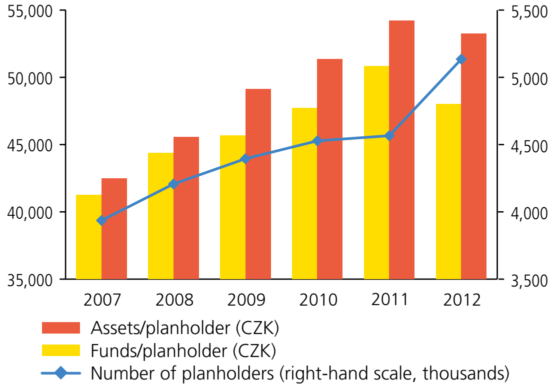


Chart III.15

Number of planholders, funds and assets per planholder
(at end of period)



Source: Czech Ministry of Finance, CNB

or third persons for about 15%, and contributions paid by the state for less than 14%. The remaining roughly 8% are returns on contributions, funds for pension payments and other planholders' funds.

The upward trend in the number of planholders continued into 2012. According to CNB figures, pension funds registered 5.1 million planholders as of 31 December 2012. This represents a year-on-year increase of more than 560,000 (12.2%). The largest increase in the number of planholders (471,000) was recorded in 2012 Q4 in connection with the termination of sales of private pension policies under the conditions valid at the end of November 2012.

In 2012, pension funds paid to their clients or transferred to other pension funds savings totalling CZK 42.3 billion (i.e. 47.5% more than in 2011). Lump-sum settlements represented the largest part of this figure (55.8%). Transfers between funds and termination settlements accounted for a significant share of the money paid (almost CZK 10 billion and CZK 4.9 billion respectively). In the same period, pension funds received funds amounting to CZK 54.9 billion, which represents an annual increase of 21.6%. Of this sum, planholders' own contributions amounted to CZK 27.8 billion, i.e. 50.7%. Total contributions received, including contributions paid by employers and state contributions, amounted to CZK 40.5 billion. In 2012, returns for 2011 amounting to CZK 4.2 billion were credited to planholders' accounts, i.e. roughly the same amount as in the previous period. The balance between funds received and funds paid was CZK 12.6 billion in 2012, a year-on-year decrease of 23.6%.

3.4 REGULATED MARKETS

3.4.1 Trading on the Prague Stock Exchange[69]

A total of 28 share issues were being traded on the share and unit market of the Prague Stock Exchange (PSE) at the end of 2012, i.e. two issues more than at the end of 2011, of which 17 issues were domestic. Bonds of 98 issues were being traded on the bond market, i.e. three more than a year earlier. The derivatives market saw a fall in activity; 14 issues of non-leveraged and 16 issues of leveraged investment certificates and 24 issues of separated coupons had been accepted for trading as of 31 December 2012. No warrants were being traded on the PSE derivatives market at the end of 2012. Futures trading was discontinued in September 2012.

The total volume of share/unit trades on the PSE continued to decline sharply, falling by 32.5% year on year to CZK 250.6 billion. ČEZ shares were the most traded issue on the PSE, accounting for 37.5% of the total volume of share trades in 2012. The three most traded share issues accounted for 77.1%, the five most traded issues for 88.2% and the ten most traded issues for 96.2% of the total volume of share trades.

The market capitalisation of shares traded on the PSE increased by 7.9% year on year to CZK 1,143.0 billion at the end of 2012. Following a fall in 2011 (of 23.6%), this marks a return to the slight upward trend seen in the previous two years. Foreign issues accounted for 37.9% of the total market capitalisation. ČEZ is also the largest issue in terms of market capitalisation, accounting for 32.0% of the total. The three largest share issues account for 66.4% of the total market capitalisation.

The PSE's PX index closed 2012 at 1,038.7 points, up by 127.6 points (14.0%) on a year earlier. The PX index recorded its yearly maximum of 1,041.3 points on 19 December 2012 and its yearly minimum of 859.2 points on 1 June 2012.

The PSE bond market recorded a year-on-year fall in 2012, with the total trading volume declining by 5.4% to CZK 594.2 billion. Trading in government bonds accounted for most (95.3%) of the total volume of bond trades. Corporate bond trades accounted for 1.6% and financial bond trades for 3.2% of the total.

Derivatives trading on the PSE was very subdued in 2012. The highest volumes were recorded for separated coupons (CZK 89.0 million) and – before trading was discontinued – futures contracts (CZK 52.3 million). Structured products (warrants and investment certificates) totalling CZK 50.7 million were traded.

69 Prague Stock Exchange (PSE), a member of CEE Stock Exchange Group together with the exchanges in Budapest, Ljubljana and Vienna.

CHART III.16

Numbers of issues (series) on PSE at end of period

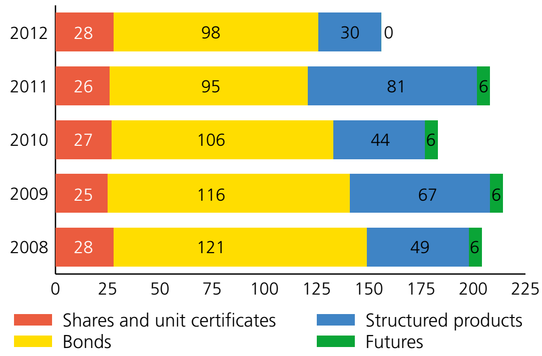
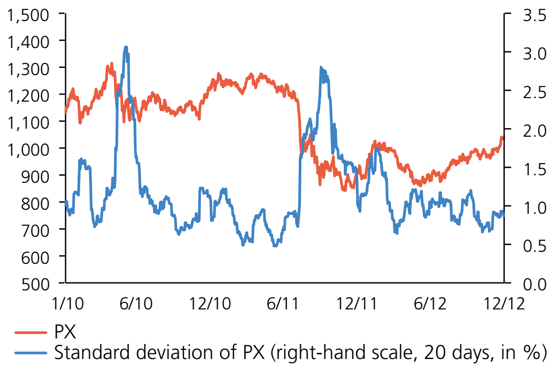


CHART III.17

PX index and its historical volatility in 2010–2012



3.4.2 Trading on the RM-SYSTÉM exchange[70]

Total annual trading on the other domestic regulated market (RM-S) amounted to CZK 6.1 billion in 2012 (down by 24.9% from a year earlier). Shares represented 99.7% of the trading volume. The RM index went up by 220.5 points (12.4%) to 1,991.9 points at the end of 2012 compared to the end of 2011.

70 RM-SYSTÉM, česká burza cenných papírů a.s.

4. THE INSURANCE MARKET

4.1 INSURANCE MARKET ENTITIES AND THEIR OWNERSHIP STRUCTURE

A total of 34 domestic insurance undertakings, one reinsurance undertaking and 18 branches of foreign insurance undertakings (all from EU countries) were operating in the Czech market at the end of 2012. This figure excludes the Czech Insurers' Bureau.[71]

Compared to 2011, the number of branches of foreign insurance undertakings operating in the Czech insurance market remained unchanged, while the number of domestic insurance undertakings decreased by one. Insurance undertakings from the United Kingdom (four branches), Germany and Austria (three branches each) enjoy the largest representation via branches in the Czech insurance market. Most branches (a total of 15) focus on non-life insurance, while three focus on life insurance. Most domestic insurance undertakings (a total of 16) also focus on non-life insurance, while 15 domestic insurers carry on both life and non-life insurance.

The number of insurance undertakings and branches of insurance undertakings from other EU/EEA countries offering insurance in the Czech Republic under the freedom to provide services continued to climb in 2012. There were 730 such undertakings and branches at the end of 2012. Most of these insurance undertakings are in the non-life insurance market.

As before, only one reinsurance undertaking, VIG RE zajišťovna, a.s., was active in the Czech insurance market. It opened for business in 2008 and is authorised to assume reinsurance risks in all segments of both the life insurance and non-life insurance markets as well as to carry on related activities (consultancy, intermediation, training and examination of reinsurance cases).

71 The Czech Insurers' Bureau (Česká kancelář pojistitelů, ČKP) is a professional organisation of insurers licensed to provide motor third party liability insurance. Its main tasks include providing frontier insurance, guaranteeing and providing compensation for personal injury or death caused by the operation of an unidentified vehicle for which an unidentified person is responsible, and providing compensation for damage caused by the operation of a vehicle without liability insurance and other types of compensation. Detailed information on the activity and financial performance of the Czech Insurers' Bureau is available at www.ckp.cz.

TABLE IV.1

Market structure by type of insurance undertaking

	2010	2011	2012
NUMBER OF DOMESTIC INSURANCE UNDERTAKINGS	35	35	34
of which:			
non-life	17	17	16
life	3	3	3
both life and non-life	15	15	15
NUMBER OF BRANCHES OF INSURANCE UNDERTAKINGS FROM EU AND THIRD COUNTRIES	17	18	18
of which:			
non-life	13	14	15
life	4	4	3
both life and non-life	0	0	0
TOTAL NUMBER OF INSURANCE UNDERTAKINGS[a)]	52	53	52
of which:			
non-life	30	31	31
life	7	7	6
both life and non-life	15	15	15

a) Excluding insurance undertakings from EU Member States operating in the Czech Republic under the freedom to provide services.

CHART IV.1

Numbers of domestic insurance undertakings by ownership structure

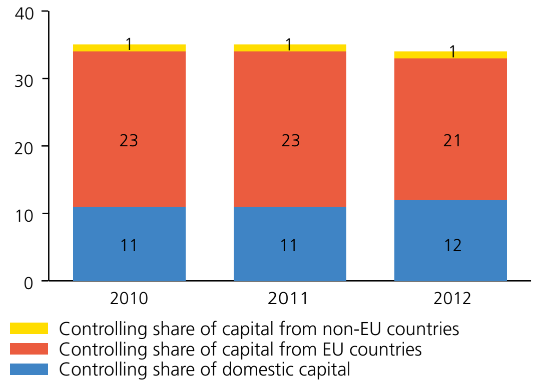


TABLE IV.2

Ownership structure of domestic insurance undertakings by share in registered capital as of 31 December 2012

Country	Amount of participation (CZK thousands)	Share in total registered capital (in %)
Netherlands	6,333,000	26.2
Austria	5,832,554	24.1
Czech Republic	5,256,069	21.7
Belgium	2,921,401	12.1
France	2,313,642	9.6
Germany	946,000	3.9
Slovenia	360,000	1.5
Denmark	120,000	0.5
USA	106,000	0.4
TOTAL CAPITAL	24,188,666	100.0

Chart IV.2

Gross premiums written
(in CZK billions)

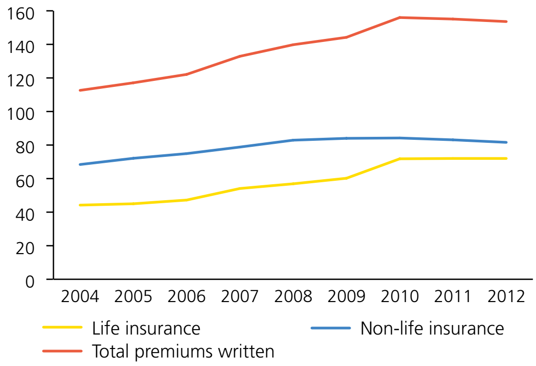
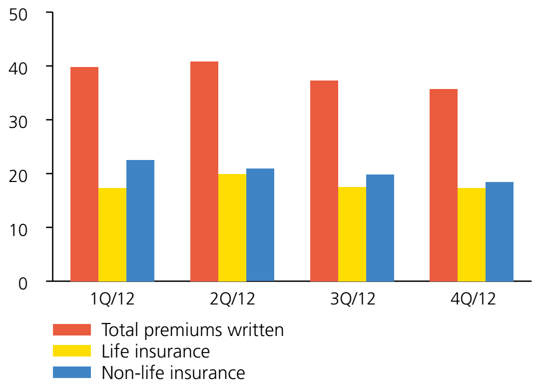


Chart IV.3

Gross premiums written
(in CZK billions)



The total registered capital of domestic insurance undertakings is continuing to rise modestly and was up by 1.9% on a year earlier as of 31 December 2012. In 2011, it had increased by 5.0%. Foreign capital accounts for 78.3% of the total. As of 31 December 2012, a total of 22 out of the 34 domestic insurers were controlled by foreign owners, with 17 being wholly foreign owned. Czech shareholders held 100% of the registered capital in 12 insurance undertakings.

4.2 PREMIUMS WRITTEN

Gross premiums written are one of the key indicators of the insurance market. Gross premiums written declined by 1.0% in 2012, compared to a decrease of 0.6% a year earlier. The decline in total gross premiums written was due to a decrease in non-life insurance of 1.8%, while life insurance recorded an increase of just 0.1%. Total gross premiums written amounted to CZK 153.6 billion in 2012.

Premiums written in life insurance increased by just CZK 40 million year on year to CZK 72.0 billion at the end of 2012. The amount of premiums written in life insurance was affected by a decline in lump-sum premiums in 2012.

Compared to 2011, the decline in non-life insurance deepened slightly by 0.4 percentage point. The deepening decline is due to a further decrease in premiums written in motor third party liability insurance and damage to and loss of land vehicles. Total gross premiums written in non-life insurance amounted to CZK 81.6 billion.

Life insurance accounts for 46.9% of total premiums written, a year-on-year rise of 0.5 percentage point and an all-time high for this ratio in the Czech insurance market. However, the share of life insurance is still below the usual level in advanced EU insurance markets.

A proportion of premiums written is ceded to reinsurers. In 2012, non-life insurance premiums ceded to reinsurers recorded a year-on-year decline of 3.1% to CZK 25.1 billion, representing 30.8% of total premiums written in non-life insurance. The share of life insurance premiums ceded to reinsurers in gross premiums written was significantly lower at 5.0% at the end of 2012. In absolute terms, this represents CZK 3.6 billion.

Insurance market concentration (as measured by premiums written) is quite high in historical terms in the Czech Republic. Compared to 2011, the concentration in the monitored segments of the insurance market remained broadly unchanged.

The most important category in the non-life insurance market is loss of property. Its share in premiums written has long been increasing steadily and reached 25.5% in 2012. Premiums written in this sector totalled CZK 20.8 billion. Other important categories of non-life insurance include motor third party liability and insurance against damage to or loss of land vehicles, which accounted respectively for 24.3% and 17.8% of total non-life insurance premiums. In absolute terms, premiums written in motor third party liability insurance fell by CZK 1.1 billion (-5.3%) and premiums written in insurance against damage to or loss of land vehicles declined by CZK 0.4 billion (-2.4%).

CHART IV.4

Shares of life insurance and non-life insurance in total premiums written
(in %)

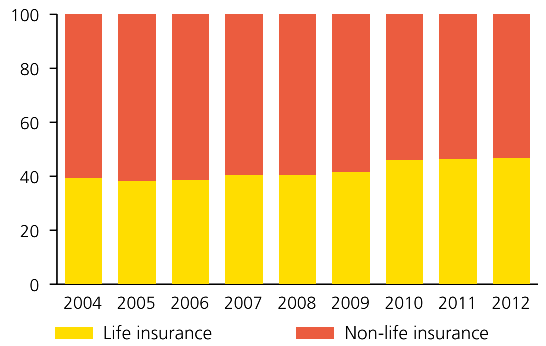


TABLE IV.3

Total insurance penetration in the Czech Republic

	Amount (CZK billions)			Change (in %)
	2010	2011	2012	2012/2011
Premiums written	156.0	155.1	153.6	-1.0
GDP (at current prices)	3 800	3 841	3 843	0.1
		in %		
Premiums written/GDP	4.1	4.0	4.0	x

CHART IV.5

Shares of premiums written in GDP
(in %)

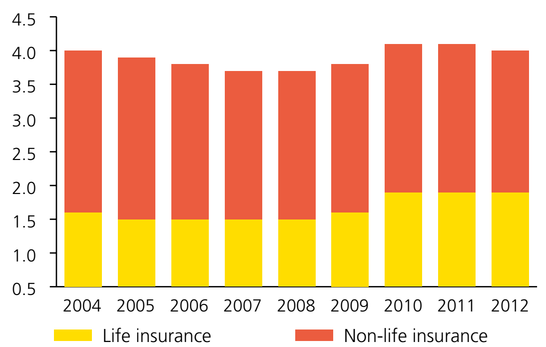


Chart IV.6

Concentration in insurance market by premiums written as of 31 December 2012
(in %)

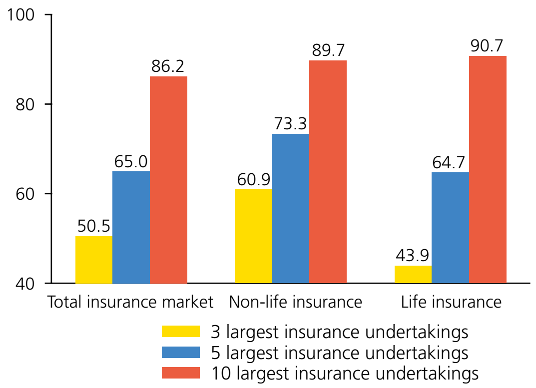


Chart IV.7

Shares of classes of life insurance in premiums written
(in %)

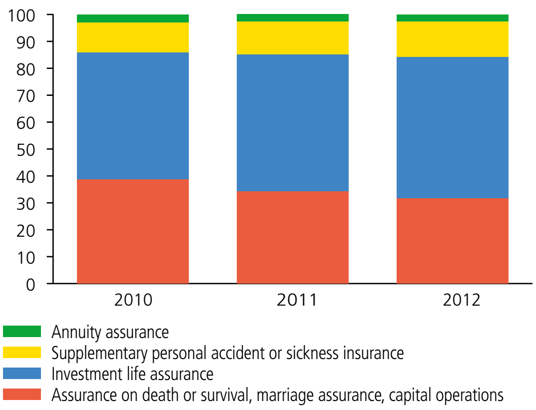
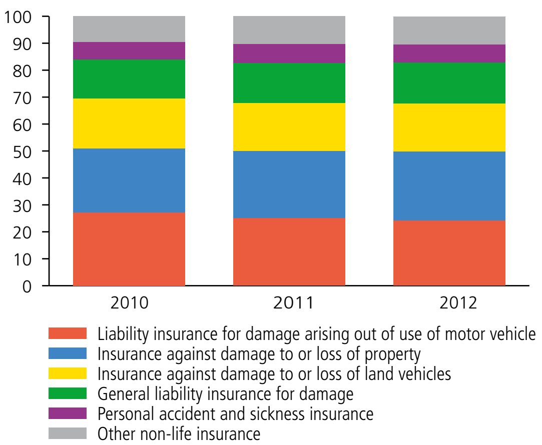


Chart IV.8

Shares of classes of non-life insurance in premiums written
(in %)



The upward trend in investment life insurance continued in the life insurance market. Since 2010, the share of investment life insurance in premiums written has exceeded the shares of traditional products such as assurance on death, assurance on survival or earlier death and insurance of benefits for child maintenance (marriage assurance). Premiums written in investment life insurance rose by 3.3% in 2012, to CZK 37.8 billion. Their share in total premiums written in life insurance rose by 1.7 percentage points year on year to 52.5%. By contrast, the combined share of assurance on death or survival, marriage assurance and assurance on capital operations decreased by 2.7 percentage points from 34.4% in 2011 to 31.7% in 2012.

Total insurance penetration, as measured by the ratio of gross premiums written to GDP at current prices, is an important insurance market indicator. Insurance penetration in the Czech insurance market is flat and stood at 4.0% in 2012. Compared to Western European countries, insurance penetration in the Czech Republic remains low.

TABLE IV.4

Premiums written by insurance class

Insurance class	Amount (CZK millions)			Change in %
	2010	2011	2012	2012/2011
TOTAL LIFE INSURANCE	71,765	72,009	72,049	0.1
Assurance on death or survival, marriage assurance, capital operations	27,793	24,792	22,853	-7.8
Annuity assurance	2,082	1,881	1,810	-3.8
Investment life assurance	33,956	36,584	37,799	3.3
Supplementary personal accident and sickness insurance	7,934	8,752	9,587	9.5
TOTAL NON-LIFE INSURANCE	84,233	83,083	81,555	-1.8
Liability insurance for damage arising out of use of motor vehicle	22,830	20,965	19,851	-5.3
Insurance against damage to or loss of property	20,150	20,585	20,832	1.2
Insurance against damage to or loss of land vehicles	15,637	14,862	14,499	-2.4
General liability insurance for damage[a)]	12,128	12,416	12,420	0.0
Accident and sickness insurance	5,490	5,708	5,524	-3.2
Other non-life insurance	7,998	8,547	8,429	-1.4

a) Including mandatory employer liability insurance for damage due to accidents at work or occupational disease.

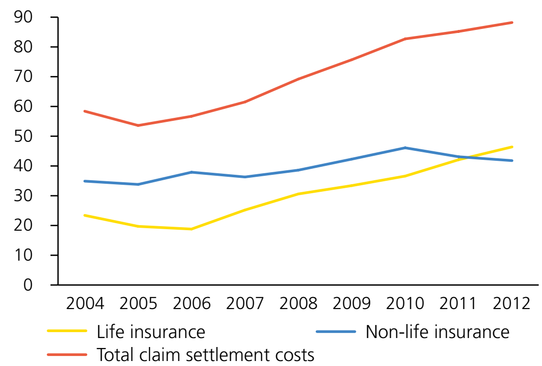
4.3 CLAIM SETTLEMENT COSTS

Claim settlement costs totalled CZK 88.2 billion in 2012, rising by 3.5% year on year. In this section, claim settlement costs are given on a gross basis inclusive of the reinsurer's share. The increase in claim settlement costs was due to life insurance, where such costs rose by 10.2%, while those in non-life insurance fell by 3% year on year. The losses caused by natural disasters in 2012 mainly involved losses due to gales and hail, which amounted to CZK 1.7 billion, and also losses due to floods, which totalled around CZK 0.4 billion.[72]

The share of reinsurers in non-life insurance claim settlement costs was CZK 10.4 billion in 2012, compared to CZK 12 billion in 2011. The share of reinsurers in total non-life insurance claim settlement costs was 24.8% in 2012. This is roughly 6.0 percentage points below their share in premiums written. Reinsurers accounted for just 2.7% of life insurance claim settlement costs.

CHART IV.9

Claim settlement costs
(in CZK billions)



72 Source: Czech Insurance Association.

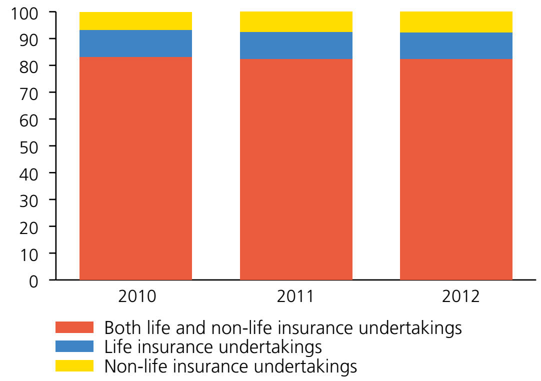
TABLE IV.5

Shares of insurance undertakings in total assets

	Amount (CZK millions)			Share (in %)
	2010	2011	2012	2012
TOTAL ASSETS	426,394	435,499	469,318	100.0
Domestic insurance undertakings	387,229	396,623	428,387	91.3
Branches of insurance undertakings	39,165	38,876	40,931	8.7

CHART IV.10

Shares of insurance undertakings in total assets by type
(in %)



4.4 ASSETS OF INSURANCE UNDERTAKINGS

The total assets of insurance undertakings stood at CZK 469.3 billion as of 31 December 2012. This represents a year-on-year rise of 7.8%. The growth in total assets had been slower in 2011 (2.1%). The total assets of domestic insurance undertakings amounted to CZK 428.4 billion at the end of 2012 (up by 8.0% year on year) and those of branches of insurance undertakings CZK 40.9 billion (up by 5.3%).

As regards the types of insurance undertakings, the biggest contributors to total assets were again universal insurers, which saw their share slip by 0.1 percentage point compared to 2011 to 82.4%. The share of life insurance undertakings in total assets fell to 9.9% over the same period. The share of non-life insurance undertakings remained broadly unchanged at 7.7%. In 2012, the strongest growth in assets was recorded by undertakings carrying on non-life insurance (11.4%). A year earlier the growth had been 14.4%. The growth rates of the total assets of universal and life insurers were slightly lower, at 7.6% and 6.4% respectively.

Financial placement (investment)[73] is the largest asset item in the balance sheet of domestic insurance undertakings. However, its share is falling gradually. As of 31 December 2012, financial placement accounted for 75.8% of total assets. Its share declined by 2.1 percentage points year on year, offset in particular by an increase in the share of financial placement linked with investment life insurance and other assets. Debt securities are the largest financial placement (investment) item. Their value increased by 4.5% compared to 2011 and their share in total assets declined by 1.9 percentage points to 60.6%. The major financial placement items also include shares and deposits with financial institutions (accounting for 4.8% and 5.4% of total assets respectively). Owing to growing interest in investment life insurance, the volume of financial placement of unit-linked life insurance rose by a further 23.4% and its share in total assets increased to 14.9%.

As technical provisions for life insurance are of a longer-term nature, longer maturity bonds dominate investments arising from technical provisions for life insurance, and equity securities also have a large share. Investments arising from technical provisions for non-life insurance are made up of more liquid financial placement items, such as deposits and treasury bills, than investments arising from life insurance technical provisions. Reinsurance receivables, including reinsurers' share in technical provisions, also have a significant share.

73 Financial placement (investment) is defined differently than financial placement of assets arising from technical provisions. Financial placement (investment) excludes reinsurance receivables.

TABLE IV.6

Asset structure of domestic insurance undertakings

	Amount (CZK millions)			Share (%)
	2010	2011	2012	2012
TOTAL ASSETS	387,229	396,623	428,387	100.0
Financial placements (investment)	305,030	309,576	324,924	75.8
of which:				
real estate	4,918	4,813	4,901	1.1
participating interests	13,221	13,599	16,400	3.8
shares, variable-yield securities	20,869	19,402	20,420	4.8
bonds and other fixed-income securities	236,803	248,488	259,670	60.6
deposits at financial institutions	26,830	23,095	23,163	5.4
other financial placements	2,389	179	370	0.1
Financial placements of unit-linked life insurance	44,456	51,759	63,861	14.9
Debtors (receivables)	19,941	15,922	15,624	3.6
Other assets	17,802	19,366	23,978	5.6

The investments of domestic insurance undertakings arising from technical provisions are dominated by bonds. Bonds account for 69.5% of investments arising from technical provisions for non-life insurance. This ratio is the same as in 2011. Reinsurance receivables are the second-largest item, with a share of 12.9%. Deposits and equity securities are also represented in financial placement (6.4% and 7.6% respectively).

Bonds are even more important in the investments of domestic insurance undertakings arising from technical provisions for life insurance, accounting for 76.7%. Equity securities have a significant 20.4% share. Reinsurance receivables have a negligible share of 0.2%. Investments arising from technical provisions for life insurance also include items linked with investment life insurance.

CHART IV.11

Investments of domestic insurance undertakings arising from technical provisions
(in %)

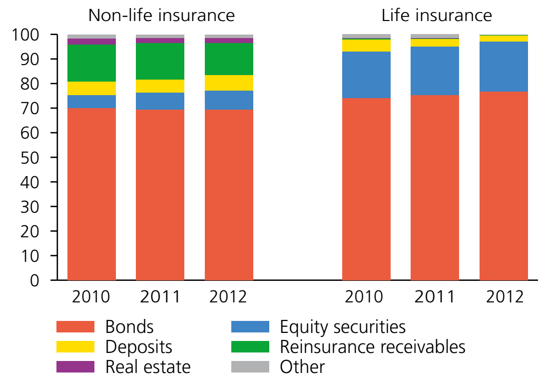


TABLE IV.7

Liability structure of domestic insurance undertakings

	Amount (CZK millions)			Share in %
	2010	2011	2012	2012
TOTAL LIABILITIES	387,229	396,623	428,387	100.0
Shareholder's equity	78,132	69,879	79,065	18.5
Technical provisions[a)]	235,593	242,443	248,661	58.0
Provision for unit-linked life insurance[a)]	44,415	51,718	63,861	14.9
Creditors (liabilities)	18,308	20,521	21,139	4.9
Other liabilities	10,781	12,062	15,661	3.7

a) net amount

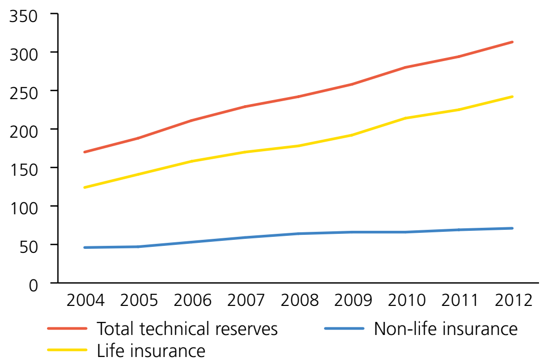
TABLE IV.8

Technical provisions of domestic insurance undertakings

	Amount (CZK millions)			Change (in %)
	2010	2011	2012	2012/2011
TOTAL GROSS TECHNICAL PROVISIONS	307,718	321,590	340,390	5.8
of which:				
non-life insurace	92,619	94,782	96,728	2.1
life insurance	215,099	226,808	243,662	7.4
TOTAL NET TECHNICAL PROVISIONS	280,007	294,160	312,522	6.2
of which:				
non-life insurace	65,914	68,752	70,672	2.8
life insurance	214,093	225,408	241,850	7.3

CHART IV.12

Net technical provisions of domestic insurance undertakings
(in CZK billions)



4.5 LIABILITIES OF INSURANCE UNDERTAKINGS

The most important item in insurance undertakings' liability structure is technical provisions, which represent the future obligations of insurance undertakings arising from insurance or reinsurance activities which are either likely to be incurred or certain to be incurred but uncertain as to amount or as to the date on which they will arise. Technical provisions are reported gross and net of reinsurers' share in technical provisions. The technical provision for unit-linked life insurance[74] is a specific item. The share of net technical provisions (excluding provisions for unit-linked life insurance) in the total liabilities of domestic insurance undertakings fell by 3 percentage points year on year to 58.0% as of the end of 2012. In line with the increase in the financial placement item of unit-linked life insurance, the share of the net technical provision for unit-linked life insurance in total liabilities of domestic insurance undertakings also rose, to 14.9%.

Besides technical provisions, equity capital is an important liability item. It accounted for 18.5% of the total liabilities of domestic insurers, up by 0.9 percentage point on a year earlier. Equity capital recorded a year-on-year increase of 13.1%. This relatively high rate of growth was due mainly to increases in profit and other capital funds. Profit increased by 39.2% and other capital funds by 57.2%. Share capital is the largest component of equity (30.6%). Other important equity items include other capital funds (23.1%), profit for the current year and retained earnings (each of which accounts for around 15%).

The share of the creditors (liabilities) item edged down by 0.4 percentage point compared to 2011, to 4.9%. The share of other liabilities in total liabilities was virtually unchanged at 3.7% at the end of 2012.

At the end of 2012, the total gross technical provisions of domestic insurance undertakings, including the provision for unit-linked life insurance, were up by 5.8% year on year to CZK 340.4 billion. The rate of growth of gross technical provisions increased by 1.3 percentage points compared to the previous period. Gross technical provisions for life insurance and non-life insurance increased by 7.4% and 2.1% respectively. The total net technical provisions of domestic insurance undertakings rose by about 6.2% during 2012.

74 It is linked with investment life insurance and is source of financial placement of unit-linked life insurance.

4.6 FINANCIAL RESULTS OF INSURANCE UNDERTAKINGS

Insurance undertakings operating in the Czech insurance market (including branches of foreign insurers) recorded a net profit of CZK 12.4 billion. The net profit increased by 34.6% year on year, thanks mainly to a rise in returns on financial placement. The profit on the technical account[75] for non-life insurance improved by 56.5% year on year to CZK 7.2 billion. The technical account for life insurance ended 2012 in a profit of CZK 6.6 billion (up by 20.0% year on year).

TABLE IV.9

Profit of insurance undertakings

	Amount (CZK millions)			Share in %
	2010	2011	2012	2012
TOTAL NET PROFIT	21,315	9,183	12,364	100.0
Domestic insurance undertakings	20,331	8,460	11,779	95.3
Branches of insurance undertakings	984	723	585	4.7

TABLE IV.10

Selected profitability and efficiency indicators for domestic insurance undertakings
(in %)

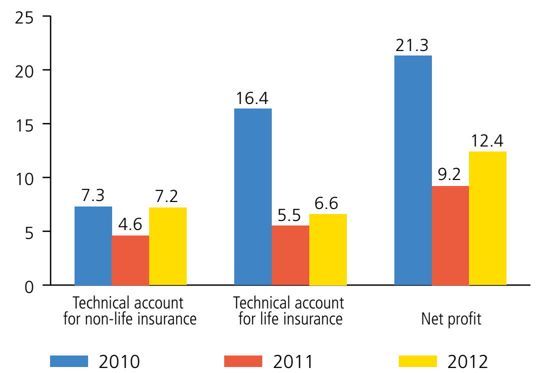
	2010	2011	2012
Net profit/assets (RoA)	5.3	2.1	2.7
Net profit/shareholder's equity (RoE)	26.0	12.1	14.9
Net profit/earned premiums	17.0	7.2	10.1
NON-LIFE INSURANCE			
Profit on technical account for non-life insurance/earned premiums	12.9	8.4	13.2
Claims incurred, including change in TPs/earned premiums	61.0	59.7	58.9
Net operating costs/earned premiums	30.1	30.7	31.5
Acquisition costs for insurance contracts/earned premiums	23.2	25.5	25.7
Administrative expenses/earned premiums	16.1	16.1	16.3
LIFE INSURANCE			
Profit on technical account for life insurance/earned premiums	24.0	7.4	9.3
Claims incurred, including change in TPs/earned premiums	50.8	59.1	65.9
Net operating costs/earned premiums	19.8	21.7	22.6
Acquisition costs for insurance contracts/earned premiums	14.2	16.5	17.6
Administrative expenses/earned premiums	6.3	6.4	6.6

The net profit recorded by the sector as a whole was chiefly due to domestic insurance undertakings, which accounted for 95.3% of the total. Their performance improved by 39.2% year on year in 2012. The net profit of branches of insurance undertakings decreased by 19.1% to just CZK 0.6 billion.

The better financial results of domestic insurance undertakings than in previous years were also reflected in better profitability and efficiency indicators. Return on assets (RoA), as measured by the ratio of net profit to assets, increased from the 2.1% reported in 2011 to 2.7%. The ratio of net profit to shareholder's equity (RoE) increased by 2.8 percentage points year on year to 14.9% in 2012, while the ratio of net profit to earned premiums[76] rose by 2.9 percentage points year on year to 10.1%.

CHART IV.13

Profits of insurance undertakings
(in CZK billions)



75 The profit and loss account of insurance undertakings is subdivided by type of business into a technical account for non-life insurance, a technical account for life insurance and a non-technical account, which comprises income and expenses that cannot be assigned to life or non-life insurance.
76 Earned premiums and claim settlement costs, including change in technical provisions, are net of reinsurance.

As regards non-life insurance, the ratio of profit on the technical account to earned premiums rose by 4.8 percentage points to 13.2%. The ratio of claims incurred, including change in technical provisions, to earned premiums improved slightly, falling by 0.8 percentage points to 58.9%. The ratio of net operating costs to earned premiums deteriorated slightly, increasing by 0.8 percentage point to 31.5%. The ratio of acquisition costs for insurance contracts to earned premiums was virtually unchanged at 26%.

The technical account for life insurance of domestic insurance undertakings ended 2012 in a profit of CZK 5.9 billion. Compared to 2011, the ratio of the technical account for life insurance to earned premiums improved by 1.9 percentage points to 9.3%. The ratio of claims incurred, including change in technical provisions, to earned premiums worsened, increasing by 6.8 percentage point year on year to 65.9%. The ratios of net operating expenses to earned premiums and acquisition costs for insurance contracts to earned premiums also worsened slightly, declining by 0.9 percentage points to 22.6% and by 1.1 percentage points to 17.6% respectively.

ABBREVIATIONS

ADR	Alternative Dispute Resolution Systems
AIFMD	Alternative Investment Fund Managers Directive
AMA	Advanced Measurement Approaches
AMCs	asset management companies
AML/CFT	anti-money laundering, combating the financing of terrorism
ASA	Alternative Standardised Approach
ASC	Advisory Scientific Committee
ATC	Advisory Technical Committee
ATM	Automated Teller Machine
AWG	Analysis Working Group
BCBS	Basel Committee on Banking Supervision
BCG	Basel Consultative Group
BIA	Basic Indicator Approach
bn	billion (10^9)
BRRD	Bank Recovery and Resolution Directive
CCR	Central Credit Register
CESR	Committee of European Securities Regulators
CIB	Czech Insurers’ Bureau
CIF	collective investment fund
CMF	Committee on Financial Markets (OECD)
CNB	Czech National Bank
Coll.	Collection of Laws of the Czech Republic
COREPER	Comité des représentants permanents
CR	Companies Register
CRD	Capital Requirements Directive
CRD IV/CRR	Capital Requirements Directive/Capital Requirements Regulation
CSDP	Central Securities Depository Prague
CU	credit union
CZK	Czech koruna
CZSO	Czech Statistical Office
EBA	European Banking Authority
EC	European Commission
EC	European Communities
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EEA	European Economic Area
EFC	Economic and Financial Committee
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	European Market Infrastructure Regulation
EP	European Parliament
ESAs	European Supervisory Authorities
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EUR	euro
EURIBOR	Euro Interbank Offered Rate
FAQ	Frequently Asked Questions
FiCoD	Financial Conglomerates Directive

FMC	Financial Market Committee
FMSR	Financial Market Supervision Report
FSB	Financial Services Board
FSC	Financial Services Committee
FSC	Financial Stability Committee
FTT	Financial Transaction Tax
FV	fair value
FX	foreign exchange
GBP	pound sterling
GDP	gross domestic product
HI	Herfindahl index
IA	internal audit
ICAAP	Internal Capital Adequacy Assessment Process
IF	investment firm
IFRS/IAS	International Financial Reporting Standards/International Accounting Standards
ILAs	independent loss adjusters
IMD2	Insurance Mediation Directive
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commissions
IRB	internal ratings based
IS/IT	information systems/information technology
IWG	Instruments Working Group
JC	Joint Committee
JEGR	Joint Expert Group on Reconciliation of credit institutions' statistical and supervisory reporting requirements
LGD	loss given default
LIBOR	London Interbank Offered Rate
m	million (10^6)
MER	Mutual Evaluation Report
MiFID	Markets in Financial Instruments Directive (Directive 2004/39/EC of the European Parliament and of the Council, on markets in financial instruments)
MiFIR	Markets in Financial Instruments Regulation
MMoU	Multilateral Memorandum of Understanding
OECD	Organisation for Economic Cooperation and Development
OMFs	open-end mutual funds
OTC	over-the-counter
P/L	profit/loss
PC	personal computer
PD	probability of default
pp	percentage point
PRIBOR	Prague InterBank Offered Rate
PRIPS	Packaged Retail Investment Products Regulation
PSE	Prague Stock Exchange (Burza cenných papírů Praha, a.s.)
PSSC	Payment and Settlement Systems Committee
PX	PSE stock exchange index
PXE	Power Exchange Central Europe
QA	quick assets
RBNS	reported but not settled
RM	RM-S index
RM-S	RM-Systém, a. s.
RoA	return on assets
RoE	return on equity

SEPA	Single Euro Payments Area
SIFI	systemically important financial institution
SSM	Single Supervisory Mechanism
STA	Standardised Approach
TARGET	Trans-European Automated Real-time Gross Settlement Express Transfer System
T-bills	Treasury bills
TFCR	Task Force on Credit Registers
TSA	Standardised Approach (for operational risk)
UCITS	Undertakings for Collective Investment in Transferable Securities (Directive 2009/65/EC of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS))
USD	US dollar
VaR	value at risk
VAT	value added tax
WGCR	Working Group on Credit Registers
XBRLD	data standard enabling exchange of unified financial information between computer systems

PART C – ANNEXES

(Detailed information on the individual financial market sectors falling under the supervision of the CNB is published regularly for each quarter on the CNB website: www.cnb.cz).

Annex 1

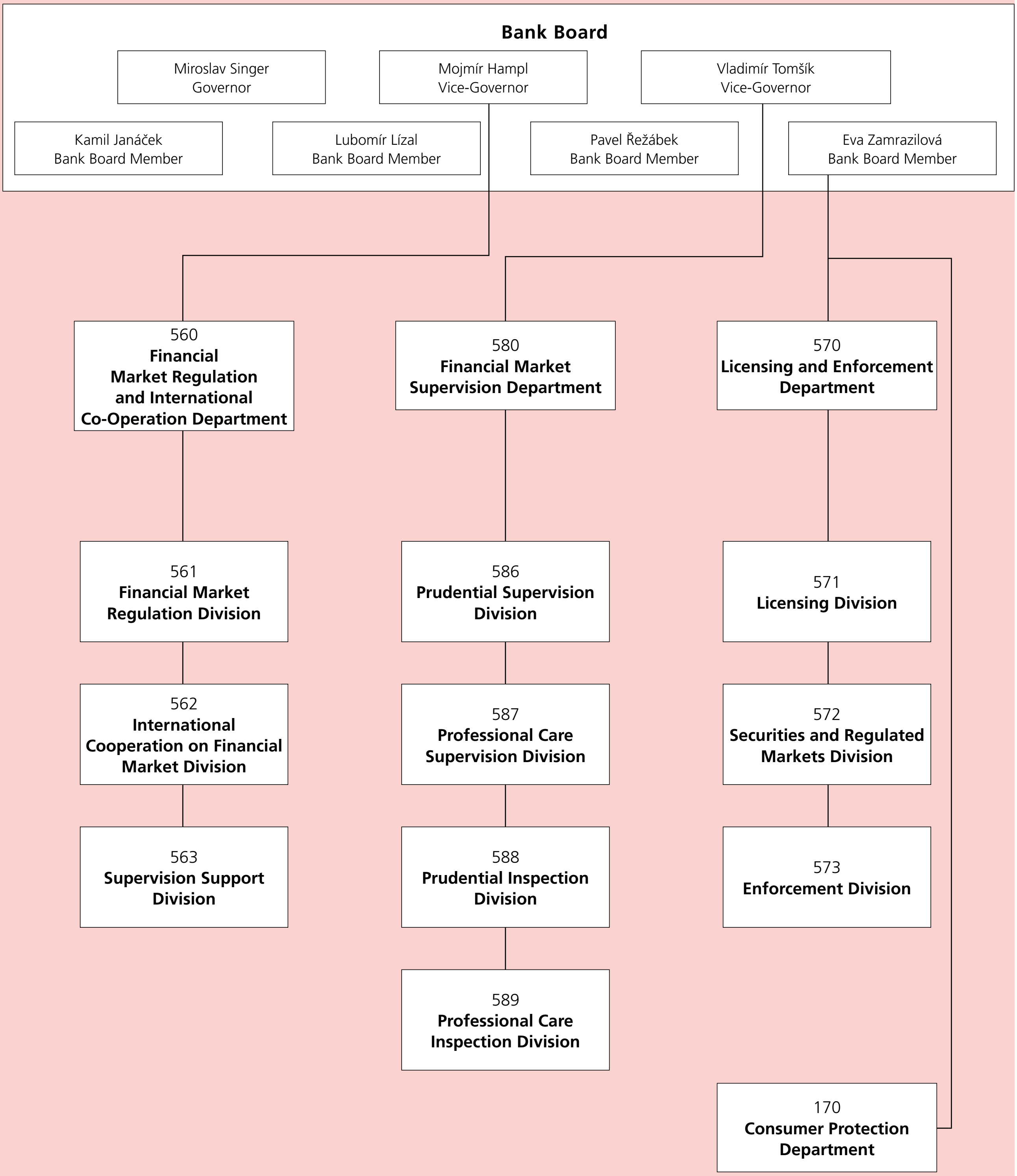
MAIN INDICATORS OF MONETARY AND ECONOMIC DEVELOPMENTS IN THE CZECH REPUBLIC

		2008	2009	2010	2011	2012
Gross domestic product [1), 2)]	Volume (in CZK billions)	3,848.4	3,759.0	3,799.5	3,841.4	3,843.5
	Increase (in per cent)	3.1	-4.5	2.5	1.9	-1.3
Output – percentage increase	Industry (sales) [1)]	-0.3	-15.9	9.5	7.6	1.7
	Construction [2)]	0.0	-0.9	-7.4	-3.6	-7.6
Prices [3)]	Inflation rate (in per cent)	6.3	1.0	1.5	1.9	3.3
Unemployment	Unemployment rate (in per cent)	5.44	7.98	9.01	8.57	8.60
Foreign trade [2)]	Exports of goods and services (in per cent)	3.9	-10.9	15.6	9.4	3.8
	Imports of goods and services (in per cent)	2.7	-12.0	15.9	6.7	1.9
Average wage [2)]	Nominal (in per cent) [5)]	7.8	3.3	2.2	2.4	2.7
	Real (in per cent) [5)]	1.4	2.3	0.7	0.5	-0.6
Balance of payments	Current account (in CZK billions)	-81.3	-89.3	-146.6	-104.0	-94.0
	Financial account (in CZK billions)	92.2	143.2	174.3	59.4	121.8
State budget balance	(in CZK billions)	-20.0	-192.4	-156.4	-142.8	-101.0
State budget balance/GDP	(in per cent)	-0.5	-5.1	-4.1	-3.7	-2.6
Exchange rates [4)]	CZK/USD	17.0	19.1	19.1	17.7	19.6
	CZK/EUR	24.9	26.4	25.3	24.6	25.1
Average interbank	7-day	3.58	1.69	0.95	0.82	0.64
deposit rate (PRIBOR)	3-month	4.04	2.19	1.31	1.19	1.00
in per cent [4)]	6-month	4.12	2.39	1.60	1.53	1.24
Discount rate [6)]	(in per cent)	1.25	0.25	0.25	0.25	0.05
Lombard rate [6)]	(in per cent)	3.25	2.00	1.75	1.75	0.25
2W repo rate [6)]	(in per cent)	2.25	1.00	0.75	0.75	0.05
PX capital market index		858.20	1,117.30	1,224.80	911.10	1,038.70

Source: CZSO (macroeconomic indicators) data as of 27 April 2012, PSE, CNB
1) Current prices
2) Percentage increase on a year earlier in real terms
3) Inflation rate, average
4) Annual averages from monthly averages
5) Recalculated numbers, whole national economy
7) As of 31 December of given year

Annex 2

ORGANISATIONAL STRUCTURE OF CNB FINANCIAL MARKET SUPERVISION
as of 31 December 2012



Annex 3

BREAKDOWN OF BANKS INTO GROUPS [1)]
(as of 31 December 2012)

I. Large banks	**IV. Foreign bank branches**
1. Česká spořitelna, a. s.	1. AXA Bank Europe, organizační složka
2. Československá obchodní banka, a. s.	2. Bank Gutmann Aktiengesellschaft, pobočka Česká republika
3. Komerční banka, a. s.	3. Bank of Tokyo-Mitsubishi UFJ (Holland) N. V. Prague Branch, organizační složka
4. UniCredit Bank Czech Republic, a. s.	4. BRE Bank S. A., organizační složka podniku
	5. Citibank Europe plc, organizační složka
II. Medium-sized banks	6. COMMERZBANK Aktiegesellschaft, pobočka Praha
1. Česká exportní banka, a. s.	7. Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka
2. Českomoravská záruční a rozvojová banka, a. s.	8. Fortis Bank SA/NV, pobočka Česká republika
3. GE Money Bank, a. s.	9. HSBC Bank plc - pobočka Praha
4. Hypoteční banka, a. s.	10. ING Bank N. V.
5. J&T BANKA, a. s.	11. Oberbank AG pobočka Česká republika
6. PPF banka a. s.	12. Poštová banka, a. s., pobočka Česká republika
7. Raiffeisenbank a. s.	13. PRIVAT BANK AG der Raiffeisenlandesbank Oberösterreich, pobočka Česká republika
8. Volksbank CZ, a. s.	14. Raiffeisenbank im Stiftland eG pobočka Cheb, odštěpný závod
	15. Saxo Bank A/S, organizační složka
III. Small banks	16. The Royal Bank of Scotland plc, organizační složka
1. Air Bank a. s.	17. Volksbank Löbau-Zittau eG, pobočka
2. Equa bank a. s.	18. Všeobecná úverová banka a. s., pobočka Praha (VUB, a. s., pobočka Praha)
3. Evropsko-ruská banka, a. s.	19. Waldviertler Sparkasse von 1842 AG
4. Fio banka, a.s.	20. ZUNO BANK AG, organizační složka
5. LBBW Bank CZ a. s.	
6. Wüstenrot hypoteční banka a. s.	
	V. Building societies
	1. Českomoravská stavební spořitelna, a. s.
	2. Modrá pyramida stavební spořitelna, a. s.
	3. Raiffeisen stavební spořitelna a. s.
	4. Stavební spořitelna České spořitelny, a. s.
	5. Wüstenrot – stavební spořitelna a. s.

1) In 2012, the amount of total assets necessary for inclusion in the groups of large and medium-sized banks was increased and some banks were reclassified from the small to the medium-sized group as a result of an increase in total assets. The breakdown of banks by total assets is as follows as from 2012: large banks have total assets of more than CZK 250 billion, medium-sized banks have total assets of between CZK 50 billion and CZK 250 billion and small banks have total assets of less than CZK 50 billion. The other groups are foreign bank branches and building societies. For more details see http://www.cnb.cz – *Supervision, regulation – Aggregate information on the financial sector – Basic indicators of the financial market – Banks – Methodology.*

Annex 4

CREDIT UNIONS
(as of 31 December 2012)

1.	AKCENTA, spořitelní a úvěrní družstvo
2.	ANO spořitelní družstvo
3.	Artesa, spořitelní družstvo
4.	Citfin, spořitelní družstvo
5.	České spořitelní družstvo
6.	Družstevní záložna Kredit
7.	Družstevní záložna PSD
8.	Metropolitní spořitelní družstvo
9.	Moravský Peněžní Ústav - spořitelní družstvo
10.	Peněžní dům, spořitelní družstvo
11.	Podnikatelská družstevní záložna
12.	WPB Capital, spořitelní družstvo
13.	Záložna CREDITAS, spořitelní družstvo

Annex 5

LICENSED INVESTMENT FIRMS
(as of 31 December 2012)

I. Investment firms – banks	**III. Investment firms – branches of foreign banks**
1. Česká spořitelna, a.s.	1. Bank Gutmann Aktiengesellschaft, pobočka Česká republika
2. Českomoravská záruční a rozvojová banka, a.s.	2. Bank of Tokyo-Mitsubishi UFJ (Holland) N.V. Prague Branch, organizační složka
3. Československá obchodní banka, a. s.	3. Citibank Europe plc, organizační složka
4. Fio banka, a.s.	4. COMMERZBANK Aktiengesellschaft, pobočka Praha
5. GE Money Bank, a.s.	5. Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka
6. J&T BANKA, a.s.	6. Fortis Bank SA/NV, pobočka Česká republika
7. Komerční banka, a.s.	7. HSBC Bank plc – pobočka Praha
8. LBBW Bank CZ a.s.	8. ING Bank N.V.
9. PPF banka a.s.	9. Oberbank AG pobočka Česká republika
10. Raiffeisenbank a.s.	10. Saxo Bank A/S, organizační složka
11. UniCredit Bank Czech Republic, a.s.	11. The Royal Bank of Scotland plc, organizační složka
12. Volksbank CZ, a.s.	12. Volksbank Löbau-Zittau eG, pobočka
	13. Všeobecná úverová banka a.s., pobočka Praha (VUB, a.s., pobočka Praha)
II. Investment firms – non-banks	
1. 42 financial services s.r.o.	**IV. Investment firms – organisational units of foreign non-bank IFs**
2. A&CE Global Finance, a.s.	1. Admiral Markets AS, organizační složka
3. AKCENTA CZ,a.s.	2. BMFN EAD
4. Amidea, a.s.	3. Catus AG Vermögensverwaltung
5. ATLANTA SAFE, a.s.	4. Dom Maklerski Banku Ochrony Środowiska Spółka Akcyjna,
6. ATLANTIK finanční trhy, a.s.	organizační složka Česká republika
7. BH Securities a.s.	5. European Investment Centre, o.c.p., a.s. – organizační složka
8. brokerjet České spořitelny, a.s.	6. FIRST INTERNATIONAL TRADERS DOM MAKLERSKI SPÓŁKA AKCYJNA
9. Citfin – Finanční trhy, a.s.	Organizační složka v České republice
10. Colosseum, a.s.	7. GKFX Financial Services Limited
11. Conseq Investment Management, a.s.	8. GLOBAL MARKETS OOD., organizační složka
12. CYRRUS, a.s.	9. Jung, DMS & Cie. GmbH, organizační složka
13. CYRRUS CORPORATE FINANCE, a.s.	10. LaSalle Investment Management, organizační složka
14. EFEKTA CONSULTING, a.s.	11. Noble Securities S.A.
15. FINANCE Zlín, a.s.	12. Sympatia Financie, o.c.p., a.s.
16. Generali PPF Asset Management a.s.	13. X-TRADE BROKERS DOM MAKLERSKI SPÓŁKA AKCYJNA, organizační složka
17. HighSky Brokers, a.s.	
18. ING Investment Management (C.R.),a.s.	**V. Management companies carrying on asset management**
19. Patria Direct, a.s.	1. AXA investiční společnost a.s.
20. Patria Finance, a.s.	2. ČSOB Asset Management, a.s., investiční společnost
21. Pioneer Asset Management, a.s.	3. Investiční kapitálová společnost KB, a.s.
22. RSJ a.s.	4. Investiční společnost České spořitelny, a.s.
23. WOOD & Company Financial Services, a.s.	5. J&T INVESTIČNÍ SPOLEČNOST, a.s.
	6. WOOD & Company investiční společnost, a.s.

Annex 6

PENSION FUNDS
(as of 31 December 2012)

1. AEGON Penzijní fond, a.s.
2. Allianz penzijní fond, a.s.
3. AXA penzijní fond a.s.
4. ČSOB Penzijní fond Stabilita, a. s., člen skupiny ČSOB
5. Generali penzijní fond a.s.
6. ING Penzijní fond, a.s.
7. Penzijní fond České pojišťovny, a.s.
8. Penzijní fond České spořitelny, a.s.
9. Penzijní fond Komerční banky, a.s.

Annex 7

MANAGEMENT COMPANIES
(as of 31 December 2012)

1. AKRO investiční společnost, a.s.	12. J&T INVESTIČNÍ SPOLEČNOST, a.s.
2. AMISTA investiční společnost, a.s.	13. Partners investiční společnost, a.s.
3. AVANT investiční společnost, a.s.	14. Pioneer investiční společnost, a.s.
4. AXA investiční společnost a.s.	15. PROSPERITA investiční společnost, a.s.
5. CLOVIS, investiční společnost, a.s.	16. QI investiční společnost, a.s.
6. Conseq Funds investiční společnost, a.s.	17. Realtia investiční společnost, a.s.
7. ČP INVEST investiční společnost, a.s.	18. REICO investiční společnost České spořitelny, a.s.
8. ČSOB Asset Management, a.s., investiční společnost	19. Safety invest funds, investiční společnost, a.s.
9. I.C.P. Czech, investiční společnost, a.s.	20. VIG Asset Management investiční společnost, a.s.
10. Investiční kapitálová společnost KB, a.s.	21. WOOD & Company investiční společnost, a.s.
11. Investiční společnost České spořitelny, a.s.	

Annex 8

INSURANCE UNDERTAKINGS
(as of 31 December 2012)

Domestic insurance undertakings	Branches of foreign insurance undertakings
1. AEGON Pojišťovna, a.s.	1. ACE European Group Ltd, organizační složka
2. Allianz pojišťovna, a.s.	2. AEGON Hungary Closed Company Ltd., organizační složka
3. Amcico pojišťovna a.s.	3. AGA International SA - organizační složka
4. AXA pojišťovna a.s.	4. AIG Europe Limited, organizační složka pro Českou republiku
5. AXA životní pojišťovna a.s.	5. Atradius Credit Insurace N. V., organizační složka
6. BNP Paribas Cardif Pojišťovna, a.s.	6. Basler Lebensversicherungs-Aktiengesellschaft,
7. Cestovní pojišťovna ADRIA Way družstvo	pobočka pro Českou republiku
8. Česká podnikatelská pojišťovna, a.s., Vienna Insurance Group	7. CG Car-Garantie Versicherungs-Aktiengesellschaft
9. Česká pojišťovna Zdraví a.s.	organizační složka pro Českou republiku
10. Česká pojišťovna, a.s.	8. Coface Austria Kreditversicherung AG, organizační složka Česko
11. ČSOB Pojišťovna, a.s., člen holdingu ČSOB	9. DEUTSCHER RING Sachversicherungs-AG, pobočka pro Českou republiku
12. D.A.S. pojišťovna právní ochrany, a.s.	10. Euler Hermes Europe SA, organizační složka
13. DIRECT Pojišťovna, a.s.	11. HDI Versicherung AG, organizační složka
14. ERGO pojišťovna, a.s.	12. ING Životná poisťovňa, a.s., pobočka pro Českou republiku
15. ERV pojišťovna, a.s.	13. ING Životní pojišťovna N.V., pobočka pro Českou republiku
16. Exportní garanční a pojišťovací společnost, a.s.	14. INTER PARTNER ASSISTANCE, organizační složka
17. Generali Pojišťovna a.s.	15. Österreichische Hagelversicherung – Versicherungsverein auf
18. HALALI, všeobecná pojišťovna, a.s.	Gegenseitigkeit, Agra pojišťovna, organizační složka
19. Hasičská vzájemná pojišťovna, a.s.	16. QBE INSURANCE (EUROPE) LIMITED, organizační složka
20. ING pojišťovna, a.s.	17. Stewart Title Limited, organizační složka
21. Komerční pojišťovna, a.s.	18. Union poisťovňa, a.s., pobočka pro Českou republiku
22. Kooperativa pojišťovna, a.s., Vienna Insurance Group	
23. KUPEG úvěrová pojišťovna, a.s.	
24. MAXIMA pojišťovna, a.s.	
25. MetLife pojišťovna a.s.	
26. Pojišťovna České spořitelny, a.s., Vienna Insurance Group	
27. Pojišťovna VZP, a.s.	
28. Servisní pojišťovna a.s.	
29. Slavia pojišťovna a.s.	
30. Triglav pojišťovna, a.s.	
31. UNIQA pojišťovna, a.s.	
32. Vitalitas pojišťovna, a.s.	
33. Wüstenrot pojišťovna a.s.	
34. Wüstenrot, životní pojišťovna, a.s.	

Annex 9

ISSUES (PROSPECTUSES) OF LISTED BONDS APPROVED IN 2012

Issue date	ISIN	Issuer	Maximum size
23 March 2012	CZ0002002454	Volksbank CZ, a.s.	500 m CZK
23 March 2012	CZ0003501835	Czech property investments, a.s.	15 m EUR
23 March 2012	CZ0003501843	Czech property investments, a.s.	105 m EUR
29 March 2012	CZ0003501868	Czech property investments, a.s.	2 bn CZK
27 April 2012	CZ0002002520	UniCredit Bank Czech Republic, a.s.	5 bn CZK
22 June 2012	CZ0000000260	Home Credit B.V.	5.625 bn CZK
12 July 2012	CZ0002002538	Hypoteční banka, a.s.	1 bn CZK
26 October 2012	CZ0003502205	CPI Alfa, a.s.	279 m CZK
21 November 2012	CZ0000000278	DAIREWA PLC	291 m CZK
28 November 2012	CZ0003502312	BigBoard Praha, a.s.	800 m CZK
5 December 2012	CZ0000000286	DAIREWA PLC	12 m EUR
12 December 2012	CZ0003502288	LEO Express a.s.	825 m CZK
13 December 2012	CZ0002002793	Hypoteční banka, a.s.	3 bn CZK
13 December 2012	CZ0003703555	Česká pojišťovna a.s.	500 m CZK
20 December 2012	CZ0002002652	Wüstenrot hypoteční banka a.s.	1 bn CZK
20 December 2012	CZ0002002686	Wüstenrot hypoteční banka a.s.	1.5bn CZK
20 December 2012	CZ0002002702	Wüstenrot hypoteční banka a.s.	1.5 bn CZK
20 December 2012	CZ0002002728	Wüstenrot hypoteční banka a.s.	1.5bn CZK
20 December 2012	CZ0002002736	Wüstenrot hypoteční banka a.s.	1.5 bn CZK
21 December 2012	CZ0002002801	Komerční banka, a.s.	12.5 m CZK
N/A	N/A	Cetelem ČR, a.s.	1.5 bn CZK

Note: Bonds of Cetelem ČR a.s. were not issued.

Annex 10

ISSUES (ISSUE CONDITIONS) OF UNLISTED BONDS APPROVED IN 2012

Issue date	ISIN	Issuer	Maximum size
5 January 2011	N/A	e-Finance, a.s.	80 m CZK
5 January 2012	CZ0003703076	Česká spořitelna, a.s.	140 m CZK
1 February 2012	CZ0003501801	Arca Acquisition Capital, a.s.	100 m CZK
8 February 2012	CZ0003703167	Raiffeisenbank, a.s.	250 m CZK
8 February 2012	CZ0003703175	Raiffeisenbank, a.s.	250 m CZK
15 February 2012	CZ0003703118	UniCredit Bank Czech Republic, a.s.	5 bn CZK
15 February 2012	CZ0003703126	UniCredit Bank Czech Republic, a.s.	5 bn CZK
15 February 2012	CZ0003703134	UniCredit Bank Czech Republic, a.s.	5 bn CZK
15 February 2012	CZ0003703142	UniCredit Bank Czech Republic, a.s.	5 bn CZK
15 February 2012	CZ0003703084	UniCredit Bank Czech Republic, a.s.	5 bn CZK
15 February 2012	CZ0003703092	UniCredit Bank Czech Republic, a.s.	5 bn CZK
15 February 2012	CZ0003703100	UniCredit Bank Czech Republic, a.s.	5 bn CZK
15 February 2012	CZ0003703159	UniCredit Bank Czech Republic, a.s.	5 bn CZK
25 February 2012	N/A	TOMMY STACHI s.r.o.	25 m CZK
1 March 2012	N/A	Gymnázium P. Křížkovského s uměleckou profilací, s.r.o.	15 m CZK
14 March 2012	CZ0003703191	Raiffeisenbank, a.s.	100 m CZK
15 March 2012	CZ0003703233	UniCredit Bank Czech Republic, a.s.	5 bn CZK
15 March 2012	CZ0003703241	UniCredit Bank Czech Republic, a.s.	5 bn CZK
15 March 2012	CZ0003703209	UniCredit Bank Czech Republic, a.s.	5 bn CZK
20 March 2012	CZ0003501819	C.C.Leasing s.r.o.	20 m CZK
29 March 2012	CZ0003703183	ČSOB, a.s.	1 bn CZK
16 April 2012	CZ0003703217	UniCredit Bank Czech Republic, a.s.	500 m CZK
16 April 2012	CZ0003703225	UniCredit Bank Czech Republic, a.s.	500 m CZK
17 April 2012	CZ0003703258	ČSOB, a.s.	5 bn CZK
18 April 2012	CZ0003501884	Český Aeroholding, a.s.	1 bn CZK
21 April 2012	N/A	CHATEAU LEDNICE GROUP, a.s.	60 m CZK
25 April 2012	CZ0003703266	Raiffeisenbank, a.s.	150 m CZK
30 April 2012	CZ0003501876	ENDL + K a.s.	1 bn CZK
30 April 2012	CZ0003501934	Orion Acquisition Capital, a.s.	150 m CZK
1 May 2012	CZ0003501900	SPN – pedagogické nakladatelství, a.s.	100 m CZK
1 May 2012	CZ0003501918	Libertas a.s.	200 m CZK
1 May 2012	CZ0003501926	KartoChartie PRAHA a.s.	40 m CZK
1 May 2012	CZ0003501892	"GNOSIS" spol. s.r.o.	60 m CZK
2 May 2012	CZ0003703274	Raiffeisenbank, a.s.	100 m CZK
10 May 2012	CZ0003703282	UniCredit Bank Czech Republic, a.s.	5 bn CZK
10 May 2012	CZ0003703290	UniCredit Bank Czech Republic, a.s.	5 bn CZK
10 May 2012	CZ0003703308	UniCredit Bank Czech Republic, a.s.	5 bn CZK
10 May 2012	CZ0003703316	UniCredit Bank Czech Republic, a.s.	5 bn CZK
10 May 2012	CZ0003703357	UniCredit Bank Czech Republic, a.s.	5 bn CZK
10 May 2012	CZ0003703324	UniCredit Bank Czech Republic, a.s.	5 bn CZK
10 May 2012	CZ0003703340	UniCredit Bank Czech Republic, a.s.	5 bn CZK
10 May 2012	CZ0003703332	UniCredit Bank Czech Republic, a.s.	5 bn CZK
15 May 2012	CZ0002002470	UniCredit Bank Czech Republic, a.s.	4.1 bn CZK
15 May 2012	CZ0002002488	UniCredit Bank Czech Republic, a.s.	4.1 bn CZK
15 May 2012	CZ0002002496	UniCredit Bank Czech Republic, a.s.	4.1 bn CZK
15 May 2012	CZ0002002504	UniCredit Bank Czech Republic, a.s.	4.1 bn CZK
15 May 2012	CZ0002002512	UniCredit Bank Czech Republic, a.s.	4.1 bn CZK
15 May 2012	CZ0002002462	UniCredit Bank Czech Republic, a.s.	5 bn CZK

Annex 10

ISSUES (ISSUE CONDITIONS) OF UNLISTED BONDS APPROVED IN 2012 – (continued)

Issue date	ISIN	Issuer	Maximum size
20 May 2012	N/A	CRESCON INVEST, a.s.	50 m CZK
30 May 2012	CZ0003703373	Raiffeisenbank, a.s.	50 m CZK
1 June 2012	N/A	BS - Reality servis, s.r.o.	26 m CZK
1 June 2012	N/A	ENVOI, s.r.o.	9 m CZK
1 June 2012	CZ0003703381	UniCredit Bank Czech Republic, a.s.	5 m EUR
5 June 2012	CZ0003703423	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 June 2012	CZ0003703415	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 June 2012	CZ0003703407	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 June 2012	CZ0003703399	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 June 2012	CZ0003703464	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 June 2012	CZ0003703456	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 June 2012	CZ0003703449	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 June 2012	CZ0003703431	UniCredit Bank Czech Republic, a.s.	5 bn CZK
19 June 2012	CZ0003501959	Jewelery Pařížská 15, a.s.	99 m CZK
1 July 2012	CZ0003501942	Ekorent, spol. s r.o.	15 m CZK
1 July 2012	CZ0003501975	OMGD, s.r.o.	200 m CZK
1 July 2012	CZ0003501983	KAVALIERGLASS, a.s.	700 m CZK
3 July 2012	CZ0003703365	Raiffeisenbank, a.s.	750 m CZK
31 July 2012	CZ0003501967	OJGAR, s.r.o.	350 m CZK
31 July 2012	CZ000352015	multigate a.s.	2 bn CZK
3 August 2012	CZ0003502072	Real Walter, a.s.	500 m CZK
3 August 2012	CZ0003502064	DNS, a.s.	500 m CZK
6 August 2012	CZ0003703472	ČSOB, a.s.	5 bn CZK
15 August 2012	CZ0002002587	UniCredit Bank Czech Republic, a.s.	1 bn CZK
15 August 2012	CZ0002002595	UniCredit Bank Czech Republic, a.s.	1 bn CZK
20 August 2012	CZ0003502023	TIPSPORT HOLDING, a.s.	1.9 bn CZK
20 August 2012	CZ0003502031	Tipsport.net Holding, .a.s	4.25 bn CZK
31 August 2012	CZ0002002603	Hypoteční banka, a.s.	5 bn CZK
31 August 2012	CZ0003501991	Advokátní kancelář Jansta, Kostka spol. s.r.o.	285 m CZK
4 October 2012	CZ0003502049	MUSCARIA, a.s.	500 m CZK
10 October 2012	N/A	e-Finance, a.s.	80 m CZK
27 November 2012	CZ0002002546	UniCredit Bank Czech Republic, a.s.	1 bn CZK
27 November 2012	CZ0002002553	UniCredit Bank Czech Republic, a.s.	500 m CZK
27 November 2012	CZ0002002561	UniCredit Bank Czech Republic, a.s.	10 m EUR
27 November 2012	CZ0002002579	UniCredit Bank Czech Republic, a.s.	5 m EUR
30 November 2012	CZ0003502056	HELVET HOLDING SE	1.5 m CZK
10 December 2012	CZ0002002751	Česká spořitelna, a.s.	5 bn CZK
10 December 2012	CZ0002002777	Česká spořitelna, a.s.	3 bn CZK
13 December 2012	CZ0002002769	Česká spořitelna, a.s.	1 bn CZK
13 December 2012	CZ0002002785	Česká spořitelna, a.s.	4 bn CZK
13 December 2012	CZ0002002744	Česká spořitelna, a.s.	5 bn CZK
20 December 2012	N/A	RILEX TRADERS, a.s.	50 m CZK

Note: The table contains prospectuses approved for the purposes of public bond offers (highlighted in blue) and issue conditions of non-public issues approved by the CNB up to 31 July 2012.

Annex 11

ISSUES/TRANCHES OF LISTED SHARES APPROVED IN 2012

Issuer	ISIN	Face value	Size
OCEL HOLDING SE	CZ0008467834	100 EUR	150 m EUR
ENERGOCHEMICA SE	CZ0008467818	100 EUR	150 m EUR
Central European Media Enterprises Ltd.	BMG200452024	0.08 USD	252 m USD

Annex 12

OFFER PROGRAMMES APPROVED IN 2012

Issuer	Type of security	Maximum size	Duration
Český Aeroholding, a.s.	bonds	10,000,000,000 CZK	10 years
Fond pojištění vkladů	bonds	100,000,000,000 CZK	10 years
J&T BANKA, a.s.	bonds	25,000,000,000 CZK	20 years
UniCredit Bank Czech Republic, a.s.	investment certificates	N/A	N/A
Česká pojišťovna, a.s.	bonds	10,000,000,000 CZK	5 years
Gymnázium P. Křížkovského s uměleckou profilací, s.r.o.	bonds	15,000,000 CZK	15 years

Annex 13

ISSUES/TRANCHES OF UNLISTED SHARES APPROVED IN 2012 (PUBLICLY OFFERED)

Issuer/Offeror	Face value	Size
Lázeňský resort Údolí Bratrouchov a.s.	50 CZK	11.775 m CZK

Annex 14

LICENSING PROCEEDINGS IN THE MARKET INFRASTRUCTURE AREA IN 2012

Regulated entity	Subject of proceedings	Decision
Centrální depozitář cenných papírů	Change in Settlement System Rules	Approved
Centrální depozitář cenných papírů	Change in Operating Manual of central depository	Approved

Annex 15

SUMMARY OF SUBMISSIONS RECEIVED BY CONSUMER PROTECTION DEPARTMENT IN 2012

A)
TOTAL NUMBERS OF SUBMISSIONS RECEIVED

Time period	Total number of submissions received
1 January–31 December 2012	929

B)
BREAKDOWN BY SEGMENT

	Credit institutions	Investment firms and intermediaries	Insurance undertakings and intermediaries	Non-bank consumer credit providers	Others	Total
Costs of products (including submissions to bureaux-de-change)	107	15	147	3	18	290
Payments (including payment cards)	41	0	0	2	16	59
Product information	71	5	155	3	15	249
Insurance claims	0	0	35	0	2	37
Discrimination against consumers	7	0	1	0	1	9
Dealing with complaints	13	1	12	0	1	27
Aggressive business practices	9	1	21	0	0	31
Consumer credit	25	0	0	7	12	44
Consumer protection	25	8	77	3	70	183
TOTAL	**298**	**30**	**448**	**18**	**135**	**929**

C)
BREAKDOWN BY INVESTIGATION RESULT

	Submissions closed					Submis-sions under investiga-tion	Total
	Penalty proposal	Remedied by financial entity	Unjusti-fied submis-sions	Failure of evidence	Written explanations		
Credit institutions	0	21	18	14	136	109	298
Investment firms and intermediaries	0	1	0	5	17	7	30
Insurance undertakings and intermediaries	6	40	34	74	188	106	448
Non-bank consumer credit providers	0	0	5	1	8	4	18
Others	0	2	2	1	114	16	135
TOTAL	**6**	**64**	**59**	**95**	**463**	**242**	**929**

Annex 16

SUMMARY OF SUBMISSIONS RECEIVED BY CNB BRANCHES IN 2012

A)
TOTAL NUMBERS OF SUBMISSIONS RECEIVED

Time period	Total number of submissions received
1 January–31 December 2012	248

B)
BREAKDOWN BY SEGMENT

	Credit institutions	Investment firms and intermediaries	Insurance undertakings and intermediaries	Non-bank foreign exchange entities	Others	Total
Costs of products (including submissions to bureaux-de-change)	2	0	7	107	2	118
Payments (including payment cards)	5	0	0	0	0	5
Product information	7	7	34	3	4	55
Insurance claims	1	0	9	0	0	10
Discrimination against consumers	0	0	0	0	1	1
Dealing with complaints	2	1	12	1	3	19
Aggressive business practices	2	1	32	0	2	37
Consumer protection	0	0	1	0	2	3
TOTAL	**0**	**9**	**95**	**111**	**14**	**248**

C)
BREAKDOWN BY INVESTIGATION RESULT

	Submissions closed					Submissions forwarded	Submissions under investigation	Total
	Penalty proceedings	Remedy by financial entity	Unjustified submissions	Failure of evidence	Written explanations			
Investment intermediaries	0	0	0	0	0	4	0	4
Insurance intermediaries	17	0	3	7	0	25	4	56
Non-bank foreign exchange entities	1	2	3	0	105	0	0	111
Others	0	0	3	0	7	3	1	14
CNB – Consumer Protection Department [i]	0	0	0	0	0	63	0	63
TOTAL	**18**	**2**	**9**	**7**	**112**	**95**	**5**	**248**

i) The total of 63 submissions transferred to the CNB Consumer Protection Department comprises 19 banks, 39 insurance undertakings and five investment firms (including two insurance undertakings and one bank which have not yet been transferred but must be reported as transferred).

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