FINANCIAL MARKET SUPERVISION REPORT

2013

CZECH NATIONAL BANK

FINANCIAL MARKET SUPERVISION REPORT 2013

CZECH NATIONAL BANK

ISBN 978-80-87225-55-4

CONTENTS

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.

The Financial Market Committee, which had been an advisory body to the CNB Bank Board, was dissolved under an amendment to Act No. 6/1993 Coll., on the CNB, effective from 17 August 2013. The Financial Market Supervision Report has therefore not been discussed with this Committee and its opinion is not included.

The Financial Market Supervision Report 2013 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 a wide range of CNB activities in the field of supervision of the domestic financial market and about the situation and trends in the Czech financial market in 2013.

Like the Financial Market Supervision Reports for 2006–2012, the Financial Market Supervision Report for 2013 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 5 June 2014.

1 The Financial Market Supervision Reports for 2006–2012 are published on the CNB website at http://www.cnb.cz – *Supervision*, regulation – Aggregate Information on the Financial Sector – Financial Market Supervision Reports.

PART A
FINANCIAL MARKET SUPERVISION IN 2013

1. LEGISLATIVE CHANGES IN THE FINANCIAL MARKET SUPERVISION AREA IN 2013

1.1 THE SITUATION IN FINANCIAL MARKET REGULATION

In 2013, 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's activities in the area of preparation of new legislation included working mainly with the Czech Ministry of Finance and also with other state administration bodies. The CNB 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 AND GOVERNMENT DECREES

The CNB is involved in the preparation of laws and government decrees 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 Ministry of Finance signed this agreement in May 2006.[2] The CNB is also the official commenting authority for such legislation in the legislative process.

The following laws and government decrees regulating the business activities of financial institutions and other entities subject to regulation and supervision were prepared in 2013 with the active involvement of the CNB.

Amendment to the Act on the Czech National Bank
In the part relating to financial market supervision this amendment to the Act on the CNB 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 and statistics framework. The amendment also forbids searches in inspection files and allows decisions to be changed (not only revoked) in appeals proceedings in all sectors. The amendment repeals the provisions on the Financial Market Committee. The amendment was promulgated in the Collection of Laws on 2 August 2013.

Amendment to the Act on Banks, the Act on Credit Unions, the Capital Market Undertakings Act, the Act on the CNB, and the Building Savings Schemes Act
The Ministry of Finance prepared a draft amendment to the Act on Banks, the Act on Credit Unions, the Capital Market Undertakings Act, the Act on the CNB, and the Building Savings Schemes Act transposing CRD IV[3] and adapting to CRR.[4] In the comments procedure the CNB made a number of major and minor comments on the draft. The major comments related, for example, to authorising provisions, the manner of announcement of capital buffers, the definition of CNB discretions, control system requirements and the rules for branches of foreign banks from non-Member States. The comments were incorporated without opposition except for the regulation of the form in which the CNB will announce the approach to overall discretions in the CRR regulation. This issue was resolved in discussions in the government's Legislative Council (a provision of a general nature was approved). The act implementing the amendment to the relevant acts was submitted to the Czech government and discussed in the working committees of the government's Legislative Council in December 2013. The legislative process will be completed in 2014.

2 See http://www.cnb.cz/miranda2/export/sites/www.cnb.cz/cs/legislativa/postaveni_cnb/download/dohoda CNB_MF.pdf
3 Directive of the European Parliament and of the Council (EU) No. 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.
4 Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, and amending regulation (EU) No. 648/2012.

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 Act on Management Companies and Investment Funds was promulgated in the Collection of Laws on 19 August 2013.

Amendment to the Act on Bonds

The Ministry of Finance prepared a draft amendment to the Act on Bonds to clarify the hybrid securities regime (particularly for the purposes of bank capital), transfer some requisites of bonds to issue terms and conditions, and completely abolish some requisites of issue terms and conditions so as to simplify the procedure for bond issuers. In the comments procedure the CNB called for the existing definition of bonds as unconditional securities to be respected, the key requisites of bonds to be preserved and the amendment to be limited to necessary changes only. The amendment was submitted to the Czech government. The CNB supported adoption of the amendment as most of its comments had been incorporated. The legislative process will continue in 2014.

Amendment to the Insurance Act

Following the abolition of the exemption from the equal treatment principle in EU law, the Ministry of Finance in collaboration with the CNB prepared a draft amendment to the Insurance Act and the Act on Supplementary Pension Insurance with State Contribution. The act amending the relevant acts was promulgated in the Collection of Laws on 25 April 2013.

Amendment to the Act on Vehicle Liability Insurance

The CNB assessed the draft amendment to the Act on Vehicle Liability Insurance (third-party insurance). This assessment concerned the provisions relating to insurance of third-party insurable risk within the framework of “fleet” insurance, where the CNB pushed for a change to the draft that would make it impossible to circumvent the rules for insurance intermediation in this way. The amendment was promulgated in the Collection of Laws on 6 August 2013.

In addition to the above amendment, the Act on Vehicle Liability Insurance was amended in connection with the establishment of a damage prevention fund at the Czech Insurers’ Bureau and the introduction of mandatory contributions to this fund from premiums received in order to cover, for example, the costs of acquisition of technology for integrated rescue system units. This amendment was adopted on the basis of parliamentary revisions and the CNB was not consulted. The amendment was promulgated in the Collection of Laws on 21 June 2013.

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 debate on this amendment was terminated owing to the dissolution of the Chamber of Deputies in August 2013. The Ministry of Finance plans to resubmit the amendment to the government in 2014.

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). The purpose of the amendment 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 amendment to the Act on Financial Conglomerates was promulgated in the Collection of Laws on 2 August 2013.

Act on Bureau-de-Change Activity

The 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 amendment to the Act on Bureau-de-Change Activity was promulgated in the Collection of Laws on 10 September 2013.

Government regulation on the key investor information document of a non-UCITS fund and on a way to provide information and on fund rules in non-paper form

This government regulation regulates the requisites, structure, form and requirements for the language, revision and publication of the document referred to as key information of a non-UCITS fund. This document is supposed to contain – in a comprehensible form – the basic characteristics of a non-UCITS fund which are necessary for responsible assessment of the nature and risks of non-UCITS funds offered. This government regulation was promulgated in the Collection of Laws on 19 August 2013.

Government regulation on investment fund investments and techniques and instruments used for the purpose of portfolio management

This government regulation stipulates the assets in which an investment fund manager may invest, related investment limits, conditions for the acceptance or provision of loans or collateral on the debt of another person and for the conclusion of contracts on the sale of investment instruments which are not owned by the fund, and the techniques used to manage the investment fund's assets separately for a standard fund, a special fund, a money market fund and a fund for qualified investors. The government regulation on investment fund investments was promulgated in the Collection of Laws on 19 August 2013.

1.3 CNB DECREES

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

In 2013, the CNB completed legislative work on decrees relating mainly to new laws in the financial market area. The CNB issued the following decrees in 2013, usually on the day the relevant laws took effect.

- Decree No. 40/2013 Coll., on the requisites of an offer of pension insurance. The decree stipulates the requisites of an offer of pension insurance in order to provide persons interested in insurance with information allowing them to compare pension insurance offers made by different insurance companies.

- Decree No. 208/2013 Coll., amending 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. The amendment includes new rules on the recording of agreements regarding investment services provided and on the recording of changes in the data and identification of investment instruments and identification of persons.

- Decree No. 244/2013 Coll., on more detailed regulation of some rules set out by the Act on Management Companies and Investment Funds. The decree lays down requirements for the control systems, rules of conduct and reporting obligations of investment fund managers and administrators.

- Decree No. 245/2013 Coll., on the inspection duties of a depository of a standard fund. The decree regulates the duties of a depository when inspecting the acquisition and disposal of a standard fund's assets, the issuance and redemption of securities issued by a standard fund and the valuation of a standard fund's assets and debts.

- Decree No. 246/2013 Coll., on the statute of a collective investment fund, stipulating the requirements for the content and structure of the statute.

- Decree No. 247/2013 Coll., on applications according to the Act on Management Companies and Investment Funds. The decree stipulates the essential elements of applications for authorisation to perform the activities of a management company, an investment fund and a primary administrator, to perform the duties of a manager, to acquire a qualifying holding and to convert investment funds.

- Decree No. 248/2013 Coll., amending Decree No. 233/2009 Coll., on applications, approval of persons and the manner of proving the professional qualifications, trustworthiness and experience of persons. The amendment mainly abrogates provisions of the decree regulating applications in the collective investment area and changes the rules governing applications for central counterparty authorisation.

- Decree No. 250/2013 Coll., amending Decree No. 347/2006 Coll., implementing some provisions of the Act on Financial Conglomerates. The amendment stipulates additional prudential rules and requirements for the expertise and trustworthiness of persons in a company's management.

- Decree No. 315/2013 Coll., on bureau-de-change activity. The decree stipulates the essential elements and the manner of submission of an application for a bureau-de-change licence, the essential elements of a notice of the location of business premises and the provision of information on the amount of bureau-de-change transactions.

- Decree No. 326/2013 Coll., amending Decree No. 434/2009 Coll., implementing some provisions of the Insurance Act. The amendment includes changes in terminology for the structure of financial placement and the solvency margin, supplementary requirements for the procedure for handling complaints made by insurance companies and changes in the amounts entering the calculation of the required solvency margin.

- Decree No. 474/2013 Coll., on the remuneration of liquidators, forced administrators and insolvency administrators of some service providers on the capital market and on the reimbursement of their cash expenditures. The decree governs the manner of determining the amount of remuneration and cash expenditures and the payment thereof.

- Decrees on reporting governing the content, form, time limits and manner of compiling and submitting reports to the Czech National Bank:

  (i) Decree No. 249/2013 Coll., on reporting by a manager and an administrator of an investment fund or foreign fund to the Czech National Bank.
  (ii) Decree No. 346/2013 Coll., on the submitting of statements by banks and foreign bank branches to the Czech National Bank.
  (iii) Decree No. 426/2013 Coll., on the submitting of statements by credit unions to the Czech National Bank.
  (iv) Decree No. 427/2013 Coll., on the submitting of statements by investment firms to the Czech National Bank.

1.4 OFFICIAL INFORMATION

The CNB issues official information documents containing important facts for financial market participants regarding the implementation of legal rules. In 2013, the CNB issued the following official information documents:

- Official information of the CNB of 15 January 2013 disclosing the maximum technical interest rate.
- Official information of the CNB of 28 February 2013 regarding the prudential rules for banks, credit unions and investment firms – Information on remuneration.
- Official information of the CNB of 11 October 2013 regarding the verification of sufficient coverage of credit losses.
- Official Information of the CNB of 3 December 2013 regarding the interpretation of the terms trustworthiness and competence.
- Official information of the CNB of 20 December 2013 regarding the conduct of business activities by banks, credit unions and investment firms – Application of overall discretions by the supervisory authority.

The following information was published on the CNB website:

- Information of the CNB of 8 February 2013 regarding the issuance of EIOPA guidelines on dealing with complaints by insurance companies.
- Information of the CNB of 18 June 2013 on the issuance of ESMA guidelines regarding the exemption for market-making activity and primary market operations under Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps.
- Information of the CNB of 21 August 2013 on the issuance of ESMA guidelines regarding the principles of due remuneration under the directive on alternative investment fund managers.
- Information of the CNB of 1 October 2013 regarding the issuance of ESMA guidelines on the principles and procedures in the area of remuneration (MiFID).

The CNB provided market participants and the public with information in the form of opinions and replies to queries in the area of financial market regulation. In 2013, the CNB published a total of 29 explanatory opinions on its website and answered more than 400 queries received in writing or via the electronic mailroom.

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[5]

1.5.1 Draft laws and government decrees

Preparations for a number of other regulatory changes took place in 2013, mostly in order to transpose EU regulations. These regulations are expected to be submitted to the Czech government and Parliament in 2014.

Amendment to the Act on Banks

The CNB submitted to the Ministry of Finance documents regarding the draft amendment to the Act on Banks, which strengthens and clarifies the position of the CNB and creditors if a bank intends to conduct an operation that would result in the sale of a company or any part thereof. The CNB considers the amendment to the Act on Banks being prepared in connection with CRD IV/CRR to be the most appropriate platform.

Amendment to the Act on Credit Unions

At the government meeting in May 2013, the CNB expressed its agreement with the draft operational amendment reducing risks in the credit union sector prepared by the Ministry of Finance. This draft contains an upper limit of CZK 5 billion on the balance-sheet total of a credit union and an increase in the credit unions risk fund from 20% to 30% of deposits outstanding and guarantees provided, and also doubles credit unions' contributions to the Deposit Insurance Fund. On the other hand, a temporary simplification of the process of conversion into a bank (offsetting the size limit), consisting in the possibility of gradually increasing capital to the required CZK 500 million, is advantageous to credit unions. The legislative process for this amendment was terminated owing to the dissolution of the Chamber of Deputies and is expected to continue in 2014. Given the situation in the credit union sector, the CNB recommended the incorporation of a broader range of changes aimed at stabilising the sector and ensuring compliance with IMF recommendations.

Amendment to the Insurance Act

The CNB was already involved in preparing the transposition of Directive 2009/138/EC (Solvency II) into the Insurance Act in 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, but they were not officially incorporated in the comments procedure 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. Owing to the finalisation of the Omnibus II directive and to the decision that the Solvency II directive will come into effect on 1 January 2016 (transposition deadline: 31 March 2015), the preparation of the amendment to the Insurance Act, including the processing of the comments made by the CNB in 2012, will continue in 2014.

Amendment to the Act on Management Companies and Investment Funds

The Ministry of Finance prepared a draft amendment to the Act on Management Companies and Investment Funds aimed primarily at correcting evident mistakes in the Act's text and incorrect transposition. The CNB made a number of comments on this draft in consultations. The most important included rejection of limitations on acting as a depository and a change from ex-ante control of settlement of significant transactions to ex-post control of all transactions. The Ministry of Finance accepted the CNB's comment. The definition of such transactions (essentially large transactions executed off the regulated market) will be laid down in a CNB decree relating to the new Act.

5 See section 2 *EU regulations in 2013* 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 government regulation on investment fund investments and techniques and instruments used for the purpose of portfolio management

The CNB made comments on a draft amendment to the government regulation on investment fund investments prepared by the Ministry of Finance. This draft relaxes some excessively strict rules applying to funds for qualified investors. The CNB's comments related to the definition of the basis for the calculation of investment limits, including the prolongation of the transition period for implementation until the end of 2014, the exemption from diversification for some funds for qualified investors and the transition period for existing closed-end funds for qualified investors. The Ministry of Finance incorporated the CNB's comments. The regulation was approved by the government on 15 January 2014.

1.5.2 Draft decrees

Legislative work on the following decrees – connected mainly with amendments to laws – will be initiated or continue in 2014:

- Decree on the pursuit of business of banks, credit unions and investment firms.
- Decree implementing certain provisions of the Act on Insurance Intermediaries and Independent Loss Adjusters.
- Decree implementing certain provisions of the Insurance Act.
- Decree on applications according to the Insurance Act.
- Decree on the register of coverage of mortgage bonds.
- Decree on submission of data for the Central Credit Register by banks and foreign bank branches to the Czech National Bank (conversion of the current provision into a decree).
- Amendment to Decree No. 281/2008 Coll., on certain requirements for the system of internal principles against money laundering.
- 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. 141/2011 Coll., on the pursuit of business of payment institutions and electronic money institutions.
- Amendment to Decree No. 117/2012 Coll., on more detailed regulation of the activities of a pension management company, a retirement fund and a participation fund.
- Amendment to Decree No. 215/2012 Coll., on professional qualifications for the distribution of certain products on the financial market.
- Amendment to Decree No. 245/2013 Coll., on the inspection duties of a depository of a standard fund.
- Amendment to Decree No. 247/2013 on applications according to the Act on Management Companies and Investment Funds.

2. EU REGULATIONS IN 2013

Intensive work on new European financial market regulations continued in 2013 at the level of the European Commission, the Council and the European Parliament (EP). The CNB paid special attention to the 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 DIRECTIVES

Directive and regulation on capital requirements (CRD IV, CRR)

The discussions on the proposed directive and regulation on capital requirements (CRD IV, CRR) continued in the first half of 2013. The CNB commented on the Ministry of Finance's instructions for meetings of the Council working group, COREPER and ECOFIN and also in more detail on compromise proposals based on trilogue negotiations. The CNB repeatedly expressed its reservations about the proposals regarding crisis management, reporting in the liquidity area, limitation of the powers of host supervisory authorities and additional requirements for the processing of technical standards. However, its comments were only partially accepted; for example, the provision relating to crisis management has been incorporated only at a general level, and the frequency of submission of individual statements will be addressed in a relevant technical standard. The formal CRD IV/CRR adoption process was finalised in June 2013 by voting in the European Parliament and approval in the Council. The two documents were published in the Official Journal on 27 June 2013.

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 took part in the discussions in an advisory capacity. Starting from April 2013, when negotiations were transferred to the level of financial attachés and direct involvement of Ministry of Finance and CNB representatives was no longer possible, the CNB continued to provide written comments on the documents under discussion. Major comments related mainly to the proposed transfer of powers from national supervisory authorities to the EBA and home supervisory authorities, intragroup financial support and prioritisation of the group interest, sharing of resolution funding costs, mandatory guarantees for loans received in connection with resolution at the group level and mandatory involvement of deposit insurance funds in resolution funding. A number of positive changes were achieved compared to the text proposed by the Commission, specifically a reduction in the set of situations where binding EBA mediation is admissible, a reduction in the scope of mandatory involvement of the deposit insurance fund in resolution financing, the removal of mandatory lending between national resolution funds, and solidarity sharing of costs between these funds in the event of group resolution. Some issues persist in the text, however, especially the concept of group interests, the possibility of providing intra-group financial support under more favourable conditions than usual in business relationships, and the possibility of EBA mediation in the plan preparation phase. The trilogue between the Council, the European Parliament and the Commission was completed at the end of 2013. The final vote on this draft directive in the Council and the EP is expected to take place by the end of April 2014. The expected deadline for transposition of this directive was set at 1 January 2015.

Deposit Guarantee Schemes Directive (DGSD)

During discussions on the proposal for a deposit guarantee schemes directive the CNB commented on the Ministry of Finance's instructions for meetings of the Council working group and on compromise proposals based on trilogue negotiations. The CNB's major comments related mainly to the proposed excessive shortening of the time limit for the payment of compensation (gradually to 7 working days in the compromise proposal of December 2013), the mandatory introduction of risk-based contributions to the fund, the limiting of the scope of mandatory involvement of deposit guarantee funds in financing resolution, and exemptions from the maximum coverage level for deposits above the harmonised limit of EUR 100,000. Another major comment related to the proposed empowering of the Commission to change the insurance limit through delegated acts, with the aim of preventing decisions that would have fiscal impacts on the Member States. The negotiations on the proposed directive have not been completed and will continue in 2014.

Amendment to the directive on undertakings for collective investment in transferable securities (UCITS V)
In 2013, discussions continued on the proposal for a directive amending certain provisions of Directive 2009/65/EC[6] 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 regarding the Ministry of Finance's instructions for the meetings of the Council working group. The CNB agreed with the amendment on the general level, but made some comments concerning the detailed remuneration rules, the imposition of sanctions on natural persons, and the large number of implementing measures to be adopted as delegated acts. These comments were not incorporated into the draft amendment.

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. The main issues discussed were corporate governance, where integration with CRD IV is being advocated, and the inclusion of insurance products (life insurance) under MiFID. The CNB prefers the option of insurance products that are *de facto* investment instruments being regulated under MiFID. An acceptable option was chosen, namely that MiFID will contain an amendment of the insurance mediation directive (IMD). The CNB also prefers commodity derivatives that may only be settled physically not to be deemed investment instruments. An acceptable option was again chosen in this case – products traded under Regulation No. 1227/2011 on wholesale energy market integrity and transparency (REMIT) are not deemed investment instruments. In addition, attention was paid to the granting of exemptions from the prohibition of trading on own account when trading on multilateral platforms. This prohibition would mainly affect trading in bonds, including government bonds, and trading in derivatives.

Solvency II directive
In November 2013, the Council, the European Parliament and the Commission reached a political agreement on the text of the proposal for the Omnibus II directive, which complements the Solvency II directive in connection with the establishment of EIOPA and contains measures to mitigate the adverse financial impacts of market valuation of assets and liabilities under Solvency II on insurance companies providing long-term insurance with guarantees. A compromise version of the proposal was approved by the Permanent Representatives Committee (COREPER) in November 2013 and adopted by the European Parliament in plenary session on 11 March 2014.

On 18 December 2013, the Quick Fix 2[7] directive was published in the Official Journal of the EU, which sets the deadline for the transposition of the Solvency II directive into national laws at 31 March 2015 and the date of effect of Solvency II at 1 January 2016.

Now that a compromise has been found for the Omnibus II directive and Quick Fix 2 has been adopted, the situation regarding Solvency II can be considered stable and transparent.

In light of the approaching date of effect of Solvency II, EIOPA issued guidelines[8] for the preparatory phase requiring supervisory authorities to start preparing national insurance undertakings for Solvency II on 1 January 2014 so that they are fully compliant with the new regulatory requirements as of the date of effect. As from the start of 2014, the CNB intends to work to achieve compliance with all the guidelines except for two found to be an excessive burden

6 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).
7 Directive 2013/58/EU of the European Parliament and of the Council of 11 December 2013 amending Directive 2009/138/EC (Solvency II) as regards the date for its transposition and the date of its application, and the date of repeal of certain Directives (Solvency I).
8 The guidelines cover the areas of governance, reporting, pre-application of internal models and assessment of own risks and solvency.

for preparation purposes, namely the guideline requiring the submission of quarterly quantitative information and the guideline setting deadlines for the submission of information by the CNB.

Insurance mediation directive (IMD 2)
The negotiations on the proposed revision of the insurance mediation directive also continued in 2013. 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 were linked with the requirement to comply with the principle of minimum harmonisation and the subsidiarity principle and with the large number of Commission implementing measures and the ensuing risk that the specificities of national markets will not be taken into account if single and too detailed professional requirements are set. The negotiations on the proposed directive are still ongoing.

Transparency directive
Directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013 amending the Transparency Directive (2004/109/EC) abolishes the obligation of issuers of listed investment instruments to publish quarterly reports, clearly specifies the requirement of notification of voting rights in such issuers and incorporates the establishment of a European electronic access point (in 2018). The amendment will partly change the set and content of information duties of issuers of listed investment instruments reported to and supervised by the CNB.

Anti-money laundering directive
At the start of February 2013, the Commission published a proposal for a new anti-money laundering (AML) directive that extends the applicability of the existing regulations to national politically exposed persons, reduces the limit on cash payments where AML checks are not necessary from EUR 15,000 to EUR 7,500 and introduces risk assessment both at the level of institutions and at the national level. The Czech Republic will have to prepare a map of AML risks. Legal entities will have to register information on their actual owners and the archiving of documents has been reduced to five years (currently ten years for banks in the Czech Republic). New tasks and powers have been assigned to the European supervisory authorities in the areas of risk assessment and technical standards. The CNB prepared comments for the Ministry of Finance's instructions for meetings of the Council working group, COREPER and ECOFIN on an ongoing basis. Agreement has not yet been reached on the general approach of the Council and so it is impossible to say when the directive will take effect.

Directive on payment accounts
The CNB assessed the proposal for a general position regarding the draft directive on access to a basic payment account for all consumers in the EU (free of charge or at a regulated price), account switching to another bank (previously covered by self-regulation), fee transparency (a single format for information on fees and the creation of unified banking services terminology) and the prohibition of "discrimination" against depositors by reason of their place of residence. The CNB in agreement with the Ministry of Finance rejects the proposal because it is not consistent with the subsidiarity principle and actual needs. To some extent no regulatory intervention is needed (free accounts are already available and self-regulation of account switching is already in place in the Czech Republic) and to some extent intervention is already possible under other regulations (transparency of fees is governed in general by consumer protection regulations and in detail by the payment services directive; discrimination against foreigners as regards opening accounts has already been addressed by the CNB under consumer protection regulations). The directive underwent its first reading in the European Parliament in December 2013. The first reading led to the following changes. Compared to the draft directive prepared by the Council working group, which proposed to limit its applicability solely to credit institutions, the scope of the directive has been extended again to include payment services providers, pre-contractual information for consumers may be provided on a durable medium, and the account switching service can also be offered on a cross-border basis. However, the right to have an account with basic features (deposits, withdrawals, transfers to other accounts, card payments, etc.) and the obligation to maintain a comparison website at the national level remain unchanged in the draft.

Mortgage Credit Directive (MCD)

In the area of mortgage loans, the draft directive should introduce rules at the EU level similar to those already in place for consumer credit (for example a consumer creditworthiness assessment obligation, an obligation to provide pre-contractual information, including the APRC, and out-of-court settlement). In this regard, the CNB assessed the EBA's draft consultation paper on the amount of mandatory insurance of mortgage credit intermediaries required in the draft directive (the variant setting a minimum amount of EUR 584,000 per claim and EUR 886,000 in total per year is acceptable).

2.2 REGULATIONS

Proposal for a regulation on the Single Resolution Mechanism (SRMR)

In July 2013, the Commission published a proposal for a regulation on a Single Resolution Mechanism (SRM) establishing uniform rules and procedures for the resolution of credit institutions and investment firms. The CNB's comments on this second pillar of the banking union mainly concerned the legal basis for establishing the SRM, the management and decision-making process within this mechanism and issues relating to the different positions of participating and non-participating EU countries. Throughout the discussions, the CNB advocated mitigation of the risks to the stability of the Czech financial system arising from the above regulation and compliance with the subsidiarity principle in relation to the powers of national authorities. At the end of 2013, the EU ministers of finance agreed on the final version of a general approach on this regulation and discussions with the European Parliament were opened. Negotiations also started on an intergovernmental agreement regarding some aspects of the future functioning of the single resolution fund. This agreement will complement the SRM regulation.

Implementing regulations for EMIR

Six implementing regulations of the European Commission regarding Regulation No. 648/2012 on OTC derivatives, central counterparties and trade repositories (EMIR) took effect on 15 March 2013. These deal with the requirements for the activities of trade repositories and central counterparties, data sent to trade repositories and risk mitigation techniques. In connection with the EMIR regulation, the CNB created a separate section on its website including, in addition to the regulations issued, up-to-date information for financial and non-financial institutions, answers to frequently asked questions and notification forms for non-financial institutions to use if they exceed the limits set for OTC derivatives transactions. At the same time, the CNB sent relevant information to the Czech Treasury Association and the Czech Economic Chamber on the impacts of the European regulation on non-financial institutions and asked them to inform their members. Discussions on EMIR issues – for example confirmation of transactions, portfolio reconciliation and intra-group exemptions from mandatory clearing – were also held with the Czech Banking Association.

Regulation on improving securities settlement in the EU and on central securities depositories

The CNB commented on the instructions for meetings of the Council working group and promoted its stance on the draft regulation. Its major comments related to the request for an exemption, or a significant broadening of the exemptions, from the applicability of the regulation to 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 exemptions for central banks were broadened (senior board requirements and capital requirements), but the CNB proposed further changes (extension of the exemptions to the obligation to set up user committees and the obligation to offer separate client accounts, and an exemption from all prudential rules). The final text of the draft regulation contains an acceptable broader set of exemptions for central banks.

Regulation on insider trading and market manipulation

The regulation on insider trading and market manipulation was finalised in the first half of 2013 in trilogue between the Commission, the Council and the European Parliament. It primarily addressed the sanction powers of national supervisors. The CNB's repeated earlier comments (e.g. reservations about the inclusion of emission allowances and commodities in the regulation) were rejected at the meeting by other EU Member States. The draft was not discussed any further in the second half of 2013. Its complete finalisation depends on progress made in the negotiations on MiFID 2/MiFIR.

Regulation on packaged retail investment products (PRIPs)

The debate on the draft regulation on key information provided to retail investors in the case of packaged retail investment products (PRIPs) continued in 2013. In the negotiations of the Council working group, non-harmonised pension schemes were eliminated from the applicability of the regulation and delegated acts were replaced by implementing acts with greater powers conferred on the Member States. The CNB also recommended a reduction in the number of implementing measures in areas of the regulation for which it considers detailed specification to be inappropriate.

Regulation on European long-term investment funds (ELTIFs)

On 26 June 2013, the Commission published a proposal for a regulation on European long-term investment funds (ELTIFs). The aim of this regulation is to expand the possibilities for financing long-term investment projects in the EU by introducing a special investment vehicle allowing funds from investors (both professional and retail) to be pooled. ELTIFs will invest at least 70% of their assets in specified groups of assets (infrastructure projects, unlisted companies and real estate). The CNB prepared a number of comments on this regulation, mainly concerning the authorisation procedure, the involvement of retail investors, diversification and limits on portfolio structure, the investment horizon and expected regulatory technical standards. The CNB had the above comments incorporated into the general position of the Czech Republic drafted by the Ministry of Finance.

Regulation on money market funds

On 4 September 2013, the Commission published a proposal for a regulation on money market funds. This regulation is aimed at establishing single rules for such funds delivering a high level of consumer protection and preventing or mitigating the risk of contagion due to runs on money market funds. The CNB made comments on the proposal, especially as regards across-the board implementation of all the detailed requirements without taking into account the proportionality principle, the internal rating process, the analysis of fund investors' behaviour, information duties to the ESMA and the date of effect of the regulation. The CNB had the above comments incorporated into the general position of the Czech Republic drafted by the Ministry of Finance.

Regulation on indices used as benchmarks in financial instruments and financial contracts

On 18 September 2013, the Commission published a proposal for a regulation on indices used as benchmarks. The CNB prepared a number of comments on this regulation consisting in rejecting such extensive and detailed rules. The regulation should focus solely on defining the basic principles of regulation of systemically important benchmarks. Detailed regulation is not necessary, as sufficient sanctions against the manipulation of benchmarks and input data are already contained in the proposal for a market abuse regulation and the requirements for the internal control systems of regulated entities are governed by the relevant sectoral European legislation. The CNB had the above comments incorporated into the general position of the Czech Republic drafted by the Ministry of Finance.

3. FINANCIAL MARKET SUPERVISION IN 2013

3.1 LICENSING, APPROVAL AND AUTHORISATION ACTIVITIES

The CNB supervised an unchanged number of 23 domestic banks in 2013. Changes were recorded in the number of foreign bank branches and credit unions.

Credit institutions

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

	As of 31 December 2012	Entries in 2013	Exits in 2013	As of 31 December 2013
Banks [i]	23	0	0	23
Foreign bank branches (under the single licence)	20	2	1	21
Credit unions	13	0	1	12
Credit institutions, total	56	2	2	56

i) Of which five building societies.

No new banking licence was granted in 2013. The branches MEINL BANK Aktiengesellschaft, pobočka Praha and Western Union International Bank GmbH, organizační složka were established. AXA Bank, organizační složka closed down.

Metropolitní spořitelní družstvo closed down as a result of a CNB decision to revoke its credit union licence, which came into force on 18 December 2013.

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

Continuing from 2012	Opened in 2013	Completed in 2013	Continuing into 2014
11	46	44	13

Of the 57 administrative proceedings conducted by the CNB in the credit institution sector, seven related to banks and 50 to credit unions. A large proportion (33) of the proceedings in the period under review related to the approval of members of bodies and senior officers of credit unions. The other proceedings concerned applications for licence/authorisation changes, a reduction in capital, a transfer of other membership rights, the acquisition of a qualifying holding in a bank/credit union and consents to mergers. The proceeding regarding consent to the cross-border merger of the Czech and Slovak UniCredit Bank a.s. was particularly time consuming and challenging. The branch UniCredit Bank Czech Republic and Slovakia was subsequently established in Slovakia under the single licence regime, and the previous business of the Slovak bank was transferred to it.

Insurance companies

A total of 33 domestic insurance companies (excluding the Czech Insurers' Bureau) and one reinsurance company were subject to supervision by the CNB as of the end of 2013. A total of 18 branches of foreign 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 December 2012	Entries in 2013	Exits in 2013	As of 31 December 2013
Insurance companies (including branches and reinsurers)	53	0	1	52
of which:				
domestic insurance undertakings (excluding the CIB)	34	0	1	33
branches of insurance companies from the EU/EEA	18	0	0	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 2012	Opened in 2013	Completed in 2013	Continuing into 2014
12	70	73	9

The CNB conducted 86 administrative proceedings and issued 77 administrative decisions in the insurance sector in 2013.

The concentration of the life insurance sector and the internal restructuring of insurance companies continued in 2013. As part of this process, some insurance companies based in the Czech Republic were transferred under a single holding company in the EU/EEA (MetLife pojišťovna, a.s., AEGON Pojišťovna, a.s.).

In 2013, Aviva pojišťovna ceased to exist as a result of a merger with Amcico pojišťovna, a.s., which now operates under the name of MetLife pojišťovna, a.s. Direct pojišťovna, a.s. withdrew gradually from the Czech market in 2013. This insurance company, whose licence was granted on 24 April 2007, transferred its insurance portfolio to UNIQA a.s. with the CNB's consent and is preparing an application to surrender its licence and open the winding-up process.

Owing to the 2012 pension reform, numerous insurance companies are still trying to extend their licences so that they can broker pension products, especially under the third pillar of the pension system.

Four administrative proceedings were held in 2013 regarding registration in the register of responsible actuaries maintained by the CNB. In all, 68 entities were entered in the above register as of the end of 2013.

Pension management companies and retirement funds

On the basis of the 2012 pension reform and in particular the completed process of conversion of pension funds into pension management companies, the CNB registered a total of 11 pension management companies, nine transformed funds, 24 retirement funds and 34 participation funds as of 1 January 2013.

Table A.V – Numbers of entities in the pension management companies and retirement funds sectors (active or newly licensed)

	As of 31 December 2012	Entries in 2013	Exits in 2013	As of 31 December 2013
Pension funds	9	0	9	0
Pension management companies	0	11	1	10
Transformed funds	0	9	1	8
Retirement funds	0	24	0	24
Participation funds	0	36	0	36
Accredited entities [i]	5	11	2	14

i) Entities accredited to organise examinations of supplementary pension savings and retirement savings distributors.

All nine pension funds operating as of 31 December 2012 under Act No. 42/1994 Coll., on Private Pension Insurance, obtained a pension management company licence in accordance with Act No. 427/2011 Coll., on Supplementary Pension Savings, and converted into pension management companies with effect from 1 January 2013. On 1 January 2013, they were joined by the newly established pension management companies Raiffeisen penzijní společnost, a.s. and Conseq penzijní společnost, a.s. Generali penzijní společnost, a.s. ceased to exist in 2013 as a result of a merger with Penzijní společnost České pojišťovny, a.s.

The conversion of pension funds into pension management companies involved the transfer of assets and liabilities relating to private pension schemes to "transformed funds". The number of such funds decreased to eight as of 31 December 2013 as a result of an authorisation for the merger of Transformovaný fond Generali penzijní společnost a.s. (the fund ceasing to exist) and Transformovaný fond Penzijní společnost České pojišťovny, a.s.

All 24 retirement funds registered by the CNB as of 1 January 2013 were established by pension management companies based on licences granted by the CNB in 2012 under Act No. 426/2011 Coll., on Retirement Savings (these funds are operated within the second pillar of the pension system).

As of 1 January 2013, the CNB registered 34 participation funds established by pension management companies based on licences granted by the CNB in 2012 under Act No. 427/2011 Coll., on Supplementary Pension Savings (these funds are operated within the third pillar of the pension system).

In 2013, the number of participation funds increased by two as a result of licences granted in March 2013 to AEGON penzijní společnost, a.s.

Table A.VI – Numbers of administrative proceedings in the pension management companies and retirement funds sector

	Continuing from 2012	Opened in 2013	Completed in 2013	Continuing into 2014
Pension management companies and funds	9	39	43	5
Accredited entities	12	5	17	0

A total of 48 administrative proceedings were conducted (and 43 decisions made) in the pension management companies and retirement funds sector in 2013.

In addition to the above-mentioned merger, prior consent to the discharge of office of director of a pension management company was given in 16 cases. There were 14 proceedings concerning consent to the acquisition of qualifying holdings in pension management companies (one of which was discontinued and seven were terminated due to joinder). Conseq Investment Management, a.s. was given consent to acquire a qualifying holding in AEGON Penzijní společnost, a.s.

Based on the authorisation granted, Conseq Investment Management, a.s. became the 100% shareholder of this pension management company on 31 December 2013. The CNB granted consent to a change in the depository of four retirement funds, one transformed fund and four participation funds managed by Allianz penzijní společnost, a.s. (a single decision was issued in joint proceedings).

Management companies and investment funds sector

The CNB's licensing activity in this area was affected by a legislative change in 2013. Act No. 189/2004 Coll., on Collective Investment was replaced by Act No. 240/2013 Coll., on Management Companies and Investment Funds, with effect from 19 August 2013. Among other things, some new categories of entities and types of proceedings were established.

Table A.VII – Numbers of entities in the management companies and investment funds sector (active or newly licensed)

	As of 31 December 2012	Entries in 2013	Exits in 2013	As of 31 December 2013
Management companies	21	3	0	24
Management funds with legal personality	77	11	0	88
of which: autonomous funds	11	2[i]	0	13
Mutual funds	165	27	16	176
of which: standard funds	40	3	2	41
Depositories	7	0	1	6[ii]

i) The funds concerned are SAS Capital Hedge Derivative, uzavřený investiční fond, a.s. (which obtained an autonomous investment fund licence from the CNB) and RSJ Private Equity uzavřený investiční fond (originally a non-autonomous investment fund, whose assets were managed by a management company and which switched to the autonomous regime).

ii) Of which five entities are registered in the list of depositories kept in accordance with the Act on Management Companies and Investment Funds (COMMERZBANK Aktiengesellschaft, pobočka Praha stopped carrying on depository activities in 2013).

At the end of 2013, the CNB registered 24 management companies, 88 investment funds with legal personality and 176 mutual funds.

Table A.VIII – Numbers of administrative proceedings in the management companies and investment funds sector

Continuing from 2012	Opened in 2013	Completed in 2013	Continuing into 2014
22	113	127	8

In all, 135 administrative proceedings were conducted (and 127 decisions made) in the management companies and investment funds sector in 2013.

Three new investment companies (ZFP Investments, investiční společnost, a.s., Raiffeisen investiční společnost, a.s., REDSIDE investiční společnost, a.s.) and one autonomous investment fund (SAS Capital Hedge Derivative, uzavřený investiční fond, a.s.) obtained licences in 2013. The autonomous investment fund licence of UTIS uzavřený investiční fond, a.s. was revoked at the fund's own request with effect from 31 December 2013 (due to changes in its objects of business).

The CNB issued authorisations to establish 17 mutual funds and granted licences to seven non-autonomous investment funds. Three authorisations to establish a mutual fund were revoked at the request of the management company. There were two proceedings concerning mergers of mutual funds and 13 proceedings regarding authorisations to convert an investment fund (all these cases concerned mergers of funds for qualified investors with an unregulated entity). The CNB granted authorisation to offer the securities of three foreign special funds to the public in the Czech Republic.

The CNB conducted a total of 21 proceedings concerning prior consent to the discharge of office of director of a management company or an investment fund and 14 proceedings concerning consent to the acquisition of/increase in a qualifying holding in a management company or an investment fund. There were 14 proceedings regarding the approval of changes in the statutes of mutual funds and 13 proceedings regarding the approval of a change in a depository.

Investment services providers sector

At the end of both 2012 and 2013, the CNB registered 35 entities holding investment firm licences. In 2013, the CNB granted a licence to one investment firm (Česká exportní banka, a.s.) and one investment firm licence was extended. The licence of A&CE Global Finance, a.s. ceased to be valid as a result of a change in its objects of business at its own decision.

Table A.IX – Numbers of investment firms

	As of 31 December 2012	Entries in 2013	Exits in 2013	As of 31 December 2013
Investment firms	35	1	1	35
of which: banks	12	1	0	13
non-banks	23	0	1	22
Branches of investment firms	26	4	1	29
of which: banks	13	2	0	15
non-banks	13	2	1	14

The largest number of administrative proceedings completed in 2013 (710) related to the withdrawal of registration of investment intermediaries (355 decisions were issued, 327 proceedings were closed due to joinder and 28 proceedings were discontinued).

Of the remaining 41 proceedings, six concerned investment firm licences or changes thereto, one concerned prior consent to a change of legal form of an investment firm (consent granted), three concerned the approval of auction rules or changes thereto (one set of new auction rules and two changes to previously approved auction rules), 21 concerned prior consent to the discharge of office of director of an investment firm (17 consents granted, two applications rejected and two proceedings discontinued) and ten were connected with consent to the acquisition of qualifying holdings in investment firms (all closed by granting of consent).

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

Continuing from 2012	Opened in 2013	Completed in 2013	Continuing into 2014
57	699	751	5

Payment service providers and electronic money issuers

At the start of 2013, the CNB registered 15 payment institutions. In 2013, a licence for the pursuit of business of a payment institution was granted to one new entity (PayU Czech Republic s.r.o.) and one licence for the pursuit of business of a payment institution was revoked at the institution’s own request (Travelex GBP Prague s.r.o.). Two branches of a foreign payment institution were established in the Czech Republic in 2013.

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

	As of 31 December 2012	Entries in 2013	Exits in 2013	As of 31 December 2013
Payment institutions	15	1	1	15
Branches of payment institutions	5	2	0	7
Electronic money institutions	2	0	0	2
Branches of electronic money institutions	1	0	0	1

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

	Continuing from 2012	Opened in 2013	Completed in 2013	Continuing into 2014
Payment institutions	1	3	2	2
Electronic money institutions	1	1	1	1

A total of two administrative proceedings were closed in the payment system area in 2013, one of which concerned a licence for the pursuit of business of a payment institution (licence granted) and one concerned the withdrawal of a licence for the pursuit of business of a payment institution at its own request. One administrative proceeding on an electronic money institution licence was held in 2013; this ended in withdrawal of the application and discontinuation of the proceeding.

Handlers of domestic banknotes and coins sector

In 2013 one proceeding on authorisation for the activity of handler of domestic banknotes and coins (Česká pošta, a.s.) was commenced and closed by the issuing of an affirmative decision following the amendment of 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, which allowed state-owned enterprises to perform such activities. The CNB registered four handlers of domestic banknotes and coins at the end of 2013.

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

	As of 31 December 2012	Entries in 2013	Exits in 2013	As of 31 December 2013
Handlers of domestic banknotes and coins	3	1	0	4

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

	Continuing from 2012	Opened in 2013	Completed in 2013	Continuing into 2014
Handlers of domestic banknotes and coins	0	1	1	0

Securities issues and regulated markets

At the start of 2013, a total of 67 companies whose securities had been admitted to trading on a regulated market (issuers of listed securities) were registered, 19 of which were located outside the Czech Republic (one outside the EU). The number of issuers of listed securities decreased to 66 in 2013. Securities of five issuers (bonds in four cases, shares in one case) were newly admitted to trading on a regulated market. Securities of six issuers were excluded (one case involved bonds and was linked with their maturity, and five cases involved shares).

In 2013, 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 five selected companies were subject to detailed checks as regards correct application of IFRS in annual accounts.

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

	As of 31 December 2012	Entries in 2013	Exits in 2013	As of 31 December 2013
Issuers of listed securities	67	5	6	66
of which: foreign	18	2	1	19
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 settlement system The Central Securities Depository Prague – CSDP (Centrální depozitář cenných papírů, a. s.) remained unchanged from the previous year. The activity of central depository was performed by the CSDP.

The CNB conducted 45 administrative proceedings in the area of securities issues, securities registers and regulated markets in 2013. Most of the 41 decisions (35) concerned the approval of documents relating to new securities issues.

The other six decisions issued by the CNB in 2013 related to the areas of takeover bids and market infrastructure. Two concerned consent to squeeze outs; related to these cases were three procedural resolutions regarding searches in files and participation in proceedings. The CNB granted one request by the CSDP for the approval of changes in the settlement system rules. It also granted one request for the approval of changes to the rules of operation of the CSDP (no decision issued).

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

Continuing from 2012	Opened in 2013	Completed in 2013	Continuing into 2014
1	44	41	4

3.2 NOTIFICATIONS (UNDER THE SINGLE LICENCE)

3.2.1 Outbound notifications

UniCredit Bank Czech Republic and Slovakia, a. s. provided notification of the establishment of a branch in Slovakia and AXA životní pojišťovna a.s. closed down its branch in Norway.

Six domestic insurance companies, two banks and two management companies provided notification of their intention to provide services without establishing a branch in the territory of host Member States.

Investment firms Amidea, a.s. and AKCENTA CZ a.s. provided notification of their intention to operate within the territory of a host EU Member State through a branch or via tied agents. One investment firm (RSJ a.s.) provided notification of its intention to operate within the territory of host EU Member States under the free movement of services.

One payment institution (Global Payments Europe, s.r.o) provided notification of its intention to operate within the territory of a host EU Member State through a branch, and one payment institution (Travelex GBP Prague s.r.o.) closed down its branch in a host EU Member State. The payment institutions FORTISSIMO, spol. s r.o. and PayU Czech Republic, s.r.o. provided notification of their intention to provide services within the territory of a host Member State under the free movement of services.

Four domestic banks have branches in Slovakia. Three domestic insurance companies have a branch in Slovakia and one has a branch in Poland. One domestic credit union operates in Slovakia through a branch. Six investment firms have a total of eleven branches in five host EU Member States. Two payment institutions have branches in three EU Member States.

Outbound notifications (or changes thereto or termination thereof) were dealt with for 1,753 insurance intermediaries residing or having their registered office in the Czech Republic.

3.2.2 Inbound notifications

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

	As of 31 December 2012	Entries in 2013	Exits in 2013	As of 31 December 2013
Credit institutions[i]	328	17	5	340
Electronic money institutions	16	10	0	26
Insurance companies[i]	730	30	26	734
UCITS funds	1,173	127	146	1,154
AIFs (excluding EuVECAs and EuSEFs)[ii]	0	11	0	11
EuVECAs[)] fonds[iii]	0	3	1	2
Management companies	45	3	1	47
Investment service providers	1,536	226	96	1,666
Payment institutions	138	60	4	194
Institutions for occupational retirement provision	1	0	0	1

i) In the insurance and banking sectors, insurance companies and banks and their branches operating in other EU/EEA countries provide notification;
ii) EuVECAs = European Venture Capital Funds;
iii) AIFs = Alternative Investment Funds (special funds and funds for qualified investors), EuSEFs = European Social Entrepreneurship Funds.

In 2013, two banks (MEINL BANK Aktiengesellschaft, pobočka Praha and Western Union International Bank GmbH, organizační složka) provided notification of the provision of services in the Czech Republic in the form of establishment. One bank closed down its branch (AXA Bank Europe, organizační složka).

Two non-bank investment firms (Reliantco Investments Ltd. and Lynx B.V.) and one payment institution ("EasyPay" AD) provided notification of the provision of services through a branch in the Czech Republic. Investment firm Reliantco Investments Ltd. provided notification of closure of a branch in the Czech Republic.

The CNB received 142 prospectus notifications from foreign regulators.

A total of 891 notifications were provided for insurance intermediaries having a home Member State other than the Czech Republic in 2013.

3.3 REGISTRATIONS OF REPRESENTATIONS OF BANKS AND FINANCIAL INSTITUTIONS

Table A.XVIII – Numbers of registered and listed entities

	As of 31 December 2012	Entries in 2013	Exits in 2013	As of 31 December 2013
Registered representations of foreign banks[i]	18	1	2	17
Investment intermediaries	8,457	64	852	7,669
Tied agents	20,045	17,173	11,397	25,821
Small-scale payment service providers	61	17	4	74
Small-scale electronic money issuers	6	0	0	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 the first half of 2013, as part of the pension reform, authorisations were provided for supplementary pension savings and retirement savings distribution. The authorisations of six bank investment firms, one non-bank investment firm, 123 investment intermediaries and 11,043 tied agents were widened to include this activity as of 31 December 2013. At the end of 2013, 15 persons were registered in the list of tied agents of a pension management company which may carry on this activity independently regardless of authorisation to provide investment services.

A total of 9,978 applications for entry in the register of insurance intermediaries and independent loss adjusters (ILAs) were submitted in 2013. A total of 9,825 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, 411 candidates took these examinations in 2013 and 393 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.

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 identified 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 then used to identify supervised entities to be included in the on-site inspection plan as well as 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 law, or 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, building societies, credit unions and, to a limited extent, foreign bank branches. 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.[9]

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 2013, CNB Banking Supervision obtained auditors' reports on control system areas in five banks and four credit unions as of 31 December 2012. For 2013, requests for such audits were made with regard to two banks and three credit unions.

Banking supervision was performed under the standard regime in 2013. Owing to persisting problems in the global economy, attention was devoted primarily to credit portfolio quality, provisioning, capital adequacy, liquidity and overall performance. Extraordinary monitoring of the current situation of building societies also continued in the wake of changes to the terms and conditions applying to building savings schemes.

In 2013, the CNB performed its regular half-yearly stress-testing of banks' loan portfolios. The two rounds of stress tests assessed banks' resilience to adverse economic developments using the data as of 31 December 2012 and 30 June 2013. Nine selected banks which have received approval to use the special IRB approach[10] 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 half-yearly stress tests of the entire banking sector (top-down tests). The results are regularly published on the CNB website.

9 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.

10 The Internal Ratings Based Approach – see Articles 90–101 of Decree No. 123/2007.

In 2013, CNB off-site surveillance 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 was focused mainly on credit portfolio categorisation, sufficient provisioning, financing of groups of connected persons, compliance with regulatory limits and the origin of credit unions' capital.

On 18 December 2013, the CNB revoked the credit union licence of Metropolitní spořitelní družstvo (MSD). This was due to serious shortcomings in this credit union's business that were harming the interests of its depositors and significantly endangering its safety and soundness.

In addition, CNB Banking Supervision issues decisions 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.

In connection with the preparation of credit and payment institutions for the entry into effect of the new Civil Code[11] on 1 January 2014, the CNB paid increased attention to the procedures applied by these institutions when changing contracts, especially contracts for payment services. In the performance of supervision of the credit and payment institutions sector, emphasis continued to be placed on the execution of clients' payment orders in accordance with the law. Last but not least, the CNB focused on the procedures applied by building societies when withdrawing from building savings contracts.

3.4.2 Capital market supervision

In the capital market area, the CNB supervises investment firms, investment intermediaries, markets in investment instruments, management companies and investment funds, pension management companies and other entities operating in the capital market.

Compliance with information and disclosure duties was continuously assessed in the investment firm sector as part of off-site surveillance. Compliance with exposure limits in connection with the rules for exempting clients' funds from exposures and the calculation of capital adequacy and contributions to the guarantee fund were inspected in 2013.

Major changes due to transformation[12] occurred on 1 January 2013 in the area of pension management companies and funds managed by them. Supervisors concentrated mainly on the financial performance of pension management companies and the funds they manage, compliance with the rules of professional care and compliance with regulatory limits.

The engagement of investment intermediaries in providing investment services relating to shares and investment certificates associated with receiving inadmissible incentives from investment firms was identified as the main problem in the area of capital market service provision. Unlawful practices by investment intermediaries give rise to distorted perceptions of the capital market among investors. The CNB therefore proposed to the Ministry of Finance that legislative measures be adopted to limit unlawful conduct by investment intermediaries and regulatory arbitrage. The proposal contained several possible options, some of which may be applied simultaneously. The main options under consideration include limiting the activities of investment intermediaries to the provision of investment services relating to the securities of collective investment funds, and limiting the group of entities to which investment intermediaries may transmit orders to entities resident in the Czech Republic, on which the Capital Market Undertakings Act imposes an obligation to inspect the activities of investment intermediaries with whom they collaborate in providing investment services.

11 Act No. 89/2012 Coll., the Civil Code, as amended.
12 The transformation consisted in the conversion of pension funds into pension management companies managing participation funds and in the transfer of pension funds' assets and liabilities to the transformed funds. Pension management companies carry on private pension insurance activity by means of assets in transformed funds in accordance with the rules laid down in Part Thirteen of Act No. 427/2011, on Supplementary Pension Savings.

The attention of professional care supervisors in the area of retirement savings and supplementary pension savings focused on issues relating to the expiration of supplementary pension insurance following participants' applications for the payment of benefits. As regards retirement savings, attention was paid to processes relating to the making of contracts and also to subsequent acts during and after registration of contracts with the administrator of the Central Contract Register.

The conduct of supervision will be significantly affected by the new legislation regulating the activities of management companies and investment funds, which simplifies the process of establishing and closing funds and extends the object of supervision to other entities. Although the new provisions in the Act on Management Companies and Investment Funds (AMCIF)[13] took effect on 19 August 2013, the transition period laid down in the Act for adjustment to the new duties lasted until the end of 2013. The AMCIF also defined the CNB's supervisory priorities more clearly, emphasising protection of the interests of investors in collective investment funds (which, according to the statute, do not include funds for qualified investors) and possible sources of systemic risk to the sound functioning of the financial market. The impacts of the new legislation will be felt in full[14] in 2014.

3.4.3 Supervision of insurance companies and insurance intermediaries

Prudential supervision of insurance companies is based on regularly assessing their financial condition and compliance with prudential rules, as well as on 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 using an early warning system which, on the basis of financial indicators, assesses the current trends in an insurance company at quarterly frequency and allows potential weaknesses in its finances to be identified. The facts identified are then analysed in more detail and supervisory measures are taken if any shortcomings are detected. Semi-annual assessments of the level of risk associated with insurance companies based on their financial condition, the nature, scope and complexity of their risk exposures and the adequacy of their management and governance processes are prepared for internal supervisory needs. Further analytical and supervisory activities are performed for systemically important or risky entities.

Information-gathering visits to all Czech insurance companies, focusing in particular on their current financial and business situation and their other plans and strategies, were an integral part of supervision in 2013. Preparations for the future Solvency II regulation were also discussed with insurance companies.

In 2013, supervisors continued to intensively assess premium sufficiency in motor third party liability insurance and the sufficiency of the technical reserves of some insurance companies in this category. An on-site examination to check the adequacy of premiums and technical provisions was proposed for entities for which the risk of insufficient premiums had been identified. In some cases, detailed data on the motor third party liability insurance portfolio was demanded and a sufficiency test was performed, based on which a decision on further action was made. Supervisors also focused on the solvency position of some insurance companies and monitored aspects of their activities in an environment of low interest rates. Preparations for the new Civil Code were also an important topic discussed with insurance companies.

13 Act No. 204/2013 Coll., on Management Companies and Investment Funds.

14 The AMCIF took effect on the date of its promulgation (19 August 2013) and in many cases had an immediate impact (e.g. the establishment and closure of mutual funds and non-autonomous investment funds). Some of its provisions could not take effect until the new Civil Code and Act on Business Corporations took effect on 1 January 2014. However, full adjustment of supervised entities to the new AMCIF requirements cannot be required until 22 July 2014, when the transition period expires.

A fourth round of stress tests of selected insurance companies took place in April 2013. 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 stress scenario for insurance companies was derived from the adverse macroeconomic scenarios that the CNB had used to test the resilience of the banking sector. The tests again confirmed that the insurance 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 2014.

Preparation for the future Solvency II regulation was a significant activity, especially in terms of methodological changes and appropriate revisions of supervisory procedures. In 2013, the process of pre-assessment of internal models at group and local level continued in respect of insurance companies that plan to determine their solvency capital requirements under the future Solvency II regime using internal group models.

Intensive 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 – continued during 2013.

In supervision in the insurance area in 2013, the CNB focused on enforcing contributions to the fund of the uninsured of the Czech Insurers' Bureau (CIB) due to a persisting large number of submissions made by the public. The CIB was repeatedly notified of systemic shortcomings identified in its activities and instructed to ensure remedy and adjustment of the relevant procedures. It was found that cooperation between the CIB and the Ministry of Transport, which manages the Central Vehicle Register (CVR), from which the CIB obtains information about obliged persons, had long been very poor. Inaccurate and outdated data continue to be transferred from the CVR to the CIB, negatively affecting the CIB's activities. The CNB has long been communicating with the Ministry of Transport about this issue. In addition to problems on the side of the CVR, this is due to an insufficient data submitted to the CVR by vehicle owners and operators, which often give inaccurate or false information in insurance contracts. The CNB therefore published a public notice regarding the possibility of committing an insurance fraud connected with the conclusion of an insurance contract. The CNB also supervises the actions of individual insurance companies as regards compliance with the disclosure duty to the CIB. In 2013, administrative proceedings were opened against insurance companies whose remedial measures were assessed by the CNB as insufficient.

Shortcomings persisted in the activities of insurance intermediaries in 2013, especially in the distribution of investment life insurance. The CNB considers the shortcomings in the provision of pre-contractual information to potential clients and the negotiation of inappropriate products, including the presentation of investment life insurance as a savings product, to be problematic. Under the existing Act on Insurance Intermediaries, if it identifies serious cases of unlawful conduct the CNB may require insurance intermediaries to bring their activities into compliance with the said act and impose a fine in cases stipulated by law. However, the amounts of such fines must not jeopardise the existence of the supervised entities. The CNB's limited powers and the number of insurance intermediaries in the Czech Republic (around 150,000 were registered at the end of 2013) are adversely affecting the effectiveness of supervision of such entities. The problem of unlawful conduct by insurance intermediaries is being exacerbated by persisting insufficient checks of such intermediaries by insurance companies. The CNB has opened administrative proceedings against several insurance companies accused of insufficient management and control of their distribution networks. The CNB has long been proposing legislative changes to the Ministry of Finance 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, by publishing supervisory standards and by drawing the attention of individual insurance companies to systemic shortcomings in their activities and demanding information about remedial measures taken. For the same reason, several supervisory benchmarks were published on the CNB website in 2013, acquainting insurance companies and insurance intermediaries with the most serious supervisory findings and the expected remedies. The CNB also published several public notices drawing attention to the most serious risks the public may face in the financial market.

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 2013, 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 2013.

Supervision of these entities focuses mainly on monitoring compliance with the prudential rules, with the rules for protecting clients' funds and with private law as laid down by the Payment System Act.

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.[15] Entities in which shortcomings were detected in reported data were called on to remedy the shortcomings and adopt measures to prevent them recurring.

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 on-site examinations based primarily on outputs from an internal analytical system for risk assessment of supervised institutions,[16] 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 2013.

A total of 12 examinations were commenced or conducted in banks in 2013. Four of these were comprehensive and the remainder were partial.

Two partial examinations were conducted in credit unions in 2013.

15 An implementing requirement arising from Directive 2007/64/EC on payment services.
16 This system is based on quantitative and qualitative assessment criteria and also on the systemic importance of the supervised institutions.

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

	ICAAP	Credit risk	Market risks	Liquidity risk	Processing of transactions in financial markets	Operational risk	IS/IT risks	AML/CFT	Remuneration
Banks	4	4	4	4	3	2	3	10	5
Credit unions	0	1	0	0	0	0	1	0	0

Examinations of credit risk management

Four examinations in banks and one examination in a credit union were conducted in the area of credit risk management. All the examinations in banks were regular examinations in line with the plan of inspection activities. A serious breach of the export financing regulations was identified in one bank. The bank had insufficiently rectified the findings of a previous on-site examination and was continuing to proceed wrongly in identifying groups of economically connected persons, providing loans, assessing the creditworthiness and debt repayment ability of clients and calculating provisions. Based on these findings, it was proposed to open an administrative proceeding against the bank.

The other examinations identified that in some cases banks were not compliant with the provision of CNB Decree No. 123/2007 Coll. stating that the primary factor for the assessment of claims should be a client's ability to repay funding from his primary sources, rather than sources stemming from collateral (such as support from parent companies or other companies from the client's group of economically connected persons). In some cases of asset purchase financing, the cash flow generated by the asset was not sufficient for the repayment of loans and the loan had to be subsidised from other sources. In these cases, banks had not assessed the loans as default claims. Further, less serious shortcomings were identified, for example, in the valuation and records of collateral, the process of assessment of the balance-sheet value of claims, the calculation of provisions and the traceability of approval bodies' procedures and so on.

The credit union examination revealed a very serious breach of almost all the regulations relating to the approval process, the traceability of the credit union's procedures, the receipt and valuation of collateral, client monitoring, the assessment of the balance-sheet value of claims and the subsequent categorisation of claims and provisioning. The sufficiency of the credit union's capital to cover risks stemming from activities was also questioned. Based on these findings, an administrative proceeding was opened against the credit union. This resulted in revocation of its credit union licence.

Examinations of ICAAP, management of market risks and liquidity risk, and processing of transactions in financial markets

In 2013, four on-site examinations were also conducted in banks focusing on evaluating the internal capital systems (ICAAP) being put in place by credit institutions under Pillar 2 of the Basel II framework. Shortcomings were identified in the verification of the assumptions used (especially the going concern assumption) and also in the method for setting internal capital requirements for individual risks. Shortcomings were also identified in the concept of stress testing, which is an integral part of ICAAP. The shortcomings identified did not jeopardise the ability of the examined banks to cover the internal capital requirements with available capital.

Market risk and liquidity risk management was also examined in four banks as part of on-site examinations. The shortcomings identified did not jeopardise the ability of the examined banks to manage such risks.

In the area of market risks, less significant shortcomings were identified relating to inconsistencies between procedures and internal regulations, insufficient or absent checks of the market conformity of prices (in two banks) and insufficient or inaccurate reporting by management. Further shortcomings were identified in general in reporting to the CNB connected with the statement on the interest rate risk of the bank.

As regards liquidity risk, the shortcomings related most often to stress scenarios, which failed to take sufficient account of relevant risk factors, and to emergency plans, which were not integrated with stress testing, had no variants or failed to define indicators of exceptional events. In several cases, the system of limits did not adequately reflect the institution's risk profile. Inconsistencies between individual features of the liquidity risk management system (risk appetite, stress scenarios, the system of limits) were also identified in one case.

Risks associated with trading in financial markets were examined in three banks. Shortcomings of various degrees of seriousness were identified in all cases. Risks arising from failure to separate the business and settlement functions and the absence of authorisation (validation) actions taken by another worker (the "four eyes" principle) were assessed as serious findings.

Examinations of operational risk management, including IS/IT risks

The CNB examined operational risk management systems in five credit institutions in 2013. In one case, the examination focused on operational risks relating to outsourcing. Another examination covered operational risk management, including IS risks. The remaining three examinations concentrated on IS/IT risk management in line with the increasing importance of this area in the risk profile of financial institutions.

As regards operational risk, CNB supervision was focused on the risk of losses due to inadequate or failed internal systems, the human factor, systems, external events and non-compliance with legal rules. Owing to the increasing use of cloud services[17] in financial institutions, increased attention was paid to outsourcing risk management and business continuity. In addition to verifying the information security management system, attention in the IS/IT area was paid to electronic banking and measures to prevent current threats, including DDoS attacks on banks' web servers, phishing campaigns and malware for obtaining client login data.[18]

Both partial and systemic shortcomings were identified in the credit institutions examined. These related mainly to assessment of the business environment and internal control factors, outsourcing management processes and regulatory reporting. In the area of IS/IT risk management, the findings related to IS development strategy, asset classification and analysis of IS-related risks, security of access to information systems and inadequate determination of responsibilities and implementation of relevant approaches. The CNB called on the institutions examined to eliminate the shortcomings identified. The elimination of those shortcomings is being monitored on an ongoing basis.

Anti-money laundering and combating the financing of terrorism (AML/CFT)

The CNB conducts AML/CFT examinations on the basis of 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 examined entity 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 2013, ten AML/CFT examinations were conducted in banks and foreign bank branches. 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. The CNB called on the institutions examined to eliminate the shortcomings identified. The elimination of those shortcomings is being monitored 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's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). In December 2013, the plenary meeting of MONEYVAL in Strasbourg discussed and approved a progress report reflecting the measures taken on the basis of the above evaluation of the AML/CFT area in the Czech Republic.

17 Cloud computing is the use of hardware and software supplied as a service through a computer network (typically the internet). The name derives from the cloud symbol used in drawing of system diagrams.

18 Phishing is fraudulent behaviour aimed at obtaining a client's log-in or personal data. The most frequently used trick is to send a fake e-mail purporting to be from a trustworthy source (e.g. a bank or some other institution). After clicking on the attachment or link in the e-mail, clients are directed to a fake website (where they are invited to enter such data), or malware that monitors the client's data and makes them available to the attacker is installed onto the client's device from that website.

Remuneration principles and procedures

One on-site examination and two on-site inspections were conducted in credit institutions in 2013, focusing on remuneration in the context of risk management, liquidity and capital adequacy management. Both partial and systemic shortcomings were identified, primarily in independent verification of the application of the remuneration principle, the granting of part of the flexible component of pay in non-monetary instruments of the parent company, identification of employees having a significant effect on the risk profile of institutions and the application of specific remuneration instruments. The CNB is monitoring the elimination of shortcomings on an ongoing basis.

Control systems

Internal audit (IA) activities were examined in one bank in 2013. Shortcomings were identified mainly in the planning of IA activities. It was not possible to obtain reasonable assurance from the planning process that the audit will focus on the most risky activities or processes. Audit activities in the bank were performed through a combination of outsourcing and the IA's internal capacity, with the bank failing to ensure efficient use of the unit's capacity. Shortcomings were also identified in the system for monitoring remedial measures and in the IA's internal regulations. The bank was called on to eliminate the shortcomings identified. The elimination of these shortcomings is being monitored on an ongoing basis.

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 2013, 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 2013, discussions took place with one bank which had applied for consent to implement the AIRB approach. The discussions will continue into 2014. Three banks applied for consent to change their IRB models by means of a joint application from their parent bank. The discussions between the CNB and the banks focused on assessing the compliance of the banks' procedures with Decree No. 123/2007 Coll. All applications for changes in models were approved with conditions attached. The IRB approach was subsequently verified as part of a standard on-site examination in banks which already apply this approach.

In 2013, the CNB considered an application and subsequently granted approval for the use of the AMA approach in one credit institution. It also continued to examine compliance with the conditions under which institutions were allowed to switch to the AMA approach, verified the elimination of previously detected shortcomings and assessed refinements of operational risk management systems in institutions applying this approach. The CNB commenced an assessment of another entity connected with a change in the AMA approach.

One bank applied for an extension of its internal VaR model to include a new risk factor in 2013.

3.5.2 On-site examinations in capital market institutions

Seven on-site examinations were conducted and one commenced in the area of investment service provision in 2013. Four of these were conducted in investment firms and three in investment intermediaries. All these inspections were comprehensive, focusing on verifying compliance with the rules laid down in legal regulations connected with the duty to provide investment services with professional care and compliance with rules of conduct and professional care in the provision of investment services.

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 (or the records of an investment intermediary). Formal shortcomings, especially in the internal regulations of the entities examined, were also identified.

CNB branches also conduct examinations of investment intermediaries (smaller-scale entities whose activities are usually limited to the relevant region). In all, 25 examinations of investment intermediaries were completed in 2013. The most common breaches included shortcomings in the prudent provision of investment services and the provision of information to clients.

Further to these examinations, the entities concerned took remedial measures. Administrative proceedings were opened in more serious cases.

On-site AML/CFT examinations were conducted in two management companies and one investment fund in 2013. The main shortcomings concerned client identification and vetting. At the proposal of the CNB, the Financial Analytical Unit at the Ministry of Finance opened an administrative proceeding on the imposition of a fine against one management company.

3.5.3 On-site examinations in insurance companies and insurance intermediaries

Three partial on-site examinations were carried out in insurance companies in the area of prudential supervision in 2013.

Shortcomings with a low to medium degree of seriousness were identified in the area of technical provisions – specifically in regulations, data quality and the calculation of the IBNR provision for large damage in motor third party liability insurance.

As regards motor third party liability insurance, examinations in two insurance companies identified that premiums were not sufficient to ensure that claims arising from the provision of liability insurance under the Act on Vehicle Liability Insurance can be settled.

Financial placement and management of related risks were examined in one insurance company. Partial shortcomings were identified in the investment process (the area had been outsourced but the manager had not been selected in a tender). 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.

Partial shortcomings were also identified in IS/IT risk management, relating mainly to the analysis of IS risks and insufficient regulation of processes and procedures in internal rules.

In connection with the results of the examinations focusing on compliance with prudential requirements, the entities were called on to submit a timetable of remedial measures specifying their material content.

In 2013, on-site examinations were conducted in three insurance companies focusing on management and control of distribution networks, conclusion of policies with clients, 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. Shortcomings were identified in professional care, with insufficient or misleading information having been provided to clients when promoting insurance products, and also in the obtaining and assessment of information from clients. Shortcomings in the loss adjustment area concerned failure to comply with the statutory time limits for dealing with claims, failure to recognise late charges, insufficient traceability of adjustment procedures and insufficient justification of the manner of determining the amount of claims. Another on-site examination in one insurance company, which is continuing in 2014, also focused on the above-mentioned areas.

Further to these examinations, the insurance companies concerned took remedial measures. Administrative proceedings were opened in more serious cases.

In 2013, an on-site examination was conducted in an insurance intermediary focusing on compliance with duties in insurance intermediation. The findings related mainly to insufficient control of the intermediary network, insufficient determination of the client's needs and fulfilment of information duties to clients.

CNB branches also conduct examinations in the area of insurance intermediation. A total of 85 examinations of investment intermediaries were completed in 2013. The most common findings included shortcomings relating to the duty to act with professional care, the extent and form of the provision of information to clients or potential clients, and the notification of changes in data recorded in the register of insurance intermediaries and independent loss adjusters.

Further to these examinations, the entities concerned 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 2013 focusing on compliance with the rules laid down by the Payment System Act and its implementing legal rules. Two on-site examinations focusing on the provision of information to clients and AML/CFT were commenced. 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 2013, 12 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.

On-site examinations in the area of bureau-de-change activity were also conducted through CNB branches in 2013. The CNB carried out 174 on-site examinations in a total of 222 establishments in 2013. The most common inspection findings included shortcomings in the area of informing clients about exchange rates and fees for services and shortcomings in compliance with the reporting duty.

Further to these examinations, the entities concerned took remedial measures. Administrative proceedings were opened in more serious cases.

3.6 ENFORCEMENT[19]

In 2013, activity in the enforcement area consisted mainly in investigating petitions for the opening of administrative proceedings, making decisions on the opening of administrative proceedings or the deferral of cases, and conducting first-instance administrative proceedings, within which fines and remedial measures were imposed, licences revoked and registrations cancelled. In addition to conducting administrative proceedings against supervised entities, administrative proceedings against entities that provide financial market services without authorisation are conducted in financial market sectors where the law enables penalties to be imposed for the carrying on of unauthorised business.

Table A.XX – Numbers of penalty administrative proceedings

Continuing from 2012	Openedin 2013	Completed (by final and conclusive ruling) in 2013	Continuing into 2014
57	116	113	60

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

Seven penalty administrative proceedings were opened in the area of supervision of credit institutions in 2013. Six decisions became final and conclusive (one to impose a remedial measure, four to discontinue the administrative proceeding and one to revoke the licence of Metropolitní spořitelní družstvo due to serious shortcomings in this credit union's business that were harming the interests of its depositors and significantly endangering its safety and soundness).

A total of 30 administrative penalty or offence proceedings were opened in the capital market area in 2013. In all, 32 decisions became final and conclusive. Fines totalling CZK 10,760,000 were imposed by the CNB.

In all, 44 administrative proceedings were opened in the area of supervision of the insurance industry in 2013. A total of 37 decisions in the area of insurance intermediaries became final and conclusive. Fines were imposed in seven cases, fines and remedial measures were imposed in eight cases, and a fine and remedial measure were imposed and the activities of the insurance intermediary suspended in one case. A remedial measure was imposed and activities suspended until the imposed measure was implemented in seven cases. In two cases only a remedial measure was imposed, and in eight cases the registration of the insurance intermediary was withdrawn. A procedural fine for non-cooperation was imposed on two members of the statutory body of an insurance intermediary and the administrative proceeding was discontinued in two cases. Fines totalling CZK 11,440,000 were imposed.

A total of 28 administrative proceedings were opened due to violation of foreign exchange regulations in 2013. The CNB issued final decisions in 30 cases – fines were imposed in 26 cases, fines were imposed and bureau-de-change licences revoked in two cases, registration for bureau-de-change activity was withdrawn in one case and a measure to remedy the irregular situation was imposed in one case. The fines amounted to CZK 761,000 in all.

One administrative proceeding was opened in the consumer protection area in 2013, and three administrative proceedings were completed by a final and conclusive ruling. Fines were imposed in all cases closed by a final and conclusive ruling. These fines totalled CZK 600,000.

Six administrative proceedings were opened in the payment system area in 2013. Five final decisions were taken. Fines were imposed in all five cases. The fines imposed amounted to CZK 400,000.

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. In 2013, 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.XXI – Numbers of financial market entities in liquidation

	As of 31 December 2012	Entries in 2013	Exits in 2013	As of 31 December 2013
Banks	3	0	0	3
Credit unions	16	1	6	11
Management companies	6	0	1	5
Investment funds	19	0	6	13
Mutual funds	3	2	0	5
Pension funds	0	0	0	0
Investment firms	0	0	0	0
Total	47	3	13	37

The number of financial market entities in liquidation, which is monitored by the CNB, declined by ten year on year. Nine 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. Metropolitní spořitelní družstvo went into liquidation in 2013 and bankruptcy was later declared on its assets. Bankruptcy was also declared on the assets of another three credit unions in liquidation (Úvěrní družstvo PDW, Praha v likvidaci; Zlatá družstevní záložna "v likvidaci"; UNIBON – spořitelní a úvěrní družstvo "v likvidaci"). Two mutual funds went into liquidation in 2013 (IMP Energo otevřený podílový fond, WMS investiční společnost, a.s. and IMP otevřený podílový fond, WMS investiční společnost, a.s.).

3.8 CENTRAL CREDIT REGISTER

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

Claims on more than 600,000 clients have been registered at the CCR in the course of its activities. Of this total, 275,000 clients had active claims as of 31 December 2013. The increase in total registered claims is linked to some extent with exchange rate differences resulting from the change in the exchange rate of the koruna, since euro-denominated loans account for more than a quarter of registered claims. The end-2013 data were also affected by the merger of the Czech and Slovak UniCredit bank. Use of the CCR remains high. It is constantly used in banks' lending processes to examine the creditworthiness of potential clients and monitor existing clients.

Table A.XXII – Main operational characteristics of the CCR

	31 December 2010	31 December 2011	31 December 2012	31 December 2013
Number of registered borrowers	539,540	576,583	609,503	611,885
of which: natural persons (entrepreneurs)	313,129	330,372	345,243	339,730
legal entities	226,411	246,211	264,260	272,155
Total volume of loans outstanding (CZK billions)	1,219	1,290	1,328	1,508
Number of CCR application users	2,362	2,569	2,767	2,836
Ad hoc enquiries about credit commitments (thousands per year)	213	215	184	234
Number of enquiries about client credit commitments in monthly reports (thousands per year)	3,640	3,198	3,843	3,759
Number of extracts made for clients per year	492	514	490	520

In early 2013, the CCR's activity concentrated mainly on giving users and the CNB access to data from the international data exchange system. Necessary technical adjustments were made to the international data exchange module and the information obtained was included in all standard CCR outputs. Information from foreign registers was also incorporated into the statements for clients. The adjusted output module went live on 1 March 2013. The outputs now contain credit data on selected clients from Germany, Austria, France, Italy, Spain, Portugal, Romania and – since July 2013 – also Belgium, which re-joined the data exchange after the renewal of the credit register. In 2013, the National Bank of Slovakia also started to prepare to join the international data exchange system, and the Czech National Bank will be its main partner in the preparatory and test phase.

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, and in Act No. 634/1992 Coll., the Consumer Protection Act, with effect from 12 February 2008. In this area, the CNB supervises entities carrying on activities 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. 89/2012 Coll., the new Civil Code, with the information duties (especially pre-contractual 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 1,482 consumer complaints in the consumer protection area in 2013. Most of the complaints pertained to insurance companies and credit institutions. The numbers of complaints in these two areas were almost equal. As in previous periods, the number of complaints in the capital market segment was low. An increased number of complaints was recorded for non-bank foreign exchange entities, even after 1 November 2013, when a new Act on Bureau-de-Change Activity took effect. It had been expected that the new Act would have the opposite effect, i.e. that it would ensure better provision of information to consumers and fewer complaints.

A total of 522 complaints – representing about one-third of all the complaints received – concerned the insurance sector. The largest number of these related to misleading and inadequate provision of information on products and rejection of insurance claims. The complaints pertained mainly to insurance intermediaries who, according to customers, had failed, when negotiating policies (especially for investment life insurance), to explain all the parameters of the product and the risks and costs involved and had presented it as a savings product with an option to withdraw the deposited premiums after two years. In particular, some insurance intermediaries had convinced consumers that it was advantageous to deposit large amounts from savings, inheritances and so on as regular premiums spread over two years, which maximises insurance intermediaries' commissions for winning a client. Other practices included the conclusion of investment life insurance lasting until the consumer reaches a very high age, where the usefulness of both the risk and investment components to the consumer was highly debatable. In these cases, the CNB not only demanded that the insurance intermediaries take remedial action so that this way of negotiating policies does not become the norm, but also demanded that insurance companies perform checks to ensure that they discover and review such irregular insurance policy proposals. As regards complaints against the rejection of insurance claims, the CNB evaluated whether insurance companies apply prohibited and aggressive practices such as demanding documents from consumers which are not relevant to the examination of the insurance claim and failing to communicate with consumers in order to dissuade them from asserting their rights under the policy. In the area of non-life insurance, the CNB among other things investigated complaints against the rejection of insurance claims. These complaints were mainly associated with discussions concerning the specification and definition of exemptions in policy terms and conditions. Discrepancies were identified in some cases and the terms and conditions were subsequently revised by the insurance company.

In the area of credit institutions, a total of 468 consumer complaints pertaining to all banking products were received. As regards the costs of products, the complaints were mainly linked with fees charged for services. The investigations found that the fees were given properly in the price list and consumers had failed to acquaint themselves with them sufficiently. Shortcomings in the provision of information were detected in cases where the credit institution, in partnership with another business, had offered bonus cards which in fact were credit cards which not only offered the customer discounts on purchased goods, but also entailed contractual obligations arising from a purchased credit product (in the form of a credit card). Some complaints pertained to non-compliance with the time limit for sending a new interest rate offer before the end of the interest rate fixation period for mortgage loans. Where this shortcoming is proven, the bank usually extends the fixation period to give the consumer time to reconsider.

Many complaints concerned the conduct of building societies, which started to withdraw en masse from old building savings contracts whose binding period had elapsed. Higher interest rates had been set for consumers, who had been using such contracts as an advantageous saving instrument. Assessing whether a building society's withdrawal is justified is not part of supervision, as withdrawal is covered by the contractual terms and conditions. In such cases, the CNB could only refer consumers to a private law solution. Another way in which building societies reacted to the evolution of financial market interest rates, which cannot be reflected in interest rates on existing building savings contracts, was to increase their fees for contracts with advantageous tariffs concluded in the past and to significantly raise the fee for early repayment of bridging loans, for which the interest rate is advantageous to the building society. The CNB has no legal power to regulate bank fees. The CNB responded to the current market situation and started discussing with building societies the manner of communication of amendments to building savings terms and conditions and the creation of room for consumers to decide on and react to proposed changes to contracts of adhesion, among other things in connection with the new Civil Code.

A total of 56 consumer complaints were investigated in the capital market area in 2013. These related mainly to shortcomings in the management of entrusted funds and in the information provided about the risks associated with products offered. 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 hedging them were explained.

A total of 139 complaints concerning non-bank foreign exchange entities were received in 2013. 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. The number of complaints did not decrease after the adoption of the new Act on Bureau-de-change Activity, which specifies in more detail the requirements for the provision of information to clients before bureau-de-change transactions are executed. Foreign tourists in particular still complain about exchange at low exchange rates and deduction of exchange fees. Information on the exchange rate and the fee is shown on exchange rate boards, and clients usually sign to confirm the amount to be paid before the exchange takes place, but they often fail to read this information properly and then lodge a complaint after the fee has been deducted and the transaction executed.

A total of 260 submissions pertaining to consumer protection in general were received in 2013. 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 answered these requests and recommended how to proceed in resolving the problem or referred consumers to the relevant supervisory authority. Enquiries on whether an entity is subject to CNB supervision and where this can be verified were another significant set of submissions.

A total of 37 complaints pertaining to non-bank consumer credit providers were received. As part of its public law competence, the CNB only investigated those cases where consumer credit had been provided in connection with a payment service and obtained using a credit card.

4.2 LEGAL AND METHODOLOGICAL ACTIVITIES

The CNB dealt with an increased number of enquiries relating to a relatively large amendment to the Consumer Credit Act, which clarified the provisions for the calculation of the annual percentage rate of charge (APRC), modified the contract on intermediation of consumer credit, clarified the requirements for consumer credit agreements, prohibited the use of bills of exchange, promissory notes or cheques to repay consumer credit or secure its repayment and increased the number of administrative offences, which is now more consistent with the number of obligations contained in the Consumer Credit Act.

In connection with the expected entry into effect of the new Civil Code, the CNB dealt with fundamental interpretative applications of this legal rule. The issue of consumer credit agreements, and remotely concluded financial services agreements in particular, has already generated several enquiries from supervised entities and other entities, especially providers of legal services. In its application opinions, the CNB used interpretative approaches which, in its opinion, best reflect the sense and purpose of the new regulation, while endeavouring to eliminate any interpretations which could pose a threat to supervision in this area.

In the area of European legislation, the CNB continued to comment on a proposal for a directive of the European Parliament and of the Council on credit agreements relating to residential property, the first version of which had been introduced in March 2011. Also important from the perspective of consumer protection are the Insurance Mediation Directive (IMD 2), the regulation on key information documents for investment products and the directive on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features.

The CNB is also involved in the meetings of the working group on the implementation of Directive 2013/11/EU on alternative dispute resolution for consumer disputes, which is expected to actively contribute to the implementation of the directive and the creation of a functional system of out-of-court resolution of consumer disputes.

In 2013 CNB representatives continued to be involved in international working groups on consumer protection within the European Supervisory Authorities (ESAs).

5. INTERNATIONAL COOPERATION

5.1 PREPARATIONS FOR THE ESTABLISHMENT OF THE BANKING UNION

The increasing number of legislative proposals issued by the European Commission significantly expanded the workload of the European Supervisory Authorities (ESAs) – the EBA, the ESMA and the EIOPA – and the European Systemic Risk Board (ESRB) in 2013. As a result of the debt and banking crisis in some euro area countries, work continued on institutional and structural changes in the supervision of the EU banking sector and activities in the area of potential bank resolution were commenced.

In the first half of 2013, the EU Member States, the European Parliament and the Commission reached an agreement on the establishment of the Single Supervisory Mechanism (SSM), the first pillar of the banking union. In the second half of 2013, the Commission submitted a proposal for a second pillar of the banking union, namely a proposal for a regulation establishing a Single Resolution Mechanism (SRM), on the basis of which key competences in bank resolution will be transferred, among others, to a new institution called the Single Resolution Board.

At the end of 2013, the EU ministers of finance agreed on a general approach to the draft SRM regulation and the parts of the regulation concerning the creation of, and access to, the Single Resolution Fund were separated into a future intergovernmental agreement. While the intergovernmental agreement was being discussed at intergovernmental conferences, the rest of the regulation was submitted to the European Parliament and trilogue negotiations subsequently took place between the Council, the European Parliament and the Commission.

Throughout the trilogue on the SSM, the CNB advocated that the text agreed by the ministers of finance under the general approach should be preserved as much as possible. As regards the SRM Regulation, the CNB above all promoted the view that the SRM should have a stable legal foundation and sought to eliminate or minimise potential risks to the Czech banking sector stemming from the regulation. One of the CNB's goals was to achieve 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.

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 achieved numerous partial successes in promoting its standpoints.

5.2 COOPERATION WITHIN EUROPEAN SUPERVISORY AUTHORITIES STRUCTURES

European Banking Authority (EBA)

The CNB was actively involved in the EBA's activities in 2013. It was represented and actively participated at the level of the Board of Supervisors and standing committees and in a number of working groups. A CNB representative acted as Chairman of the Standing Committee on Regulation and Policy.

In connection with the establishment of the SSM, a two-chamber voting mechanism for decision-making in the Board of Supervisors was introduced, with separate voting by representatives of participating and non-participating countries.

In the area of regulation, the preparation of level-three regulations continued. These related in particular to new requirements stemming from an amendment to the CRD IV directive and the associated CRR regulation, as well as the BRRD directive. The EBA issued six guidelines and recommendations in 2013, namely a recommendation on supervisory oversight of activities related to banks' participation in the Euribor panel, a recommendation on the development of recovery plans by credit institutions, a recommendation stipulating a requirement for a minimum core Tier 1 capital adequacy ratio of 9%, a recommendation on asset quality reviews by national supervisory authorities, guidelines laying down a methodology for identifying unstable retail deposits for the purposes of the liquidity coverage ratio and guidelines on capital measures for foreign currency lending to unhedged borrowers. In the course of 2013 the EBA prepared and submitted to the Commission for final approval a number of draft binding technical standards stemming from CRD IV/CRR and BRRD, especially in the areas of capital requirements, liquidity requirements, supervisory reporting and the preparation of recovery plans for credit institutions and investment firms. The CNB contributed to the preparation of all the guidelines, recommendations and binding technical standards. In addition, the CNB was involved in the drafting of replies to enquiries from market participants concerning CRD IV/CRR.

In cooperation with supervisory authorities, the EBA launched an asset quality review for selected important banks in 2013 as a significant part of the activities aimed at restoring confidence in the banking sector. Although the CNB supported the review, it advocated that the exercise should be limited to systemically important credit institutions and institutions of those Member States in whose banking sectors asset quality problems had been identified. The CNB also requested that the schedule of the asset quality review be aligned with the bank balance sheet review conducted by the ECB before the ECB takes over direct supervision of these banks.

In connection with a review of the European System of Financial Supervision (ESFS) by the Commission, the EBA prepared a proposal for changes to its position and powers. The CNB supported more effective cooperation with the Commission, but rejected formalisation of the changes in the EBA's position in the EU legislative process, extension of the EBA's role in the area of binding mediation and a move away from the current method of co-financing of the EBA budget from contributions of national supervisory authorities.

In 2013 the EBA and national supervisory authorities conducted a peer review on the implementation of the stress testing guidelines. The aim of the peer review was to assess and compare the effectiveness of the supervisory activities related to the review of credit institutions' stress testing. The CNB ranked among the highly rated supervisory authorities. In addition the EBA prepared the methodology for the next round of EU-wide stress testing, the launch of which was postponed to 2014.

In the area of liquidity, the EBA prepared an assessment of the impact of the introduction of the liquidity requirement on the stability of the EU banking sector and a report for the Commission on the definitions of liquid assets for the calculation of the liquidity coverage ratio. The EBA also started work on the pilot module of the EBA single supervisory manual, which will serve as a set of non-binding rules aiming to harmonise the supervisory practices of the national supervisors.

In the area of consumer protection the EBA issued a warning on virtual currencies and, together with ESMA, also a warning on contracts for difference. The EBA also published good practices for Exchange Traded Funds (ETFs), for the treatment of borrowers in payment difficulties and for responsible mortgage lending.

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

As regards accounting, auditing and financial reporting, the CNB was involved among other things in the preparation of guidelines on enforcement of financial information and on alternative performance measures, opinions for the IASB and EFRAG on IFRS proposals, and reports defining common priorities for IFRS enforcement in financial reporting by listed issuers in the 2013 accounting period. The CNB participated in a questionnaire on selected areas of IAS/IFRS enforcement which had been set as priorities for IFRS enforcement in financial reporting by listed issuers for the 2012 accounting period.

As regards the creation and harmonisation of rules of protection against market abuse, the CNB commented, for example, on draft measures in selected areas in the regulation on market abuse under preparation which authorise ESMA to issue technical standards or technical advice for the Commission (e.g. market testing in an offer of financial instruments, indicators and signals of market manipulation and notifications of violations of the law). The CNB prepared for ESMA regular statistics on notifications it had received regarding transactions where there was a reasonable suspicion that they had involved the use of inside information or market manipulation. The CNB contributed to the preparation of documents implementing the short selling regulation and some aspects of credit default swaps (e.g. Q&As on the application and interpretation of the regulation) and technical advice for the Commission on a revision of the short selling regulation. The CNB participated in two questionnaires focusing on the evaluation of the effectiveness of the short selling regulation.

As regards prospectuses, transparency and takeover bids, the CNB helped to prepare documents on the Prospectus Directive, including technical standards on specific situations that require the publication of a supplement to the prospectus, a report containing the results of a comparative analysis of prospectus liability regimes in Member States, Q&As on the application of the Prospectus Directive, and an operational solution to the issue of application of the Prospectus Directive. The CNB participated in a questionnaire on the approach of national supervisory authorities to acting in concert in connection with the election of members of corporate bodies. In connection with the amendment of the Transparency Directive, the preparation of regulatory technical standards (especially on the procedure for calculating voting rights) was launched.

In the context of tasks arising from the amendment of the regulation on credit rating agencies, the CNB contributed among other things to the preparation of guidelines on the scope of the regulation, proposals for regulatory technical standards for the regulation (on information published on structured finance instruments, the European Rating Platform and fees for rating services) and Q&As on the implementation of the regulation. In addition, technical advice was prepared for a Commission decision on the equivalence between the regulatory frameworks of selected third countries and the EU regulatory regime for credit rating agencies. ESMA approved the registration of three credit rating agencies in 2013.

As regards the creation and harmonisation of trading rules on the secondary securities market, the CNB contributed to implementing legal regulations and the collection of technical comments for the Commission and the Council on selected articles of MiFID 2/MiFIR. ESMA discussed, for example, the definitions of classes of derivatives with mandatory trading, high-frequency trading and access to data under "reasonable business conditions". Proposals for new exemptions from pre-trade transparency under MiFID were assessed on an ongoing basis. The CNB participated in several questionnaires focused on determining the ratio of the number of orders accepted to the number of trades executed, describing the functions of a market maker and liquidity maker in the Czech Republic and providing data on bond trading for the purposes of setting new transparency requirements.

In addition, the CNB contributed to documents on market infrastructure. Draft technical standards were prepared for the regulation on OTC derivatives, central counterparties and trade repositories (EMIR) and its implementing regulations, which took effect on 15 March 2013. These standards pertained, for example, to the functioning of colleges for the authorisation of central counterparties and the application of the EMIR requirements to entities from third countries. Technical advice for the Commission was prepared on the equivalence of the regulatory regimes of selected third countries with EMIR, the rules for imposing fines on trade repositories and the specification of fees for the supervision of trade repositories. Six trade repository licences were granted in 2013. Draft technical standards on proper trade settlement, registration and supervisory requirements and rules for the activities of central securities depositories were prepared for the upcoming regulation on central securities depositories.

In the area of investment service provision, the CNB contributed to the preparation of guidelines on the remuneration of employees of investment firms for providing investment services to retail clients under MiFID rules, draft technical standards on the prerequisites of applications for consent to qualifying holdings in investment firms under MiFID, an ESMA opinion addressed to supervisory authorities on supervisory procedures, and a warning to investors against the risks of investing in complex products. Preparations for MiFID 2/MiFIR implementing regulations were launched.

As regards fund investment, the CNB contributed to a number of documents on the Alternative Investment Fund Managers Directive (AIFMD). These included memoranda of understanding between EU national supervisors and supervisors in third countries under the AIFMD (a total of 44 memoranda were approved), guidelines on key concepts of the AIFMD, guidelines on sound remuneration polices under the AIFMD and guidelines on reporting obligations under the AIFMD. In the area of the UCITS directive, Q&As on guidelines on Exchange Traded Funds and other UCITS issues were drawn up.

European Insurance and Occupational Pensions Authority (EIOPA)

In 2013 the CNB was actively involved in EIOPA's activities at the level of the Board of Supervisors and in standing committees and working groups. It prepared dozens of opinions and analyses for individual meetings and for decisions in written procedures.

In 2013 EIOPA continued its previous year's activities. Its main task was the implementation of the new Solvency II regulatory regime, the date of effect of which was postponed to 1 January 2016 by the Quick Fix 2 Directive. To increase the preparedness of national supervisory authorities and insurance companies for the new rules by that time, EIOPA in October 2013 issued extraordinary guidelines covering some elements of Solvency II (systems of governance, assessment of risks and solvency, internal models and reporting) with an application date of 1 January 2014. In the comments procedure, the CNB pushed through many changes to the Czech translation of these guidelines to ensure that its final wording is as clear as possible to all financial market participants. Following a thorough analysis, the CNB decided to apply most of the guidelines.

In the context of the implementation of Solvency II, the CNB participated in the preparation of level-three regulations relating in particular to the solvency and minimum capital requirements, technical provisions, measures pertaining to long-term guarantees and governance requirements. It also contributed to technical standards, guidelines and recommendations on the process of inspection by the supervisory authority, external auditing, information disclosure and submission of information to supervisory authorities. It engaged in a long-running discussion on draft recommendations on partial internal models (aggregated results of the internal model and the standard formula) and draft guidelines on the procedure to be followed by supervisory authorities in the pre-application of internal models.

Supervisory colleges, within which national authorities cooperate and exchange information on individual insurance groups, have long been an important topic for EIOPA. The CNB contributed to an action plan for colleges and became involved in the preparation of guidelines on the calculation of group solvency and shares of insurance companies and guidelines on the establishment and functioning of supervisory colleges.

The consumer protection area is gaining importance. The CNB contributed, among other things, to draft guidelines on complaints-handling by insurance intermediaries and a related report giving specific examples of good practices in this area. It also helped to draw up a report on consumer trends, a report on good supervisory practices regarding knowledge and ability requirements for distributors of insurance products, and a methodology for assessing risks relating to the sale of retail products. It also participated in a mapping exercise on the number and quality of comparison websites for insurance products in individual EU Member States.

Joint Committee of European Supervisory Authorities

The CNB was involved in the activities of working groups of the Joint Committee of the European Supervisory Authorities in 2013. The Committee is a forum for cooperation between the EBA, ESMA and EIOPA.

In the regulatory area, the Committee worked, among other things, on EBA and ESMA guidelines on complaints-handling in the banking and investment sectors. It also worked on a joint document of the ESAs containing intersectoral principles which financial institutions should apply in their internal processes for the approval and launch of new products on the financial market. As regards anti-money laundering measures, the Joint Committee issued three reports – one on the identification and examination of clients contacted via the internet or other remote means of communication, one on licensing of small-scale payment service providers, and one on supervision of domestic agents of payment institutions from other EU countries.

5.3 COOPERATION WITHIN EUROPEAN SYSTEMIC RISK BOARD STRUCTURES

The CNB is involved in the activities of the European Systemic Risk Board at the level of both the General Board 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 areas of activity in 2013 included the assessment and analysis of the primary sources of systemic risk and financial vulnerability in the EU and the preparation of a framework for the implementation of macroprudential policy instruments in the EU. Attention was focused mainly on liquidity, property, risks stemming from links between government debt and the financial sector, shadow banking, sectoral exposures, and systemic and countercyclical buffers.

On 15 June 2013 the ESRB published a recommendation on intermediate objectives and instruments of macroprudential policy (ESRB/2013/1). This recommendation contains an indicative list of macroprudential instruments applicable by EU Member States. Implementation of the recommendation does not imply a need for the Czech Republic to issue a new legal rule or amend existing ones, as, for example, an amendment to the Act on the CNB already reacts to a previous recommendation on the macroprudential mandate of national authorities (ESRB/2011/3).

During 2013, the ESRB also finalised its assessment of the implementation of the recommendation on lending in foreign currencies (ESRB/2011/1). In general, all countries received a mostly positive assessment. The level of implementation of the recommendation in the Czech Republic was assessed as being fully compliant, as in most items of the recommendation the principle of proportionality had been applied on the basis of the fact that foreign currency loans are hardly ever provided to unsecured borrowers in the Czech Republic.

In 2013 the ESRB continued work on a revision of the ESRB Regulation.[20] To this end, in 2012 it had created a high-level group (the ATC Chair, the ASC Chair and the ECB Vice-President), whose report was extended in 2013 to include the consequences of the Single Supervisory Mechanism and related conflicts of interest. In July 2013 the ESRB Chair sent an open letter enclosing this report to the European authorities. The CNB supported the wording of the letter. With regard to the process of establishment of the banking union, the legislation has not yet been changed.

In June and December 2013 the CNB fulfilled its reporting duties under the following ESRB recommendations issued in 2011:

- on the macroprudential mandate of national authorities (ESRB/2011/3);
- on US dollar denominated funding of credit institutions (non-public recommendation ESRB/2011/RNP 1).

In December 2013, the deadlines for reporting under the recommendation on funding of credit institutions (ESRB/2012/2) were extended by a decision of the ESRB General Board by six to twelve months owing to a delay in ensuring compliance with the recommendations on the part of the EBA and to a need to clarify the interpretation of some criteria.

5.4 COOPERATION WITHIN EUROPEAN CENTRAL BANK STRUCTURES

Financial Stability Committee (FSC)

In 2013 the FSC, whose primary aim is to help ECB bodies to fulfil their mandate in the field of supervision of financial institutions and the stability of the EU financial sector, met only in its narrow euro area composition without the participation of CNB representatives. The main issue on which the CNB commented in writing was the new FSC mandate, which reflects among other things the establishment of the Single Supervisory Mechanism in the euro area.

20 Regulation (EU) No 1092/2010 on European Union macro-prudential oversight of the financial system and establishing the 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.

Within the FSC, the CNB contributed to the work of the Joint Task Force on Analytical Credit Datasets, which is preparing the AnaCredit project – EU-wide collection and sharing of individual loan data – on the practical and legislative level. The CNB was involved in the Joint Expert Group on Reconciliation of Credit Institutions' Statistical and Supervisory Reporting Requirements (JEGR). In 2013, JEGR carried out a pilot project to create a methodological description for the compilation of external reports of banks based on input data available in banking systems.

Payment and Settlement Systems Committee (PSSC)

In 2013, 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 PSSC is monitoring the implementation of SEPA and drawing up progress reports (the SEPA Regulation, stipulating obligatory exclusive use of SEPA standards for euro payments, entered into force in February 2014). As regards the development of TARGET, the link to the planned T2S (TARGET2-Securities) settlement system is the main focus of work. The PSSC actively comments on proposed changes to EU payment system legislation. Increasing emphasis is being put on security (cybercrime). The recommendations of the European Forum on the Security of Retail Payments (SecuRe Pay)[21] for the security of internet banking, mobile payments and card terminals were discussed.

The PSSC has standing working groups on Payment Systems Policy, Oversight and T2S; the CNB has representatives in the first two groups.

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 ECOFIN Council decisions as part of the meetings of lower working bodies. It made proposals for changes and additions to the instructions for meetings of working groups (especially on the SRM and the BRRD) and for COREPER II meetings. The CNB proposed that the mandate of the Ministry of Finance for ECOFIN meetings be extended or modified. The CNB drafted opinions and comments on instructions for EFC and FSC meetings.

During discussions on the proposal for the SRM regulation, the CNB requested that an agreement on the general approach in the Council be possible only if its objections were satisfactorily resolved. These included above all disagreement with the use of Article 114 of the TFEU, intended for harmonisation of internal market regulations, as a legal basis for a regulation enabling the adoption of a proposal merely by a qualified majority of Member States and a co-decision role for the European Parliament. The CNB requested additional legislation for the protection of financial stability in countries which are not SSM/SRM members from the potential negative effects of the functioning of the SRM and a level playing field for the application of public support rules across all EU Member States. In its opinions, the CNB preferred the use of national resolution funds to finance bank resolution. As regards resolution-related decisions, the CNB requested that a separate committee of the Board, comprising representatives of national resolution authorities, be set up instead of powers being concentrated in the hands of the Commission. The CNB proposed that the regulation should only apply to systemically important banks with cross-border activities, which would become subject to direct supervision by the ECB. In order to preserve the fiscal independence of the Czech Republic, the CNB advocated the elimination of any transfer of costs relating to losses caused by SRM institutions to countries not participating in the SSM/SRM through the joint EU budget.

21 SecuRe Pay is a cooperative initiative between EEA supervisory institutions, in particular supervisors of payment service providers and central banks that oversee payment and settlement systems – see also www.cnb.cz / Supervision, regulation / Legislation / Banks, credit unions / Methodological and interpretative documents / Doporučení Evropského fora pro bezpečnost maloobchodních plateb – available in Czech only; www.ecb.eu – Press / Press releases – By date – 2013 – 31 January 2013 (http://www.ecb.europa.eu/press/pr/date/2013/html/pr130131_1.en.html).

In the trilogue between the European Parliament, the Commission and the Council on the regulation establishing the SSM and the related proposal for an amendment of the EBA regulation, the CNB rejected the proposals of the European Parliament that would weaken the agreed position of non-participating Member States in their representation and voting in the EBA Board in favour of SSM-participating countries.

In the negotiations between ministers of finance on the BRRD and the subsequent trilogues, the CNB called for guarantees to protect its independence and the stability of the Czech financial market in all areas governed by the BRRD (intra-group financial support, the balance of powers between home and host supervisors, group interest, rejection of mutualisation of national resolution funds).

In 2013 the CNB criticised the introduction of financial transaction taxes (FTT) in some EU Member States and requested guarantees to prevent the FTT impacting on non-participating EU Member States before the approval of enhanced cooperation. In particular, the CNB protested against the extraterritorial effect of the proposal on non-participating countries. The CNB also prepared documents for a potential lawsuit filed by the Czech Republic at the EU Court of Justice against enhanced cooperation in the FTT area.

As part of the preparations for the ESFS review, the CNB assessed the proposal for a transfer of further powers from national supervisory authorities to ESAs as unacceptable, stating that it was necessary to respect the specifics of national financial markets while emphasising the responsibility of national supervisory authorities for the stability of the national financial systems they supervise.

MONEYVAL Committee
The December 2013 plenary meeting of the MONEYVAL Committee of the Council of Europe discussed the Czech Republic's follow-up report on actions taken to resolve the deficiencies described in the April 2011 mutual evaluation report and noted that significant progress had been made in the area of supervision and inspection.

5.6 COOPERATION WITHIN OTHER INTERNATIONAL ORGANISATIONS AND ASSOCIATIONS

Committee on Financial Markets (CFM) – OECD
In April and October 2013, the CNB participated in the meetings of the OECD Committee on Financial Markets (CFM). In particular, the CFM discussed global standards for long-term investment. These standards are aimed at supporting the interest of private investors in such investment and, in turn, promoting growth in the real economy. They were endorsed by the G20 summit in St. Petersburg in September 2013. As in previous years, the CFM paid great attention to current trends in global financial markets. It focused mainly on lending to small and medium-sized enterprises (SMEs) amid tightening bank regulation, on the causes of the drop in cross-border capital flows and on the global benefits and risks of quantitative easing. In the discussion of lending to SMEs, the CNB noted that it was necessary to pay attention not only to bank regulation, but also to the quality of SMEs' business plans and the willingness of SME owners to share risk by investing their own capital. In this context, the CNB pointed out that relaxing bank regulation for loans to SMEs was not an appropriate way of supporting such businesses, as it might cause imprudent expansion in this segment of the credit market and jeopardise banking sector stability. Russia's accession to the OECD was another important item on the CFM's agenda last year. The CFM stated that Russia had made significant progress in implementing the OECD's standards for financial markets and welcomed the integration of financial market supervision into the Russian central bank. At the same time, however, it pointed out that Russia had yet to take necessary steps towards limiting the role of the state in the banking sector and to improve financial market supervision on a consolidated basis. The negotiations with Russia will continue in 2014.

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 2013 the BCG focused mainly on seeking a balance between simple and complex regulatory approaches following an assessment of the advantages and disadvantages of both variants, including the impacts on the comparability of the resulting bank capital ratios. Considerable attention was paid to progress with Basel III

implementation in small and emerging economies. The team dealing with this issue was headed by the CNB. The team's work resulted in a report submitted at the October 2013 BCG meeting. The report describes where Basel III might have problematic impacts and makes recommendations for small and emerging countries (e.g. applying the principle of proportionality to small banks, changing the approach to the assessment of the sovereign exposure risks of host countries, strengthening cooperation in home/host relationships and taking into account economic convergence when setting the countercyclical capital buffer).

International Organisation of Pension Supervisors (IOPS)
As part of cooperation with the IOPS in 2013, the CNB provided opinions on draft IOPS instructions in the area of governance of pension fund supervisory authorities, in which the CNB among other things stressed the need to keep its independence. For the purposes of some IOPS studies, the CNB provided information on the pension system in the Czech Republic as regards the costs of pension funds, supervision of the payment of funds from pension schemes and procedures followed in conducting stress tests.

International Organization of Securities Commissions (IOSCO)
In 2013, the CNB was actively involved in IOSCO's work on surveys examining the practical use of the memorandum of understanding between capital market supervisors and the focus of IOSCO expert seminars. Applications for information made by IOSCO members were dealt with on an ongoing basis. The CNB was actively involved in IOSCO's activities in the European Regional Committee, the Growth and Emerging Markets Committee and the IOSCO Annual Conference.

5.7 COOPERATION WITH PARTNER SUPERVISORY AUTHORITIES

At the start of 2013 the CNB signed a memorandum of understanding within the supervisory college for the branch of Citibank Europe plc. The CNB is involved in ten supervisory colleges for European banking groups and one group headquartered in the USA.[22] The activities of supervisory colleges for banking groups in 2013 focused on regular exchange of information on the situation of individual group members, joint assessment of their risk profiles and joint decisions on the minimum required capital of the groups and their members. In addition, the colleges paid greater attention to the preparations for the implementation of CRD IV/CRR and bank resolution plans.

The CNB was also actively involved in the meetings of supervisory colleges for international insurance groups. The members of the colleges discussed the process of preliminary assessment and approval of internal models for the calculation of capital requirements under the new Solvency II regime. In addition, the CNB and the other members of the colleges evaluated the financial situation and risk profiles of insurance groups and their members.

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

The CNB also worked closely with financial market supervisors from Central and Eastern Europe. This collaboration involved exchanging information and coordinating activities, as well as formulating and sharing the opinions of national supervisory authorities from the region on certain European regulatory issues, e.g. Solvency II, BRRD, SSM and SRM, 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 subsidiaries into foreign branches and proposed possible solutions aimed at mitigating these risks.

22 GE Money Bank.

PART B
THE FINANCIAL MARKET IN 2013

1. THE ECONOMIC ENVIRONMENT IN 2013[23]

The Czech economy experienced a period of contraction in 2013. However, the contraction moderated gradually during the year and economic activity returned to annual growth in the fourth quarter. A real GDP decline of 0.9% was recorded for the year as a whole. The unfavourable economic situation was mainly due to a decrease in gross fixed capital formation. The contribution of net exports was also slightly negative for the year as a whole. By contrast, household and government consumption made slightly positive contributions to GDP growth.

Inflation dropped considerably compared to the previous year, averaging 1.4% in 2013. During the year, annual headline inflation fell to the lower boundary of the tolerance band around the CNB's target and monetary-policy relevant inflation was well below this boundary.

The koruna depreciated overall against the euro in 2013 compared to 2012. This was due chiefly to a CNB Bank Board decision of 7 November 2013 to start using the koruna exchange rate as an instrument to further ease the monetary conditions. The average CZK/EUR exchange rate depreciated from 25.1 in 2012 to 26.0 in 2013. The average CZK/USD rate in 2013 was 19.60, the same as in 2012.

The current account deficit decreased to 1.4% of GDP in 2013. In absolute terms it amounted to CZK 56.0 billion. The decrease in the current account deficit mainly reflected an increase in the trade surplus. The financial account showed a surplus again in 2013. The surplus reached CZK 187.9 billion, up by CZK 113.6 billion on a year earlier.

Average unemployment, as measured by the proportion of unemployed persons, increased compared to 2012, reaching 7.7%. Growth in the average nominal wage in the national economy almost halted in 2013, as wages rose by just 0.1%. With the inflation rate outpacing nominal wage growth, the average real wage dropped for 2013 as a whole. Aggregate labour productivity fell by 1.8% year on year in 2013.

Measures taken to reduce the public finance deficit, coupled with a decrease in government investment, were reflected in a decline in the government deficit to 1.5% of GDP under ESA95 methodology. As a result, the government debt-to-GDP ratio decreased slightly to 46.0% in 2013.

The Czech National Bank had no room left to use interest rates to react to the anti-inflationary evolution of, and forecast for, the economic environment. It therefore left its key interest rates, which were already almost at the zero lower bound, unchanged in 2013. The two-week

23 The data in this section are based on CZSO data available as of 15 April 2014.

repo rate stayed at 0.05%, the discount rate also at 0.05% and the Lombard rate at 0.25%. In this situation, the CNB Bank Board decided on 7 November 2013 to use the exchange rate as a monetary policy instrument with a declared intervention level close to CZK 27 to the euro. For the Czech Republic, as a small open economy with a long-term excess of liquidity in its banking sector, this is a more effective instrument for easing the monetary conditions than any other.

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. Some sections dealing mainly with the sector composition of the banking sector use data from monetary statistics reporting statements (which is expressly stated). 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, regulation – Aggregate information on the financial sector – Basic indicators of the financial market – Banks.

2.1 THE STRUCTURE OF THE BANKING SECTOR

At the end of 2013, the Czech banking sector consisted of 44 banks and foreign bank branches (hereinafter referred to as "banks"). The CNB granted no new banking licences during the year and no bank closed down. A foreign bank branch, MEINL BANK Aktiengesellschaft, pobočka Praha, entered the domestic banking market. Another new branch, Western Union International Bank GmbH, organizační složka, was established by conversion of an existing payment institution. The branch AXA Bank Europe, organizační složka closed down.

The structure of the banking sector has long been broadly unchanged. At the end of 2013 it consisted of four large banks, eight medium-sized banks and six small banks, as well as five building societies and 21 foreign bank branches.[24] The group of four large banks[25] is still the largest component of the domestic banking market. Its share in total banking sector assets was more than 58%.

The Czech banking market is also 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 340 banks from EU countries were thus able to provide banking services in the Czech Republic as of 31 December 2013. These banks' operations on the Czech banking market are not subject to CNB supervision.

TABLE II.1

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

	2011	2012	2013
BANKS, TOTAL	44	43	44
of which:			
banks	18	18	18
foreign bank branches	21	20	21
building societies	5	5	5

TABLE II.2

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

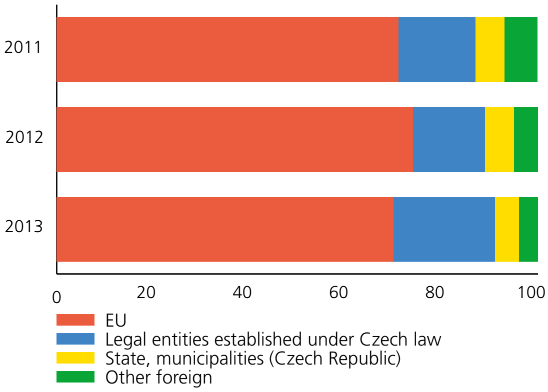
	2011	2012	2013
BANKS, TOTAL	100.0	100.0	100.0
of which:			
large banks	57.2	57.1	58.7
medium-sized banks	19.0	20.6	19.9
small banks	1.6	2.5	3.1
foreign bank branches	11.5	9.4	9.2
building societies	10.6	10.4	9.2

24 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.

25 At the end of 2013, the group of four large banks consisted of Česká spořitelna, ČSOB, Komerční banka and UniCredit Bank. For details see Part C – Annexes.

Chart II.1

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



Note: Shares in capital

Chart II.2

Capital origin
(in %; for banks with licences as of 31 December 2013)

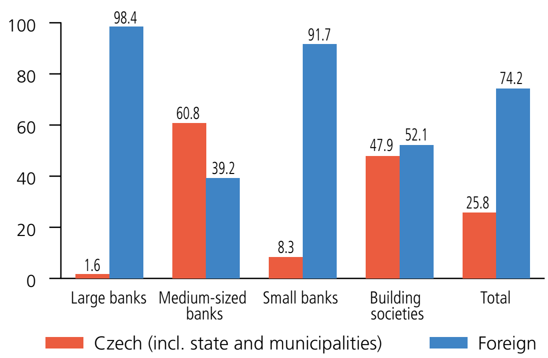
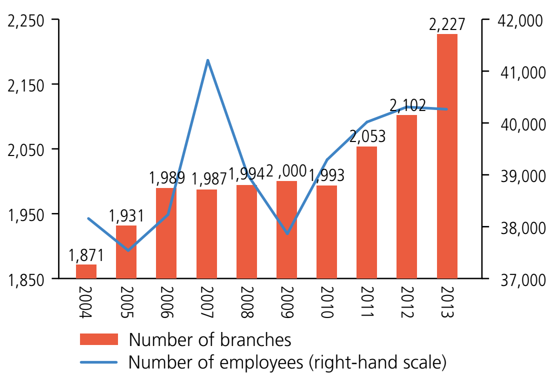


Chart II.3

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



As of the end of 2013, eight 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 and ČSOB and UniCredit Bank since 2013) were operating in EU countries under the single licence without establishing a branch.

2.1.1 Ownership structure

The Czech banking sector has a stable ownership structure. Foreign capital with a direct share (i.e. direct foreign shareholders holding shares directly) has long dominated the domestic banking sector's capital. Its share decreased slightly to 74.2% at the end of 2013. 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.

At the end of 2013, foreign owners directly or indirectly controlled 95.7% of the assets of the Czech banking sector.[26] Direct shareholders from EU countries had a share in the Czech banking sector's capital of almost 70%, and their share in the sector's foreign capital was more than 94%. The breakdown of ownership by EU country remains diverse. The large banks are all controlled by owners from EU countries.

2.1.2 Employees and banking units

The number of banking sector employees[27] was 40,265 at the end of 2013, almost the same as a year earlier. Large banks are the most important employer in the banking sector, accounting for almost 67% of total employees.

At the end of 2013, a total of 2,135 units were ready to serve clients in the Czech Republic and there were almost 5,000 citizens per banking unit.

Productivity, as measured by total assets administered per employee, rose by 14.7% year on year to CZK 131.9 million at the end of 2013.

26 This refers to the share of the banking sector's 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.
27 The total number of banking sector employees (registered number of employees, full-time and part-time).

2.1.3 Electronic banking

Various forms of electronic banking are being used by an ever increasing number of domestic banks' clients. The number of current and deposit accounts for households (individuals) continued rising in 2013 (by 11.5% year on year). The number of current accounts with PC access saw the fastest growth (16.7%). All types of accounts with remote access recorded growth, whereas the number of accounts without electronic access dropped by 3.2% year on year. A total of 4,399 ATMs were ready to serve clients at the end of 2013. In all, 293 ATMs were installed during the year, which represents a year-on-year increase of 7.1%. Almost 22% of the total number of ATMs are located in self-service zones, where clients have 24-hour access to them.

Almost 66% of all current accounts of households have card access. The year-on-year growth rate of the number of card transactions in the Czech Republic was 11.6%. The overall volume of card transactions rose by 4.1% in 2013. The total number of card transactions with retailers increased by more than 20% in 2013. Such payments accounted for almost 30% of the total volume of card transactions.

TABLE II.3

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

	2011	2012	2013
NUMBER OF EMPLOYEES	39,822	40,128	38,984
Number of banking units	2,049	2,098	2,135
Number of employees			
per bank	905.0	933.2	886.0
per banking unit	19.4	19.1	18.3
Number of citizens			
per bank (thous.)	238.7	244.6	238.9
per banking unit (thous.)	5.1	5.0	4.9
per employee	263.8	262.1	269.7

TABLE II.4

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

	2011	2012	2013
Number of ATMs	3,935	4,106	4,399
Number of cards issued (thous.)			
total	9,810	10,162	10,387
debit cards	7,988	8,280	8,777
credit cards	1,822	1,882	1,610
Current accounts (households; thous.)			
total	9,716	10,510	11,718
with cards issued	6,836	7,087	7,732
with PC access	6,270	6,949	8,108
with telephone access	4,179	4,816	5,435
without electronic access	951	1,114	1,078

TABLE II.5

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

	2011	2012	2013
NO. OF TRANSACTIONS			
TOTAL (thous.)	130,044	147,476	164,523
of which: in Czech Rep.	122,796	139,864	154,500
ATM withdrawals	50,978	53,418	51,844
over-the-counter withdrawals	1,910	1,730	1,551
payments to retailers	69,908	84,716	101,106
of which: outside Czech Rep.	7,248	7,612	10,023
ATM withdrawals	1,633	1,593	1,935
over-the-counter withdrawals	8	6	6
payments to retailers	5,607	6,012	8,081
VOLUME OF TRANSACTIONS			
TOTAL (CZK millions)	287,017	300,892	313,185
of which: in Czech Rep.	272,683	284,728	292,129
ATM withdrawals	190,165	194,730	196,203
over-the-counter withdrawals	18,902	17,003	15,829
payments to retailers	46,507	72,995	80,097
of which: outside Czech Rep.	14,333	16,164	21,056
ATM withdrawals	5,710	6,555	8,582
over-the-counter withdrawals	71	84	79
payments to retailers	5,473	9,524	12,396

2.2 ACTIVITIES OF THE BANKING SECTOR

TABLE II.6

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

	2011	2012	2013	Structure 2013 (in %)
TOTAL NET ASSETS	4,476	4,633	5,143	100.0
Cash	40	39	43	0.8
Cash balances with central banks	389	384	663	12.9
Financial assets held for trading	271	263	202	3.9
Financial assets designated at fair value through profit or loss	29	26	22	0.4
Available-for-sale financial assets	443	532	498	9.7
Loans and receivables	2,734	2,780	3,112	60.5
Held to maturity investments	380	405	404	7.8
Derivatives – hedge accounting (positive fair value)	34	47	33	0.6
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	1	1	0.0
Tangible and intangible assets	46	46	45	0.9
Investments in associates, subsidiaries and joint ventures	78	77	84	1.6
Other assets	30	34	38	0.7

The Czech banking sector's total assets[28] rose by CZK 509.8 billion (11.0%) year on year to CZK 5,143.2 billion.[29] This growth was mostly due to large banks,[30] whose assets increased by CZK 370.6 billion (14.0%). The fastest growth in this respect was recorded by small banks, whose assets grew by 37.4% (CZK 43.0 billion) overall year on year.

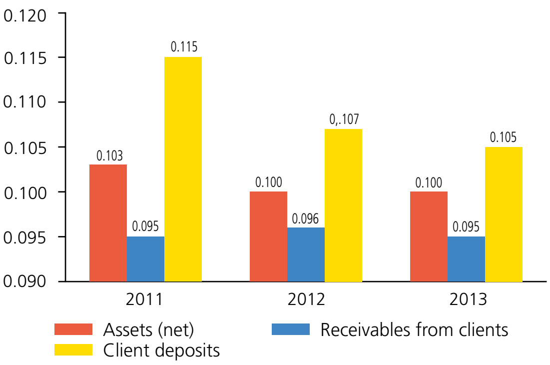
The assets of medium-sized banks rose by CZK 66.5 billion (7.0%) and those of foreign bank branches by CZK 37.6 billion (8.6%). By contrast, the assets of building societies decreased by CZK 8.0 billion (1.7%) year on year owing to changes in conditions in the building savings market. Of the total of 44 banks and foreign bank branches active in the domestic market, 32 recorded higher total assets at the end of 2013 than at the end of 2012.

The share of the four large banks in total banking sector assets rose by 1.3 percentage points year on year to 58.7%.

The Czech banking sector is traditionally oriented towards traditional banking based on deposit-taking and lending. Loans and other receivables (which increased by 12.7% year on year) account for more than 60% of banks' total assets. Client receivables, which make up a substantial part of receivables, accounted for almost 50% of total

CHART II.4

Herfindahl indices of market competition



28 The assets of the banking sector comprise cash, receivables, securities, tangible and intangible assets and other assets.
29 At its monetary policy meeting in November, the Bank Board decided to start using the exchange rate as another instrument to ease the monetary conditions. This was reflected in the banking sector's total assets and selected items.
30 The increase in assets was also due to the merger of UniCredit Bank CZ and UniCredit Bank SK on 1 December 2013.

assets, rising by 10.6% year on year. Banks' exposure to the Czech National Bank was up by 72.5% to CZK 662.5 billion at the end of 2013. This strong increase of more than CZK 200 billion was recorded in the final two months of 2013 following the easing of the monetary conditions by the CNB. In the first ten months of 2013, domestic banks' exposure to the CNB fluctuated around CZK 450 billion.

The degree of concentration of the banking sector, as measured by the Herfindahl index, has been at 0.100 for two years now in terms of total assets. The degree of concentration based on client receivables and on deposits fell slightly year on year to 0.095 and 0.105 respectively.[31]

The assets and deposit shares of the three, five or ten largest banks, which also express the level of concentration in the market, fell slightly overall by comparison with the previous year. By contrast, higher concentration was recorded for client receivables and net profit. Three of the large banks generated more than 71% of the total net profit of the domestic banking sector. The ten banks that posted the highest net profits in 2013 generated almost 94% of the profit of the banking sector.

2.2.1 The loan portfolio (sectoral breakdown)[32]

The total receivables of the banking sector increased in 2013.[33] Loans provided by domestic banks to clients increased by CZK 154.3 billion (6.5%) year on year to CZK 2,514.3 billion as of 31 December 2013. The rate of growth of loans rose by 4.1 percentage points year on year, but was uneven during the course of the year. Gradual growth was recorded in the first half of the year, whereas the second half, and the year-end, saw faster growth.

Loans provided to households (individuals, trades and owners' associations[34]) and non-financial corporations form the basis of overall lending.

31 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.

32 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*.

33 The evolution of the banking sector's loan portfolio at the end of 2013 also reflected the easing of the monetary conditions.

34 Starting from 2010, the household sector is divided into trades, individuals and other households – owners' associations.

CHART II.5

Concentration of banking sector
(for banks with licences as of 31 December 2013; in %)

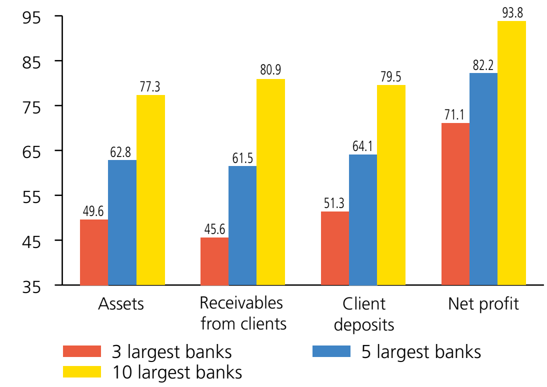


TABLE II.7

Receivables by sector

	Amount (CZK bn)			Change 2013/2012 (in %)
	2011	2012	2013	
TOTAL	2,304	2,360	2,514	6.5
A. RESIDENTS				
of which:	2,107	2,148	2,227	3.7
non-financial corporations	828	835	867	3.8
financial institutions	117	116	120	2.9
general government	64	62	58	-6.4
households	1,095	1,132	1,181	4.3
trades	38	36	37	1.0
individuals	1,009	1,045	1,092	4.5
other – owners' associations	48	51	52	1.5
non-profit institutions	3	2	2	-9.6
B. NON-RESIDENTS	197	212	287	35.2

CHART II.6

Receivables of banking sector in 2013
(in CZK billions)

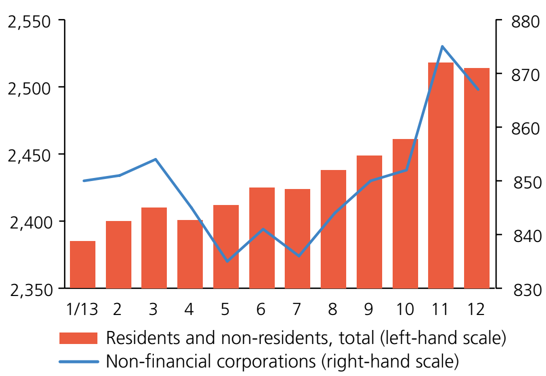


Chart II.7

Sector structure of loan porfolio
(in CZK billions)

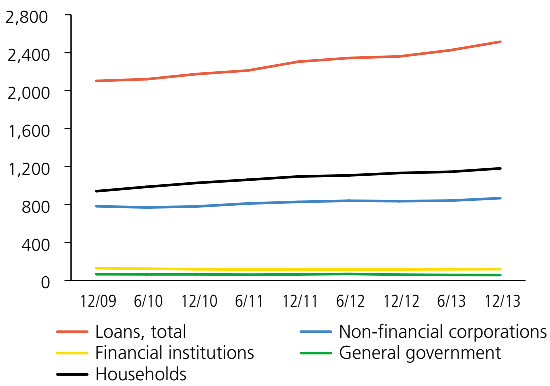
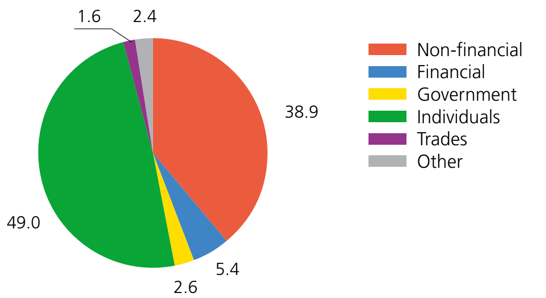


Chart II.8

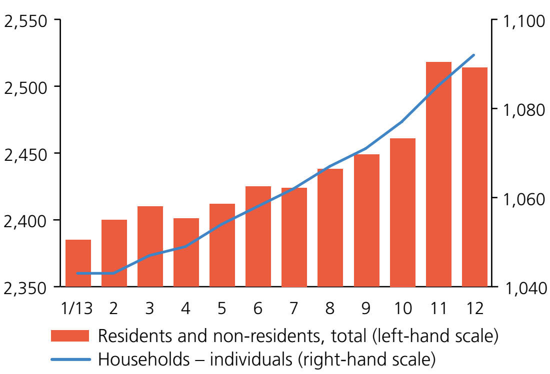
Structure of loans by economic sector
(for banks with licences as of 31 December 2013; in %)



Note: Only loans granted in the Czech Republic

Chart II.9

Receivables of banking sector in 2013
(in CZK billions)



Loans to households as a whole rose by CZK 48.5 billion during 2013, reaching CZK 1,180.7 billion. Until 2012 the share of loans to households in the banking sector's loan portfolio had been increasing steadily, but the end-2013 figure implies a one percentage point decline in this share to 47.0%. By contrast, the share of loans to the corporate sector in total loans has long been falling slightly and stood at 34.5% at the end of the year. Loans to individuals, representing 92.5% of total loans to households, were up by CZK 47.4 billion (3.6%) at the end of 2013 and accounted for 43.4% of the banking sector's total loans. Receivables from other households – owners' associations – were almost flat, rising by CZK 0.7 billion year on year.[35]

Loans to non-financial corporations rose by CZK 31.8 billion (3.8%) to CZK 867.1 billion, but their share in total loans dropped slightly to 34.5% in 2013. Banks' exposure to non-financial corporations with private domestic owners rose by CZK 14.1 billion (2.5%) year on year to CZK 584.5 billion. Loans to foreign-controlled private non-financial corporations increased by CZK 22.4 billion (9.4%) year on year to CZK 261.0 billion. Exposure to public non-financial corporations decreased in 2013 (by 18.0%, or CZK 4.8 billion) and loans to public non-financial corporations accounted for only 2.5% of loans to non-financial corporations at the end of 2013.

On the interbank market, the share of loans to financial institutions in total banking sector loans fell further, from 4.9% at the end of 2012 to 4.8% in 2013. At the same time, these loans rose by CZK 3.3 billion (2.9%) to CZK 119.7 billion.

Loans to general government (adjusted for bond holdings) shrank by 6.4% year on year to CZK 57.5 billion and their share in total banking sector loans fell to 2.3%. Loans to local government accounted for almost 79% of the total volume of such loans.

By contrast, loans to non-residents recorded a sizeable increase. These loans rose evenly over the course of the year, although the increase was more pronounced at the year-end. On 31 December 2013 they totalled CZK 287.1 billion, up by CZK 74.8 billion (35.2%) on a year earlier. Their share in total loans thus rose to 11.4%.[36]

35 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. In 2013, the effect of this factor was no longer felt.
36 The revaluation effect associated with the weakening of the koruna also played a role at the year-end.

2.2.2 Loans to individuals[37]

Loans to individuals (residents, excluding trades and owners' associations) have the biggest share (more than 49%) of lending to residents. As of the end of 2013, bank loans to individuals totalled CZK 1,092.4 billion, of which new loans in 2013 amounted to CZK 287.3 billion. The year-on-year growth rate of loans provided by domestic banks to individuals increased by 0.9 percentage point to 4.5%.

Most loans to individuals (more than 78%[38]) were loans for house purchase. Such loans were CZK 42.3 billion higher at the end of 2013 than at the end of 2012. Their year-on-year growth rate rose by 0.4 percentage point to 5.2%.

Demand for loans for house purchase and housing investment financing is reflected mainly in demand for mortgage loans,[39] which rose by CZK 61.2 billion (6.6%) in 2013 to CZK 746.6 billion, making up more than 68% of total loans to individuals. The increase in mortgage loans for house purchase in 2013 was also due to a decline in interest rates on new loans and to the evolution of prices in the real estate market. In 2013, banks provided new mortgages totalling CZK 151.4 billion, the highest figure in the entire history of mortgage provision in the Czech Republic.[40] The value of mortgage loans provided was CZK 27.3 billion higher than in 2012 and the mortgage market with its almost 22% year-on-year growth rate is the fastest growing credit product market. New mortgage loans accounted for 52.7% of new loans to individuals.

The share of long-term loans in total loans to individuals is rising steadily and reached 92.4% at the end of 2013.

Building societies are also involved in co-financing housing needs. This market was affected by changes in building saving conditions, and particularly by a reduction in state support. After having stagnated in 2011, the total amount of building society loans decreased for the second consecutive year, falling by CZK 20.8 billion (7.4%)[41] in 2013, to CZK 261.4 billion. This decline was reflected in the loans-to-savings ratio, which fell further to 60.9%. In 2013, building society clients signed 3.9% more new building savings contracts than a year earlier (449,600 new contracts). However, the overall number of building savings contracts in the saving phase continues to fall

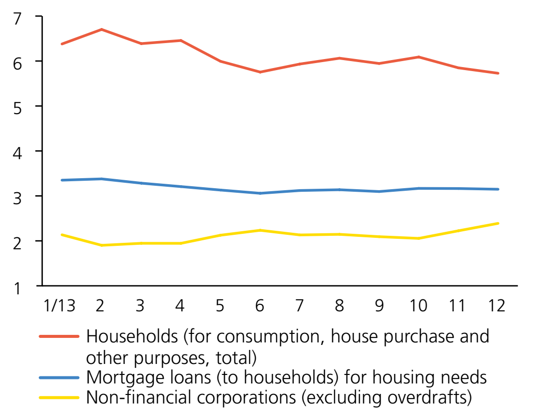
TABLE II.8

Loans to individuals by time and type

	Amount (CZK bn) 2011	2012	2013	Change 2013/2012 (in %)
TOTAL LOANS AND RECEIVABLES	1,009	1,045	1,092	4.5
of which:				
short-term	42	45	43	-3.8
medium-term	42	41	40	-3.5
long-term	924	959	1,009	5.3
of which:				
housing loans	773	810	852	5.2
of which: mortgage loans for housing purposes	659	700	747	6.6
consumer credit, including current account overdrafts	196	195	195	0.4
other	40	40	45	10.7

CHART II.10

Interest rates on new loans in 2013
(in %)



37 This section describes loans to individuals who are residents of the Czech Republic. Individuals are a subcategory of the household sector. In addition to individuals, the household sector includes trades and, since 2010, other households and owners' associations.
38 In addition to mortgage loans, housing loans include building society loans (standard and bridging) and consumer credit for real estate purchase or reconstruction.
39 Total mortgage loans (residents and non-residents) are given for all sectors.
40 The term new mortgages covers all new mortgage loan agreements and all renegotiated mortgage loan agreements.
41 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).

Table II.9

Basic indicators of building saving schemes

	2011	2012	2013	Change 2013/2012 (in %)
No. of new schemes (thous.)	410	433	450	3.9
No. of schemes in saving phase (thous.)	4,550	4,317	4,067	-5.8
Amount saved (CZK billions)	433	435	429	-1.4
Total loans (CZK bilions)	293	282	261	-7.4
of which:				
building savings loans (CZK billions)	56	56	52	-6.8
bridging loans (CZK billions)	237	227	210	-7.5
Total loans/amount saved (%)	67.6	64.9	60.9	-6.2
State support granted (CZK billions)	10.7	5.3	5.0	-5.7

(down by 5.8% year on year to 4,067,000 at the end of 2013). A total of CZK 5.0 billion in state support was paid to building savings scheme participants in 2013. This represents a year-on-year decrease of 5.7% (CZK 0.3 billion) in this state budget expenditure item. A large proportion of building savings contracts have now been concluded under new conditions with lower state support.

Household debt in the form of consumer credit increased by CZK 0.7 billion in 2013, to CZK 195.4 billion.

2.2.3 Other asset items

Receivables from central banks are a significant item of the banking sector's balance sheet. At the end of 2012 they had accounted for 8.3% (CZK 384.4 billion) of the sector's total assets, whereas at the end of 2013 – following the easing of the monetary conditions by the CNB – their share was 12.9%, which represents a year-on-year increase of CZK 278.2 billion. The group of large banks held the largest proportion (62.1%) of these receivables. They consist mainly of receivables arising from repo operations with the Czech National Bank and from the use of the CNB's overnight deposit facility by banks.

The total value of securities (including ownership interests) in banks' assets at the end of 2013 was CZK 1,209.2 billion, of which debt securities totalled CZK 1,115.3 billion. The value of debt securities held by banks increased by only 1.0% year on year. The proportion of securities issued by general government in total debt securities in bank portfolios was almost 73% (CZK 810.0 billion, down by CZK 32.6 billion). The value of debt securities issued by credit institutions rose by 14.5% year on year to CZK 269.1 billion at the end of the year. The total value of debt securities held to maturity (32.9%) and held for trading (10.0%) in banks' portfolio decreased. Available-for-sale securities have the largest share (43.9%) in the securities portfolio. Their value dropped as well, to CZK 489.8 billion[42] as of the end of 2013.

The total value of equity instruments[43] rose by CZK 0.2 billion year on year to CZK 9.6 billion. Their share in the securities of the banking sector remains stable below 1%.

42 Available-for-sale securities cannot be classified as securities for trading or as securities held to maturity or as ownership interests.
43 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.

In 2013, domestic banks increased the value of their interests in associates and subsidiaries (by 8.8% to CZK 84.4 billion). Of this total, 90.0% (CZK 75.9 billion) were controlling shares. However, their share decreased slightly as well (by almost six percentage points).

The securities are held mainly by large banks (70.0%) and building societies (11.6%). Ownership interests (CZK 84.3 billion) are even more concentrated, the bulk of them (81.2%) also being held by large banks.

2.2.4 Banking sector funds[44]

TABLE II.10

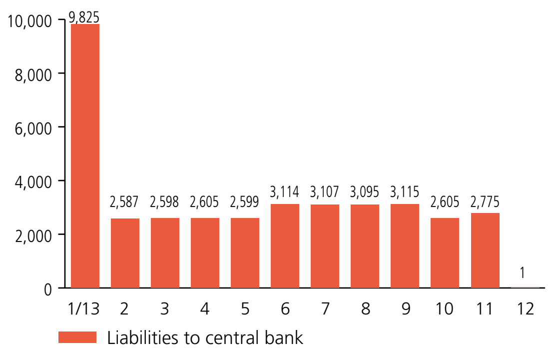
Banking sector liabilities
(for banks with licences as of given date)

	Amount (CZK bn)			Structure 2013 (in %)
	2011	2012	2013	
TOTAL LIABILITIES	4,476	4,633	5,143	100.0
Deposits, loans and other financial liabilities vis-à-vis central banks	4	10	0	0.0
Financial liabilities held for trading	323	249	294	5.7
Financial liabilities designated at fair value through profit or loss	19	21	17	0.3
Financial liabilities measured at amortised cost	3,684	3,832	4,281	83.2
Derivatives - hedge accounting (negative fair value)	23	26	27	0.5
Negative fair value changes of hedged items in portfolio	0	2	0	0.0
Provisions	10	10	11	0.2
Other liabilities	50	57	49	1.0
Equity, total	362	427	463	9.0
of which:				
issued capital	85	88	94	1.8
retained earnings	136	160	179	3.5
profit for accounting period	53	64	61	1.2

The Czech banking sector has long had sufficient funds. The ratio of client deposits to client loans has long exceeded 120%. Client deposits[45] totalled CZK 3,457.4 billion at the end of 2013, up by almost 10% year on year.[46] Deposits of other clients increased by 9.4% and general government deposits rose by 12.9%. Deposits of credit institutions grew markedly (by CZK 170.0 billion) and the domestic banking sector increased its liabilities to credit institutions by more than 41% to CZK 582.7 billion.

CHART II.11

Financial liabilities to central bank in 2013
(in CZK millions)



44 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.
45 Total client deposits (other clients and general government).
46 Total client deposits were also affected by the easing of the monetary conditions at the end of 2013.

Table II.11

Client deposits by sector

	Amount (CZK bn)			Change 2013/2012 (in %)
	2011	2012	2013	
TOTAL	2,914	3,128	3,340	6.8
A. RESIDENTS	2,829	3,022	3,208	6.2
non-financial corporations	673	716	777	8.5
financial institutions	117	138	165	19.1
general government	305	374	428	14.6
households	1,711	1,770	1,812	2.4
trades	91	89	92	3.4
individuals	1,594	1,651	1,687	2.2
other – owners' associations	26	31	33	7.9
non-profit institutions serving households	23	23	26	12.1
B. NON-RESIDENTS	85	106	132	24.6

Chart II.12

Client deposits of banking sector in 2013
(in CZK billions)

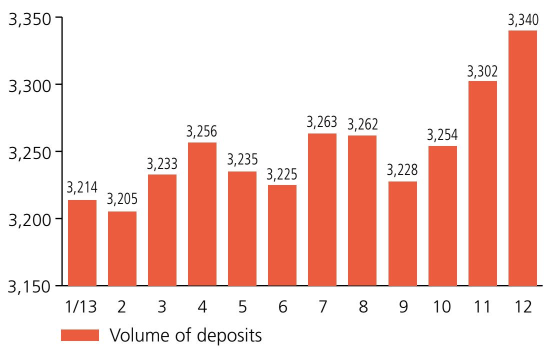
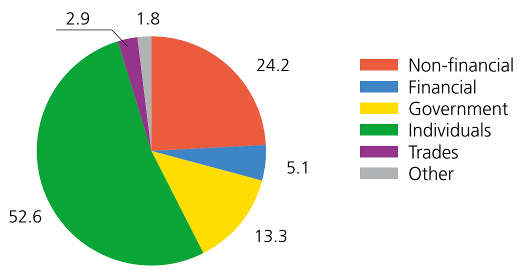


Chart II.13

Structure of deposits by economic sector
(for banks with licences as of 31 December 2013; in %)



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

Loans provided by the central bank showed the opposite trend, decreasing by CZK 9.6 billion during the year to CZK 1.3 billion due to a sharp decline at the end of the year after the CNB eased the monetary conditions. Deposits on client (non-government) accounts of the banking sector were CZK 261.1 billion higher in 2013 than in 2012. Current account deposits increased by 9.8% year on year.[47] Demand deposits accounted for 63.1% of total client deposits at the end of 2013. Time deposits rose by 2.0% in 2013. Short-term deposits of up to three months account for almost 67% of all time deposits.

Liabilities arising from debt securities rose by 14.8%, totalling CZK 441.9 billion at the end of 2013.

The Czech banking sector has long been profitable. Banks retain a major part of their profits as retained earnings and reserves. The increase in retained earnings, serving to strengthen capital, was CZK 19.0 billion in 2013, up by 11.8% compared to the end of 2012. Reserves were increased in line with legal requirements.[48]

The shares of economic sectors in total deposits were broadly unchanged.[49] Deposits increased in all economic sectors. Deposits of individuals (with the largest share of more than 50%) rose by 2.2% (CZK 36.5 billion) year on year. The share of non-financial corporations increased to 23.3%, as their deposits rose by more than CZK 60 billion. Deposits of general government have also been rising recently and their share in total deposits is increasing as well. General government deposits were up by CZK 54.6 billion and accounted for 12.8% of total deposits.

2.2.5 Off-balance sheet transactions

The nominal value of off-balance sheet assets and liabilities was almost unchanged in 2013 (year-on-year growth of up to 2%). The volumes of derivatives transactions on both sides of the off-balance sheet, which make up a substantial part of these transactions, were also flat (up by less than 1% compared to 2012). The long-running decline in the total volume of derivatives transactions observed since 2008 halted. At the end of 2013, the volume of derivatives transactions (both assets and liabilities) was just above 50% of the end-2008 level.

47 In the Czech Republic (as in other EU countries), deposits are 100% insured, but with a ceiling of EUR 100,000.
48 For more details on own funds, subordinated debt and banking sector reserves, see section 2.5 *Capital adequacy*.
49 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.12).

TABLE II.12

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

	Amount (CZK bn)			Change 2013/2012 (in %)
	2011	2012	2013	
SELECTED OFF-BALANCE SHEET ASSETS	6,704	5,796	5,851	0.9
of which:				
commitments and guarantees given	729	686	720	4.9
pledges given	23	25	34	33.7
receivables from spot transactions	48	24	30	27.6
receivables from futures, forwards, swaps etc.	5,513	4,760	4,768	0.2
receivables from options transactions	316	211	230	9.4
write-off receivables	39	41	39	-3.9
values given to asset management	0	0	0	0.0
values given to custody	34	50	30	-39.9
SELECTED OFF-BALANCE SHEET LIABILITIES	10,057	9,293	9,886	6.5
of which:				
commitments and guarantees received	436	426	473	11.0
pledges received	1,828	1,826	2,047	12.6
liabilities from spot transactions	52	28	29	1.9
liabilities from futures, forwards, swaps etc.	5,536	4,758	4,779	0.5
liabilities from options transactions	298	211	230	9.4
values received to asset management	61	65	68	4.6
values received to custody	1,846	1,979	2,260	14.2

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 in interest rate instruments (65.1%) and transactions in currency instruments (33.8%) make up the bulk of total derivatives transactions (assets). Banks engage only minimally in commodity, equity and credit derivatives trading (1.1%). The transactions were clearly dominated by swaps, which account for more than 80% of the total value of derivatives transactions. Liabilities arising from derivatives transactions showed similar developments, with transactions in interest rate instruments and transactions in currency instruments recording the largest shares (65.0% and 34.0% respectively). These transactions are also dominated by swaps (80.2%).

The reduction in derivatives transactions was mostly due to claims and liabilities arising from forwards, both of which dropped by about 25% (more than CZK 182 billion) in 2013.

The shares of individual banks in total banking sector derivatives transactions are not evenly distributed. Large banks account for more than 75% of the relevant market. Foreign bank branches and medium-sized banks are also involved in this market. The other categories together account for less than 1% of this market.

2.3 RISKS IN BANKING

2.3.1 Credit risk

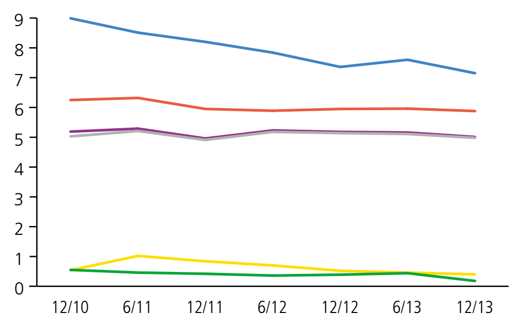
TABLE II.13

Classification of receivables from clients

	Amount (CZK bn)			Change 2013/2012 (in %)
	2011	2012	2013	
INVESTMENT PORTFOLIO RECEIVABLES, TOTAL	2,790	2,844	3,106	9.2
A. RECEIVABLES FROM CLIENTS	2,340	2,398	2,656	10.7
non-default	2,196	2,251	2,495	10.8
standard	2,098	2,153	2,377	10.4
watch	98	98	117	19.4
default	145	148	161	9.1
substandard	47	40	42	6.2
doubtful	20	21	23	9.9
loss	77	87	96	10.3
B. RECEIVABLES FROM CREDIT INSTITUTIONS	450	446	451	1.1
non-default	449	444	450	1.3
standard	448	443	448	1.1
watch	1.0	1.7	2.5	51.6
default	0.8	1.1	0.4	-63.9
substandard	0.1	0.2	0.2	4.6
doubtful	0.2	0.3	0.0	-88.7
loss	0.5	0.6	0.1	-78.3
C. ALLOWANCES AND LOSS OF VALUE	80.4	81.7	92.9	13.7
allowances for individually assessed financial assets	70.6	70.1	81.0	15.5
allowances for individually non-impaired assets	1.9	3.3	3.7	11.5
allowances for portfolio of individually immaterial assets	7.9	8.3	8.2	-1.3
Allowances and loss of value by sector	80.4	81.7	92.9	13.7
allowances and loss of value for credit institutions	0.2	0.3	0.2	-49.7
allowances and loss of value for clients	80.2	81.4	92.7	13.9
Allowances and loss of value/investment portfolio receivables (%)	2.9	2.9	3.0	4.2
Allowances and loss of value/default receivables (%)	55.6	55.4	57.7	4.2
D. RECEIVABLES IN DEFAULT (%)				
Share of receivables in default in total investment portfolio	5.2	5.2	5.2	-0.6
Share of receivables in default from clients in total receivables from clients	6.2	6.2	6.1	-1.5

CHART II.14

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



The quality of the Czech banking sector's loan portfolio is good and improved slightly in 2013. The share of default receivables in the total investment portfolio shrank slightly to 5.2% at the end of 2013. The share of client default receivables in the total investment portfolio also dropped slightly to 6.1%.

Receivables are classified as default or non-default[50] based on an assessment of their quality. Non-default receivables accounted for CZK 2,944.8 billion (or 94.8%) of the total value of investment

50 See Decree No. 123/2007 Coll., on prudential rules for banks, credit unions and investment firms. In connection with the implementation of CRD IV, Decree No. 123/2007 was replaced by Decree No. 23/2014 with effect from 15 February 2014.
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).

portfolio receivables of CZK 3,106.3 billion. The shares of standard receivables (90.9%) and watch receivables (3.8%) in the investment portfolio were almost unchanged.

The total value of default receivables rose by CZK 12.7 billion to CZK 161.4 billion in 2013. Loan portfolio quality as measured by the ratio of default receivables to the total value of the investment portfolio showed mixed trends and values across the individual groups of banks. The share of default receivables decreased slightly in large and small banks and in building societies in 2013. By contrast, medium-sized banks and foreign bank branches recorded a modest deterioration. At the end of 2013, as in 2012, the share of default receivables was the largest in medium-sized banks (8.8%) and the smallest in foreign bank branches (2.4%).

Banks create allowances to cover their loan portfolio losses. The rate of allowance creation increased even though loan portfolio quality did not deteriorate. Allowances rose by CZK 11.2 billion (13.7%) year on year to CZK 92.9 billion. Individually assessed allowances made up the largest share of the total volume of allowances (87.2%). The share of allowances in total receivables in total investment portfolio receivables increased by 0.1 percentage point to 2.98%.

Loan portfolio quality also differs across economic sectors. The total value of all default receivables in the loan portfolio of the households – individuals and non-financial corporations subsectors rose slightly year on year (by CZK 0.7 billion and CZK 0.5 billion respectively), accounting for 5.0% and 7.2% of total loans to households and non-financial corporations respectively. In both cases, this means a decrease of 0.2 percentage point compared to the end of 2012. The total value of all default receivables fell somewhat in the financial institutions and general government subsectors and for trades.

Loans for house purchase, particularly mortgage loans to individuals, regularly show higher loan portfolio quality. The quality of loans for house purchase as a whole improved further in 2013. The volume of loans to individuals, including loans to individuals for house purchase, showed faster year-on-year growth rates (4.5% and 5.2% respectively) than did default receivables. The value of default receivables in the loan portfolio of the households – individuals subsector rose by CZK 0.7 billion year on year, and their share in total loans provided to individuals dropped to 5.0%. Default loans for house purchase accounted for 3.3% at the end of 2013, down 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 3.0% for mortgage loans provided to individuals for house purchase. This also represents a modest improvement of 0.1 percentage point.

CHART II.15

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

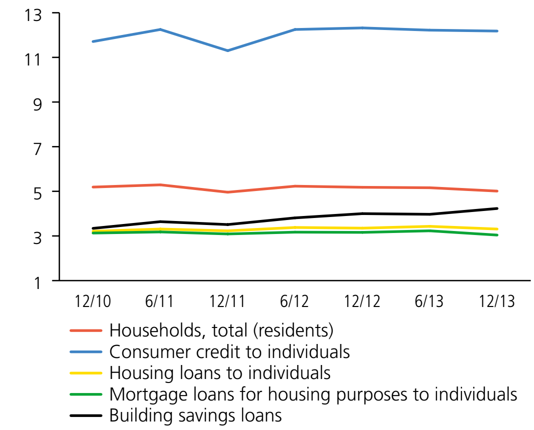


TABLE II.14

Receivables in default by sector

	Amount (CZK bn)			Change 2013/2012 (in %)
	2011	2012	2013	
RECEIVABLES IN DEFAULT, TOTAL	137.1	140.5	147.8	5.2
non-financial corporations	67.9	61.5	62.0	0.8
financial institutions	1.0	0.6	0.5	-20.2
general government	0.3	0.2	0.1	-55.3
households	54.3	58.7	59.2	0.8
of which:				
trades	4.7	5.0	4.8	-4.1
individuals	49.5	53.7	54.4	1.3
other – owners' associations	0.0	0.1	0.1	1.2
non-profit institutions serving households	0.08	0.06	0.06	-9.7
non-residents	13.6	19.4	26.0	33.7

CHART II.16

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

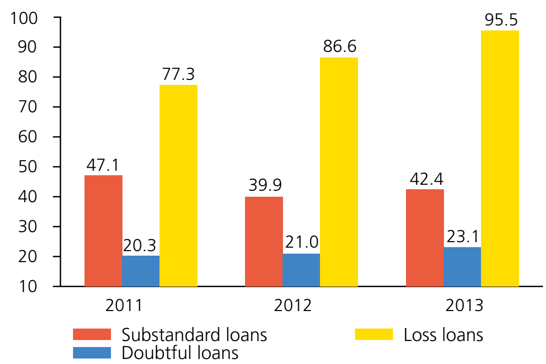


Chart II.17

Structure of loans in default provided to non-financial corporations
(for banks with licences as of 31 December 2013; in %)

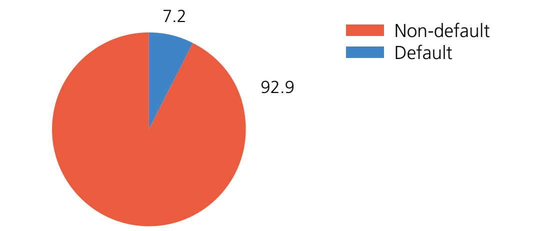


Chart II.18

Structure of loans in default provided to individuals
(for banks with licences as of 31 December 2013; in %)

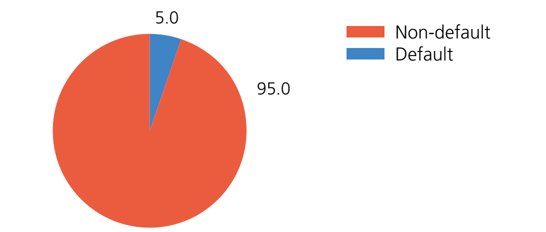


Chart II.19

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

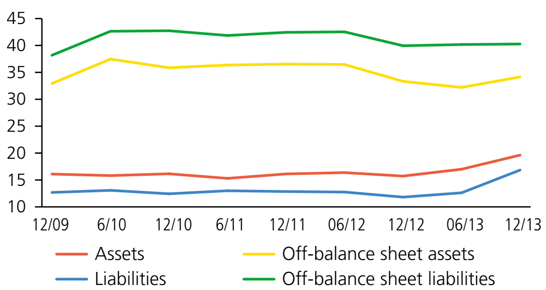
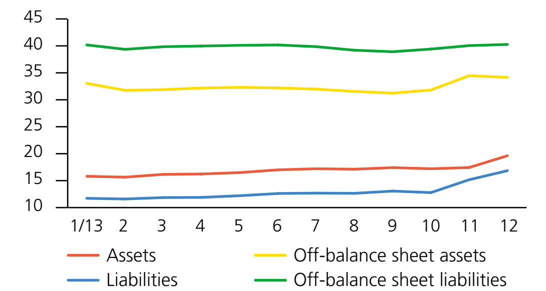


Chart II.20

Shares of foreign currencies in banking sector balance sheet and off-balance sheet in 2013
(in %)



By contrast, the total default rate is higher for consumer credit (12.2% as of 31 December 2013). The quality of these loans improved in terms of both the share of default loans (down by 0.1 percentage point) and the total volume of default loans (down by CZK 0.2 billion). Consumer credit is generally provided in higher numbers and lower amounts. It is provided for both specified and unspecified purposes and also includes 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 2013. The absolute amounts of the sector's foreign currency assets and liabilities were essentially unchanged for almost the entire year. Foreign currency assets and liabilities both grew at the end of 2013 after the CNB eased the monetary conditions. Two-thirds (CZK 195.0 billion) of the total increase in foreign currency assets (CZK 289.7 billion) occurred in the last two months of 2013. Loans to clients accounted for more than 73% of the total increase in foreign currency assets.

The share of foreign currency assets in the banking sector's total balance sheet increased to 20% for assets and 17% for liabilities. In absolute terms, foreign currency assets and liabilities totalled CZK 1,043.6 billion and CZK 866.2 billion respectively as of the end of 2013.

By contrast, foreign currency off-balance sheet assets and liabilities increased only slowly. In absolute terms, foreign currency off-balance sheet assets increased by CZK 70.0 billion, accounting for more than 34% of off-balance sheet assets. Foreign currency off-balance sheet liabilities rose by CZK 53.1 billion, accounting for more than 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 2013 in a surplus of balance sheet assets over liabilities (of CZK 177.2 billion).

Loans to clients and credit institutions had the largest share (more than 77%) in foreign currency assets. Foreign currency client loans are the most important item in terms of both weight and growth. They were up by 56.6% (CZK 212.5 billion) year on year at the end of 2013, to CZK 587.9 billion.[51] Receivables from credit institutions increased significantly further in absolute terms in 2013 (by CZK 56.5 billion to CZK 220.2 billion). Banks recorded a minimal decline in exposure for the total value of foreign currency receivables from the central bank. They fell by 2.7% year on year to CZK 1.7 billion.

51 The year-on-year growth in foreign currency client loans was significantly affected by the merger of UniCredit Bank CZ and UniCredit Bank SK on 1 December 2013.

As on the asset side, foreign currency liabilities to clients and credit institutions dominate on the liabilities side. Liabilities to clients accounted for almost 55% of all foreign currency liabilities, totalling CZK 475.3 billion at the year-end (up by 58.6%, or CZK 175.6 billion, year on year). A sizeable year-on-year increase (CZK 122.3 billion) was also recorded for foreign currency liabilities to credit institutions, which amounted to CZK 248.0 billion at the end of 2013. Foreign currency liabilities arising from securities also contributed to the increase in foreign currency liabilities. They rose by CZK 25.7 billion year on year, amounting to CZK 88.0 billion at the end of this period.

Derivatives transactions account for the largest proportion of off-balance sheet foreign currency assets and liabilities (approximately 89% and 85% respectively).

2.3.3 Territorial risk (country risk)

Domestic banks' activities are traditionally focused mostly 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 (most of them issued by central government). Non-resident activities are largely concentrated in the off-balance sheet.

At the end of 2013, non-resident assets amounted to CZK 871.4 billion and their share in the total assets of the banking sector increased only marginally (by 1.4 percentage points to 16.9%). Non-resident liabilities increased by CZK 236.6 billion to CZK 760.0 billion in the same period (accounting for almost 15% of total liabilities of the banking sector).

The structure of non-resident assets and liabilities saw some changes. Following a substantial rise, receivables from clients (non-residents) were predominant on the non-resident asset side, accounting for almost 48% and amounting to CZK 415.7 billion. On the liability side, by contrast, non-resident liabilities to banks recorded a sizeable year-on-year increase of more than 75%. On the asset side, non-resident receivables from banks remained broadly unchanged. Liabilities to banks (non-residents) accounted for almost 47% of total financial liabilities to non-residents as of 31 December 2013 (CZK 356.3 billion).

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 saw only one change compared to the previous year, with Azerbaijan replacing the traditionally represented France. Slovakia moved to first place in exposure measured in this way. The ten countries to which the Czech banking sector had the largest exposures were mostly EU countries. The only exceptions were the Russian Federation, which ranked fourth in terms of holdings

CHART II.21

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

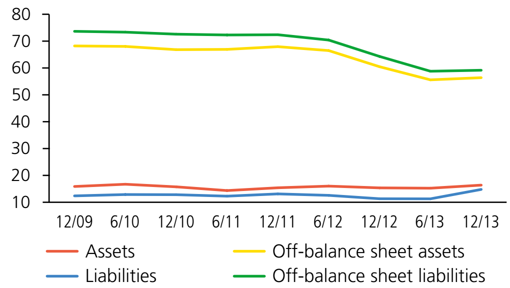


CHART II.22

Shares of non-resident transactions in banking sector balance sheet and off-balance sheet in 2013
(in %)

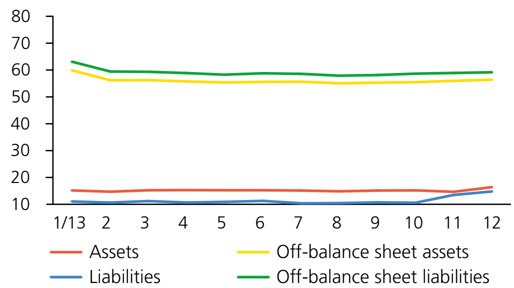


TABLE II.15

Countries to which Czech banking sector has largest exposures
(as of 31 December 2013; in CZK billions)

	Assets, total	of which: Receivables from credit institutions	Receivables from clients	Bonds
Slovakia	231.0	9.6	151.1	50.2
Netherlands	149.7	76.8	52.3	9.8
Austria	68.9	54.7	7.0	0.7
Russian Federation	66.2	13.9	48.8	3.0
United Kingdom	59.7	32.0	5.0	1.7
Germany	35.9	22.5	3.2	1.5
Cyprus	35.0	0.0	33.3	0.2
Belgium	28.6	7.7	4.0	2.8
Poland	26.6	1.7	3.6	12.3
Azerbaijan	23.7	0.1	0.7	0.0

Table II.16

Selected liquidity indicators

	2011	2012	2013
QUICK ASSETS, TOTAL (in CZK billions)	1,203.2	1,346.4	1,575.3
Total quick assets/total assets (in %)	26.9	29.1	30.6
Total quick assets/total client deposits (in %)	40.8	42.5	45.6
Cumulative net balance sheet position to 3 months net of 80% of demand deposits (in %)	-12.9	-8.4	-5.2
Position on interbank market (in CZK billions)	-35.0	49.7	-113.9
receivables from banks	465.5	462.5	468.8
liabilities to banks	500.5	412.8	582.7
Loan coverage by primary funds (in %)	130.5	136.6	134.9
Share of demand deposits in total deposits, including banks (in %)	51.5	56.4	60.3

Chart II.23

Quick assets
(in CZK billions and in %)

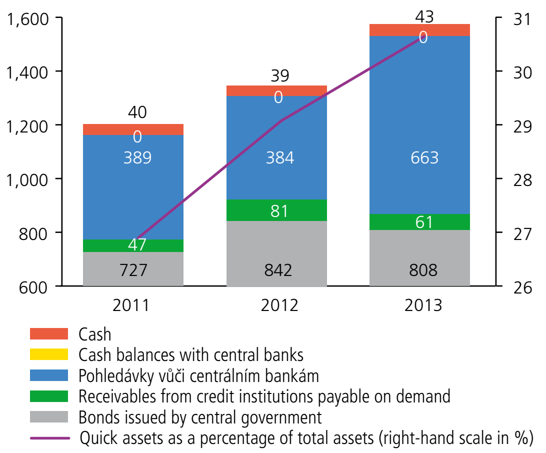
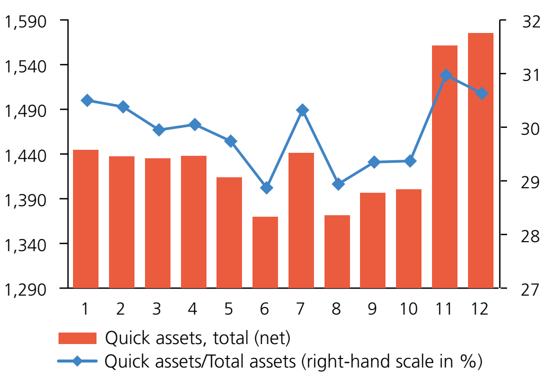


Chart II.24

Quick assets and quick assets/total assets in 2013
(in CZK billions and in %)



of total non-resident assets of the domestic banking sector, and Azerbaijan in tenth place. The total exposure to these ten countries amounts to more than 83% 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 94.1 billion), Slovakia (positive, CZK 78.1 billion) and Luxembourg (negative, CZK 62.4 billion) as of 31 December 2013.

2.3.4 Liquidity risk

The liquidity of the Czech banking sector was very good throughout 2013. Quick assets[52] increased by CZK 229.0 billion (17.0%) year on year to CZK 1,575.3 billion at the end of the period under review. Quick assets have long been rising in banks, having recorded larger year-on-year growth every year since 2010. The growth rate in 2013 was 5.1 percentage points higher than a year earlier. Quick assets also grew 5.5 percentage points faster than the total assets of the banking sector in the same period. The share of quick assets in total banking sector assets thus recorded a year-on-year increase again, this time by 1.6 percentage points to 30.6%. This liquidity indicator for the entire banking sector exceeded 30% for the first time since the global financial market crisis erupted in 2008.

In particular, a year-on-year increase in receivables from central banks helped to strengthen the liquidity position of the domestic banking sector by CZK 278.2 billion in 2013. Another item affecting quick assets are holdings of general government bonds. Despite a slight decline during the year, they account for more than 51% of total quick assets.

52 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[53] is one of the principal pillars of banking regulation and supervision. It is usually defined as the ratio of risk-weighted assets to the capital of a bank. Sufficient capital adequacy supports the bank's reliability, safeguards its market position and enhances the stability of the financial system.

The Czech banking sector has long been well capitalised. The sector's regulatory capital increased faster than its total balance sheet assets again in 2013 (by 14.8%, or CZK 47.3 billion). It stood at CZK 368.2 billion at the end of the year. The capital of domestic banks is made up largely (98.2%) of the high-quality component of capital, Tier 1, which has the largest loss-absorbing capacity. During 2013, Tier 1 grew at a faster pace (by 16.1%) to CZK 361.7 billion, mainly as a result of an increase in statutory reserve funds (of CZK 12.0 billion) and a rise in retained profits (of CZK 19.2 billion). The increase in regulatory capital was also fostered by paid-up share premium of several banks amounting to CZK 9.8 billion.

Tier 2 capital has long been declining in the Czech banking sector. It recorded a year-on-year decline of 14.3% in 2013, due mainly to a decrease in subordinated debt[54] of around 25% (CZK 4.0 billion). During the year, one bank repaid its subordinated debt in full and another repaid it in part. Conversely, subordinated debt was newly taken on in one bank and increased in six banks by more than CZK 4 billion in the period under review. The share of Tier 2 in the total regulatory capital of the banking sector declined by 1.3 percentage points to 3.8% at the end of 2013.

Tier 3 capital has not been used in the Czech banking sector for a long time now.

The capital requirements of the banking sector rose by 10.3% (CZK 16.1 billion) year on year, to CZK 172.5 billion. The capital requirement for credit risk, which has the largest representation in the domestic banking sector, accounted for 86.0% of the total capital requirement of the banking sector at the end of 2013. The capital requirements for operational risk and market risk accounted for 11.0% and 3.0% respectively of the total capital requirements of the banking sector.

TABLE II.17

Banking sector capital structure
(in CZK billions)

	2011	2012	2013
A. TIER 1	282.0	311.5	361.7
Paid-up share capital registered in Commercial Register	85.0	87.8	94.3
Paid-up share premium	36.8	41.1	50.8
Reserve funds and retained earnings	175.9	201.6	233.5
mandatory reserve funds	30.3	31.6	43.6
other funds created from retained earnings	11.0	11.3	12.0
retained profits	135.1	159.7	178.9
profit for accounting period after tax	0.0	0.0	0.0
accumulated losses	0.3	1.0	1.0
other eligible items	0.0	0.0	1.1
Items deductible from Tier 1	15.8	18.9	18.1
current year loss	0.7	0.8	0.7
goodwill	2.7	2.7	2.7
intangible assets other than goodwill	11.7	12.7	11.9
own shares	0.7	2.6	2.6
others	0.0	0.1	0.2
B. TIER 2	30.7	16.4	14.1
Subordinated debt	28.0	15.9	11.9
Other capital funds	2.6	0.5	2.2
Items deductible from Tier 1 and Tier 2	9.1	7.0	7.6
Cap. invest. > 10% in banks and fin. inst.	3.0	0.6	0.9
Cap. invest. < 10% in banks and fin. inst.	0.0	0.0	0.0
Others	6.2	6.5	6.6
C. TIER 3	0.0	0.0	0.0
CAPITAL, TOTAL	303.5	320.9	368.2

53 Capital adequacy represents the minimum amount of capital that a bank must maintain given the volume and riskiness of its transactions, and illustrates what proportion of the capital has been invested in the bank by the owners themselves to make it financially strong, credible and stable. Higher capital adequacy enhances the bank's financial stability and increases the probability that it will be able to meet its obligations. The capital adequacy ratio should not drop below 8%.

54 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.

Table II.18

Banking sector capital requirements and capital adequacy ratio
(in CZK billions and in %)

	2011	2012	2013
TOTAL CAPITAL REQUIREMENTS	159.0	156.4	172.5
A. CAPITAL REQUIREMENT FOR CREDIT RISK	137.1	133.4	148.3
STA capital requirement for credit risk	41.7	43.1	48.8
IRB capital requirement for credit risk	95.4	90.3	99.6
B. CAPITAL REQUIREMENT FOR MARKET RISK	4.9	4.7	5.2
interest rate risk	2.6	3.1	3.7
equity risk	0.0	0.0	0.0
forex risk	0.2	0.2	0.2
commodity risk	0.1	0.2	0.2
internal models	1.9	1.3	1.1
C. CAPITAL REQUIREMENT FOR OPERATIONAL RISK	16.9	18.1	18.9
BIA method	1.1	1.1	1.2
TSA method	7.3	8.4	8.5
ASA method			
AMA method	8.6	8.6	9.2
D. CAPITAL REQUIREMENT FOR OTHER RISKS	0.0	0.1	0.0
settlement risk	0.0	0.0	0.0
trading portfolio exposure risk	0.0	0.1	0.0
other instruments risk	0.0	0.0	0.0
transitional capital requirements	0.0	0.0	0.0
CAPITAL ADEQUACY RATIO	15.27	16.42	17.08

Banks set the capital requirements for credit risk using either the standardised approach (STA) or the advanced approach (IRB). The capital requirements for credit risk increased by CZK 14.9 billion (11.2%) to CZK 148.3 billion in 2013. The capital requirements based on the STA and IRB methods represented more than one-third and the remaining two-thirds respectively of their total volume. The capital requirements increased for both methods (STA and IRB) in the period under review, by more than 10% in each case. For both methods, the highest capital requirements were applied to exposures to corporations – CZK 55.1 billion (IRB) and CZK 20.8 billion (STA). As in the previous year, nine banks used the IRB approach in 2013, while most banks continued to apply the STA approach.

According to figures reported by banks, the capital requirements for operational risk also rose in 2013 (by 4.2%, or CZK 0.8 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 (70.4%) and internal model risk coverage (21.1%). A total capital requirement of CZK 5.2 billion was set by banks to cover market risks; this amount increased by more than 10% year on year.

The Czech banking sector as a whole is stably well capitalised and has a sufficiently large capital buffer. Its capital adequacy ratio has been regularly increasing; it went up by 0.66 percentage point to 17.08% at the end of 2013 compared to a year earlier owing mainly to an increase in the regulatory capital of banks. Although the capital adequacy ratios differed from bank to bank, only one bank fell below 10% in some months of 2013. All banks in the domestic banking sector were compliant with the minimum capital adequacy ratio of 8%.

2.5 BANKING SECTOR PERFORMANCE

2.5.1 Profit from financial activities and profit from other operating activities

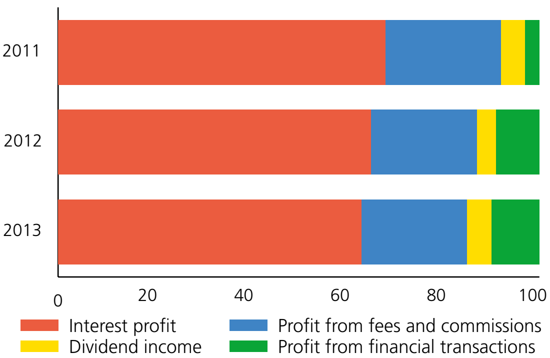
TABLE II.19

Banking sector performance
(in CZK billions)

	2011	2012	2013
PROFIT FROM FINANCIAL ACTIVITIES	162.1	167.2	168.1
of which:			
interest profit	109.9	107.9	105.5
dividend income	7.6	6.6	8.8
profit from fees and commissions	39.1	37.3	37.0
gains on financial assets not measured at FV through profit or loss	-1.1	0.6	5.7
gains on financial assets held for trading	1.1	7.6	-6.7
gains on financial assets designated at fair value through profit or loss	-1.9	0.9	-0.6
gains from hedge accounting	0.1	-0.4	-1.1
other gains	7.3	6.7	19.5
ADMINISTRATIVE EXPENSES	66.0	66.6	65.8
DEPRECIATION, PROVISIONS	7.5	7.5	8.1
IMPAIRMENT	25.5	16.2	21.0
PROFIT/LOSS FROM CURRENT ACTIVITIES	96.0	100.5	102.3
other profit/loss	0.4	-0.2	0.1
GROSS PROFIT before tax	63.4	76.7	73.4
tax expense	10.1	12.3	12.2
NET PROFIT	53.3	64.3	61.2

CHART II.25

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



In 2013, when banks were operating in an environment of very low interest rates, the sector generated a slightly higher profit from financial activities than in 2012 (up by CZK 0.9 billion, or 0.6%, to CZK 168.1 billion).

In an environment of historically the lowest interest rates, decreases were recorded for both interest income (of more than CZK 15 billion) and interest expenses (of CZK 13 billion). Interest profit amounted to CZK 105.5 billion in 2013, of which 78% was due to client operations (CZK 82.2 billion) and 63% to profit from financial activities. Interest paid to other clients (excluding credit institutions, central banks and general government) accounted for more than half of the banking sector's total interest expenses. Owing to the very low interest rates, interest profit on deposits of other clients decreased by 1.9% even though the deposits of this client segment rose by 9.4% in 2013. Due to growth in the volume of deposits, the amount paid out totalled CZK 25.4 billion as of the end of 2013, down by CZK 4.1 billion from the end of 2012.

The interest rate spread stabilised at 2.5 percentage points in 2013. Interest rates on both loans and deposits dropped in this period. The net interest rate margin continued to decline slightly, reaching 2.24%.[55]

Profit from fees and commissions accounts for almost 60% of the non-interest profit of the domestic banking sector. Pressure is currently being exerted for a narrower scale of fees and an overall decline in fees for bank products and services. Banks are responding by changing their business and fee policies. The absolute profit from fees and commissions for the banking sector as a whole dropped slightly (by CZK 0.25 billion, or 0.7%). Payment system fees and commissions accounted for more than 58% of all income from fees and commissions, totalling CZK 29.0 billion (a decline of 0.4% in the period under review).

Banks generated a CZK 6.7 billion loss on trading in financial assets in 2013. This was due to an CZK 8.8 billion loss on monetary instruments (including currency derivatives, foreign exchange trading and the foreign exchange spread), where losses occurred in the last two months of 2013 after the CNB eased the monetary conditions.

Banks received dividend income totalling CZK 8.8 billion in 2013, up by almost CZK 2.2 billion (32.6%) on the end of 2012. This income consisted almost exclusively of dividends from subsidiaries and associates within financial groups (CZK 8.6 billion). Concentration is also high here, with the group of large banks accounting for almost all dividends received.

2.5.2 Administrative expenses and impairment

The administrative expenses of the banking sector decreased slightly (by just over 1%) to CZK 65.8 billion during 2013. Personnel expenses were almost unchanged in absolute terms, accounting for 52.2% of total administrative expenses. Wages and salaries, which make up more than 71% of total personnel expenses, decreased by 1.7% (CZK 0.4 billion). Other administrative expenses, i.e. total administrative expenses net of personnel expenses, declined by 1.8% (CZK 0.6 billion). Only banks' outsourcing costs recorded an increase (5.2%). Banks' advertising costs decreased by 11.4% (CZK 0.5 billion).

55 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.

CHART II.26

Interest rate spread
(in percentage points)

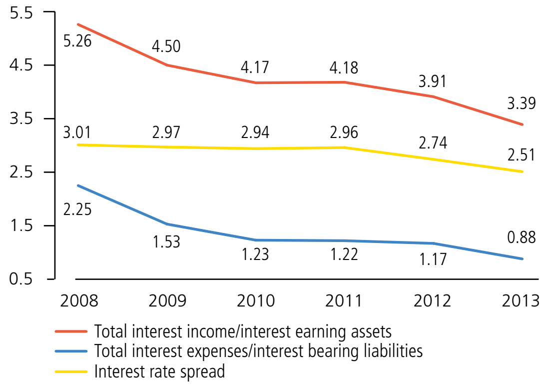


CHART II.27

Interest rate spread in 2013
(in percentage points)

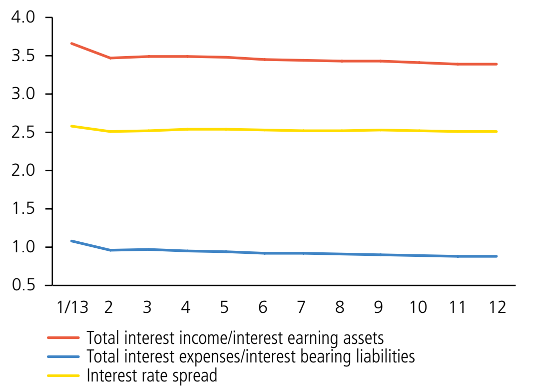


CHART II.28

Interest income and expenses
(in CZK billions)

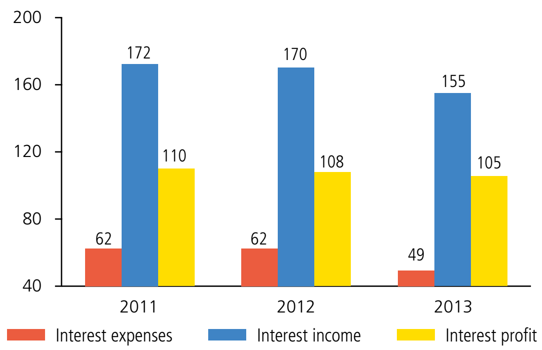


CHART II.29

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

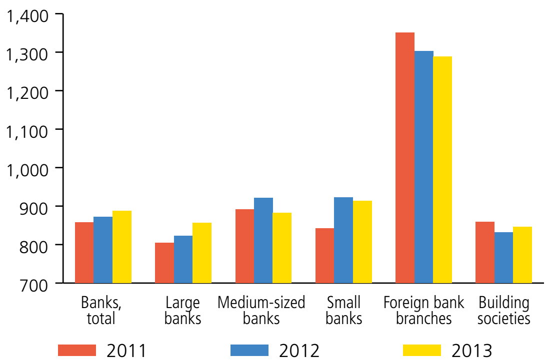


CHART II.30

Structure of income and expenses
(in CZK billions)

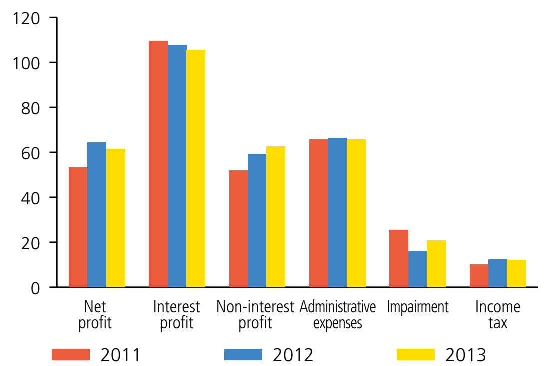
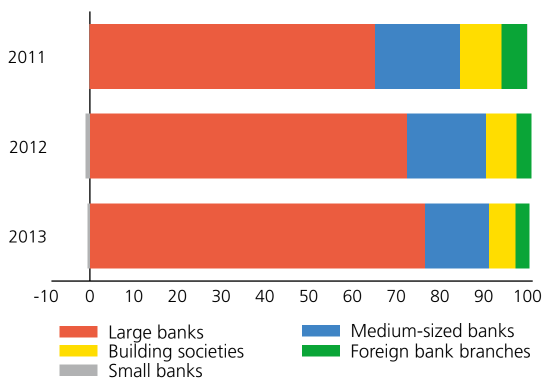


CHART II.31

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



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 2013, losses from impairment on financial assets amounted to CZK 21.0 billion, up by CZK 4.8 billion, or 29.6%, on a year earlier. Loan impairment losses amounted to CZK 18.7 billion (up by almost 30%, or CZK 4.2 billion).[56] Losses from impairment of the banking sector's non-financial assets rose by almost 20% to CZK 2.2 billion.

2.5.3 Net profit

The banking sector posted a gross (pre-tax) profit of CZK 73.4 billion in 2013, down by 4.3% from 2012. Net profit showed a year-on-year decline of 4.8%, or CZK 3.1 billion, to CZK 61.2 billion as of 31 December 2013.

Banks paid CZK 12.2 billion in corporate income tax, a slightly lower figure than 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 46.8 billion, accounting for 76.6% of total banking sector net profit. Most banks posted a net profit in 2013. Ten banks recorded a loss, of which six were foreign bank branches, three were small banks and one was a medium-sized bank. The loss-making banks in 2013 make up an insignificant part of the banking sector. This group of ten banks manages less than 4% of the sector's assets. All large banks generated a profit in 2013.

2.5.4 Profitability, efficiency and productivity

Return on Tier 1 (RoE), as measured by net profit generated per unit of capital, was 18.61% at the end of 2013, down by 2.76 percentage points from 2012. The decline in RoE was due mainly to the lower net profit and growth in capital. Two banks reported RoE between 20% and 30% and nine banks reported RoE between 10% and 20%. Seven banks reported positive RoE ratios of less than 10%, while four banks posted negative values. One bank had a ratio in excess of 30%.

Return on assets (RoA) for the banking sector as a whole decreased by 0.11 percentage point to 1.28%.

56 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).

The ratio of administrative expenses to assets in the banking sector fell slightly, amounting to 1.37% at the end of 2013. Net profit per employee, which fell by 3.1% to CZK 1,582.1 thousand was again affected mainly by the lower net profit.

CHART II.32

RoE for bank groups
(in %)

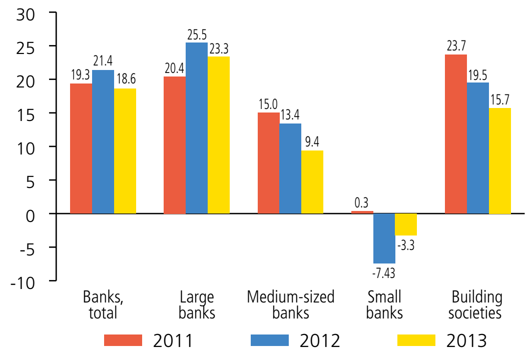


CHART II.33

RoA of banking sector
(in %)

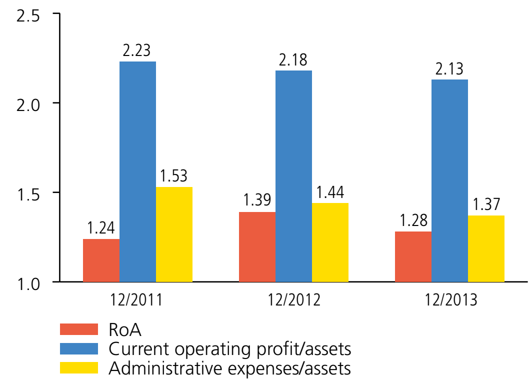


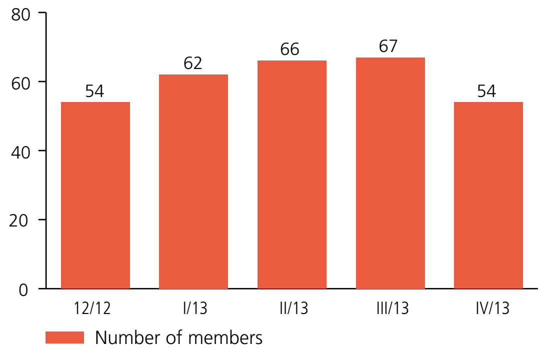
TABLE II.20

Number of CUs and their members

	2011	2012	2013	Change 2013/2012 (in %)
Number of CUs	14	13	12	-7.7
Number of members of CUs	44,687	54,402	53,595	-1.5
Number of new memberships since start of year	12,181	16,001	9,978	-37.6
Number of memberships terminated since start of year	1,497	1,963	1,335	-32.0

CHART II.34

Numbers of CU members in 2013
(in thousands)



2.6 THE CREDIT UNION SECTOR

There were twelve credit unions with 53,595 members operating in the domestic market at the end of 2013 after the Czech National Bank revoked the credit union licence of Metropolitní spořitelní družstvo (MSD) on 18 December 2013. The number of credit union members fell by 1.5% year on year. Growth in the number of members of other credit unions failed to offset the large decrease in the number of members caused by MSD's exit from the market.

The revocation of MSD's licence was also reflected in a 19.5% year-on-year decline in the balance sheet total of the credit union sector to CZK 31.6 billion as of 31 December 2013. On the asset side, receivables from clients fell by 20.6% to CZK 22.4 billion, receivables from credit institutions by 40.6% to CZK 4.6 billion and tangible assets by 10.8% to CZK 753.6 million. These declines were counteracted mainly by a large, 138.4% increase in cash and claims on central banks to CZK 2.7 billion and by a smaller but also substantial rise in financial investment of 15.4% to CZK 701.2 million. On the liability side of credit unions' balance sheet, deposits of clients and other liabilities of credit unions to clients fell by 20.7% to CZK 26.8 billion, deposits of credit institutions by 34.6% to CZK 344.3 million, members' contributions by 10.4% to CZK 3.4 billion, own funds by 36.6% to CZK 348.6 million and profit for the current period by a full 91.8% to CZK 25.0 million. By contrast, reserve funds of credit unions grew by 55.4% to CZK 250.0 million, among other things at the expense of retained earnings, which dropped by 14.1% to CZK 72.8 million.

TABLE II.21

CU sector balance sheet
(in CZK millions)

	2011	2012	2013	Change 2013/2012 (in %)
TOTAL ASSETS	28,275	39,254	31,622	-19.4
Cash and receivables from central banks	1,134	1,126	2,685	138.4
Receivables from credit institutions	6,014	7,685	4,569	-40.6
Receivables from clients	19,327	28,172	22,376	-20.6
Other receivables	124	103	220	113.0
Held to maturity investments	487	607	701	15.4
Tangible assets	824	845	754	-10.8
Other assets	366	716	317	-55.7
TOTAL LIABILITIES AND EQUITY	28,275	39,254	31,622	-19.4
Liabilities, total	28,107	38,705	31,273	-19.2
Liabilities to central banks	1	5	0	0.0
Liabilities to credit institutions	147	527	344	-34.6
Deposits, loans and other financial liabilities to clients	25,060	33,819	26,826	-20.7
Paid-up share capital of CUs repayable on demand	2,670	3,820	3,423	-10.4
Other liabilities	228	534	680	27.4
Equity, total	168	549	349	-36.6
Reserves	91	161	250	55.4
Retained earnings	-46	85	73	-14.1
Profit (loss) for accounting period	123	304	25	-91.8

The off-balance sheet assets of credit unions rose during 2013 as a result of the sector's business activities. These assets increased by 75.5% year on year to CZK 4.0 billion at the end of 2013, mainly because of an increase in receivables from fixed-term operations, which almost tripled to CZK 1.9 billion. On the liability side of the off-balance sheet, liabilities from fixed-term operations increased by virtually the same degree and by almost the same amount. Receivables and liabilities from spot transactions recorded growth of 17.3% and 12.1% to CZK 482.0 million and CZK 463.4 million respectively. As in previous years, credit unions did not engage in options transactions in 2013. In contrast to off-balance sheet assets, off-balance sheet liabilities decreased by 17.3% year on year to CZK 22.1 billion, with buoyant growth in fixed-term and spot transactions failing to offset a large decline in the value of pledges of 17.5%, or CZK 4.0 billion, to CZK 18.9 billion.

The performance of the credit union sector as a whole in 2013 deteriorated significantly compared to 2012. As of 31 December 2013, profit from financial and operating activities was up by 23.9% year on year to CZK 1.4 billion, within which interest profit increased by 16.3% to CZK 1.3 billion and profit from fees and commissions by as much as 42.9% to CZK 105.6 million. Net profit declined by 91.8% to just CZK 25.0 million. The large decline in net profit was due mainly to an increase in losses arising from impairment of claims on clients and a rise in administrative expenses. Loan impairment losses increased by more than 366% year on year to CZK 570.3 million. Administrative expenses increased at a faster pace (27.9%) than profit from financial and operating activities (23.9%), and amounted to CZK 775.7 million. The decline in net profit was also due to write-offs, which rose by 34.9% to CZK 52.3 million. The decrease in income tax expenses of 68.1% to CZK 28.2 billion was consistent with the year-on-year decline in gross pre-tax profit.

TABLE II.22

CU sector off-balance sheet
(in CZK millions)

	2011	2012	2013	Change 2013/2012 (in %)
OFF-BALANCE SHEET ASSETS	863	2,281	4,002	75.5
Commitments and guarantees given	698	963	1,399	45.3
Pledges given	0	231	231	0.0
Receivables from spot transactions	100	411	482	17.3
Receivables from futures, forwards, swaps etc.	65	676	1,891	179.6
Receivables from options transactions	0	0	0	0.0
Write-off receivables	0	0	0	0.0
OFF-BALANCE SHEET LIABILITIES	21,398	26,781	22,142	-17.3
Commitments and guarantees received	4,470	2,756	828	-70.0
Pledges received	16,757	22,934	18,928	-17.5
Liabilities from spot transactions	100	413	463	12.1
Liabilities from futures, forwards, swaps etc.	71	678	1,923	183.6
Liabilities from options transactions	0	0	0	0.0

Table II.23

CU sector performance
(in CZK millions)

	2011	2012	2013	Change 2013/2012 (in %)
FINANCIAL AND OPERATING PROFIT	1,026	1,169	1,448	23.9
Interest profit	934	1,090	1,268	16.3
Profit from fees and commissions	72	74	106	42.9
Administrative expenses	555	607	776	27.9
Depreciation	36	39	52	34.9
Provisions	3	9	-4	-142.8
Impairment	267	122	570	366.1
Tax expense	42	88	28	-68.1
PROFIT OR LOSS AFTER TAXATION	123	304	25	-91.8

Chart II.35

Volumes of insured deposits and receivables from clients (in CZK billions, left-hand scale) and loan quality (in %, right-hand scale)

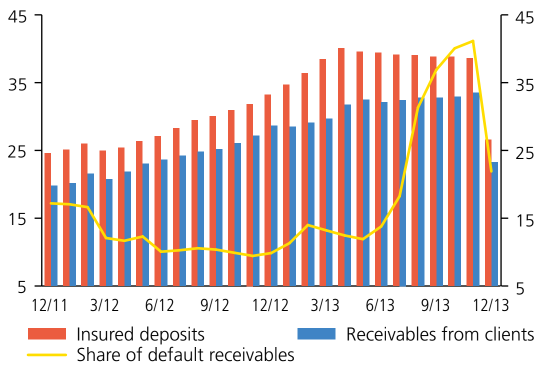
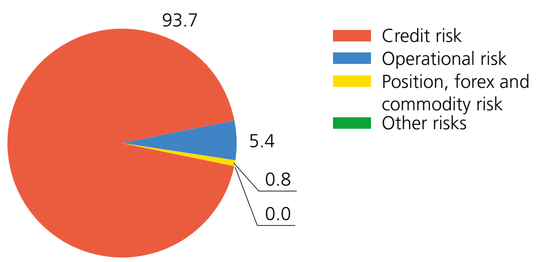


Chart II.36

Capital requirements of CU sector
(in %)



As in previous years, the business of credit unions in 2013 was based on collecting deposits and providing loans. With deposits insured under European law, credit unions attracted a large number of depositors by offering high deposit rates. The deposits of credit unions reached CZK 38.6 billion in November 2013, only to fall to CZK 26.5 billion at the end of 2013 due to the revocation of MSD's licence. Credit unions located most of these funds in loans to clients. However, the quality of credit union loans worsened significantly in 2013. Non-performing loans to clients recorded a year-on-year increase from CZK 2.8 billion to CZK 5.1 billion as of 31 December 2013 and their share in total loans to clients rose from 9.9% to 21.9%. In November 2013, before MSD left the sector, this share peaked at more than 41%. At the end of 2013, credit unions held CZK 858.4 million in allowances for expected credit losses, up by 85.6% on the end of 2012. Almost all these allowances were for individual receivables; allowances for receivables portfolios accounted for only 0.9% of the total.

The regulatory capital of the credit union sector amounted to almost CZK 4 billion at the end of 2013. The sector's capital adequacy ratio was 14.34% and its Tier 1 capital ratio was 13.08%. The risk allocation of regulatory capital reflected credit unions' business model. Most of the capital (93.7%) was allocated to credit risk. Capital requirements for operational risk accounted for 5.4% of the total capital requirements. Although credit unions increased the volume of spot and term receivables and liabilities, capital requirements for market risks and other regulated risks accounted for only 0.8% of the allocation of regulatory capital. All credit unions were compliant with the minimum regulatory capital adequacy requirement of 8%. Quick assets amounted to CZK 5.9 billion as of 31 December 2013, i.e. 18.6% of total assets.

However, the relatively favourable data on capital adequacy and liquidity cannot conceal the fact that the high inflow of insured deposits and the considerable deterioration in loans to clients in 2013 revealed that under the current legislation the business of credit unions suffers from considerable moral hazard, with depositors only interested in interest rates. The sector also suffers from credit risk management that is not always of sufficient quality and also from the phenomenon of adverse selection. The latter arises from pass-through of the high costs of gaining insured deposits to required income on loans to clients in the form of high interest or charges. The Czech Ministry of Finance and the CNB therefore submitted a proposal for some legislative changes in 2013 and again in 2014 aimed at curbing these problems and supporting the stability of the Czech financial system.

3. THE CAPITAL MARKET

3.1 INVESTMENT FIRMS

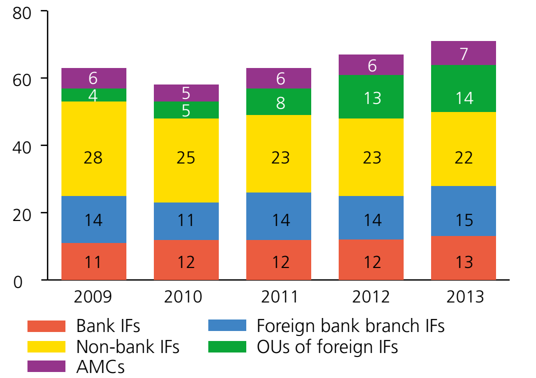
3.1.1 Licensed investment firms

There were 64 investment firms registered on the Czech capital market as of the end of 2013, 13 of them banks, 22 non-bank investment firms, 15 foreign bank branches and 14 organisational units of foreign investment firms. Seven domestic management companies managing assets of clients under contract (asset management companies, AMCs) held investment firm licences at the end of 2013.

As of 31 December 2013, entities licensed as investment firms[57] had 909,600 clients, of which 195,900 were clients of domestic non-bank investment firms, 686,300 were clients of bank investment firms and 700 were clients of domestic AMCs. Foreign bank branches and organisational units of foreign investment firms had 19,300 and 7,400 clients respectively at the end of 2013.

CHART III.1

Numbers of investment firms
(at end of period)



3.1.2 Client assets and managed funds

At the end of 2013, the assets of clients of investment firms totalled CZK 2,982.8 billion, up by 9.5% on the same period a year earlier. Of the total, the assets of clients of domestic non-bank investment firms amounted to CZK 417.2 billion (up by 0.3%), the assets of clients of domestic banks CZK 2,081.9 billion (up by 21.3%) and the assets of clients of AMCs CZK 225.4 billion (up by 9.4%). The assets of clients of branches of foreign banks and organisational units of foreign investment firms amounted to CZK 258.3 billion and CZK 0.2 billion respectively, representing a decrease of 33.3% and 14.3% year on year respectively.

As of 31 December 2013, investment firms managed funds totalling CZK 615.4 billion (up by 1.8% on a year earlier), of which CZK 333.4 billion fell to domestic non-bank investment firms (down by 0.8% from a year earlier), CZK 57.2 billion to domestic bank investment firms (down by 6.7% from a year earlier) and CZK 224.7 billion to AMCs (up by 8.5% on a year earlier).

As regards the breakdown of securities by type, bonds accounted for most of the managed funds (79.1%, or CZK 486.5 billion). Collective investment securities, money and equity also had significant shares, accounting for 13%, 4.9% and 2.7% respectively.

57 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.

CHART III.2

Structure of securities trades for 2013
(in %)

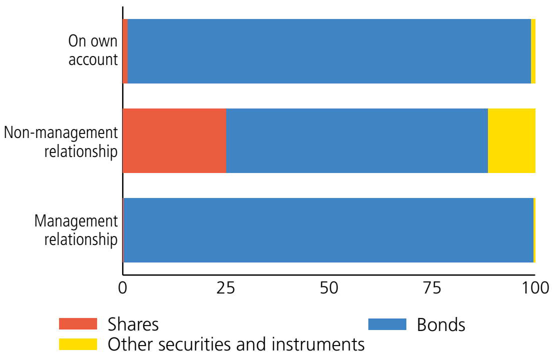
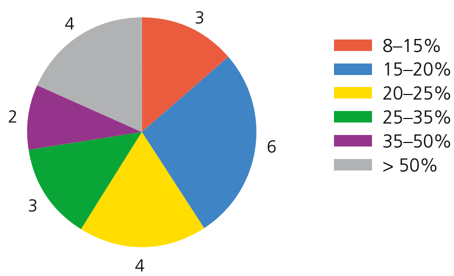


CHART III.3

Capital adequacy ratios of non-bank IFs
(as of 31 December 2013; numbers of IFs)



3.1.3 Volumes of trading in securities

Investment firms carried out trades for their clients totalling CZK 26,923.6 billion in 2013 (a year-on-year rise of 188.4%).[58] Trades under a management relationship accounted for most of this figure (61.5%).

Securities trades carried out for clients by bank investment firms totalled CZK 4,584.8 billion. Non-bank investment firms carried out trades for their clients amounting to CZK 18,905.1 billion, while client trades of AMCs reached CZK 72.0 billion and client trades of foreign bank branches totalled CZK 3,310.1 billion. Organisational units of foreign investment firms carried out no trades for their clients.

Investment firms carried out trades for their own account totalling CZK 38,810.2 billion in 2013, down by 5.4% year on year. The largest proportion (97.1%) of the total volume of trades for own account were executed by bank investment firms. Non-bank investment firms carried out trades for their own account amounting to CZK 278.3 billion, while trades for own account of foreign bank branches totalled CZK 844.9 billion and those of AMCs reached CZK 72.0 billion.

3.1.4 Financial results and capital adequacy of investment firms[59]

The investment firm sector was sufficiently capitalised in 2013. The regulatory capital of domestic non-bank investment firms totalled CZK 2.8 billion (up by 1.1% on a year earlier). The capital of AMCs totalled CZK 0.6 billion, up by 1.9% 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 28.4%. The highest capital requirements were calculated for credit risk (45.9%) and operational risk (38.6%). Lower capital requirements were calculated for position, foreign exchange and commodity risk (10.0%). Additional capital requirements based on fixed overheads for investment firms offering a limited range of investment services accounted for 5.4% of the total capital requirements. In the case of AMCs, the capital adequacy ratio was 34.7% and the capital requirements were CZK 0.1 billion.

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

Domestic non-bank investment firms recorded significantly better financial results in 2013 than in 2012. The total net profit of non-bank investment firms rose by 58.5% year on year to CZK 0.8 billion. Fees and commissions made a significant contribution to this change, rising by 23.7% year on year to CZK 3.2 billion. Despite a rise in expenditure on fees and commissions of 12.9% and a decline in the net interest margin of 19.0%, this led to a year-on-year increase in financial and operating profit of 18.3% to CZK 2.8 billion.

CHART III.4

Capital requirement structure of IFs
(as of 31 December 2013; in %)

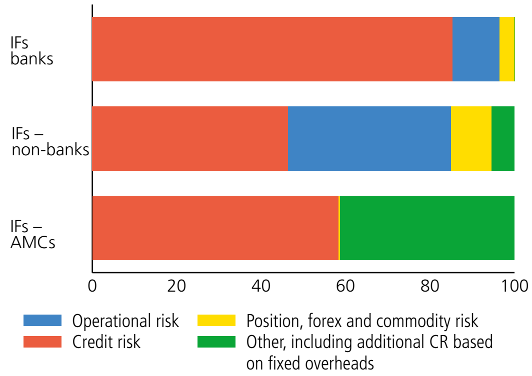


CHART III.5

Concentration by volume of assets managed
(at end of period; in %)

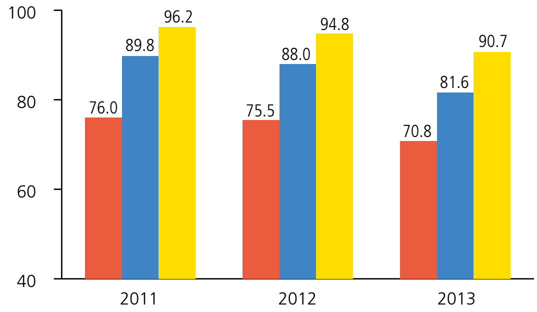


CHART III.6

Assets of CI mutual funds by fund type
(at end of period; in CZK billions)

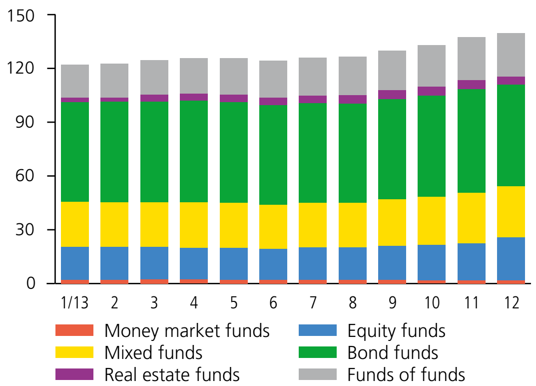
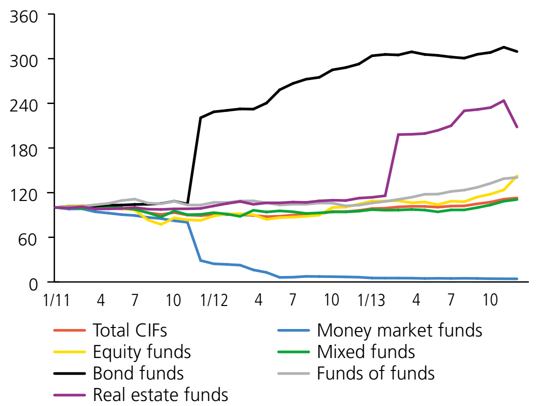


CHART III.7

Time profile of assets of CI mutual funds by fund type
(1/2011 = 100%)



3.2 FUND INVESTMENT

3.2.1 Management companies and investment funds

A total of 24 management companies and 269 investment funds, of which 182 were mutual funds and 87 were investment funds with legal personality, were registered on the Czech capital market at the end of 2013. More than two-thirds of the total number of mutual funds were collective investment mutual funds (of which 48 were UCITS funds) and less than one-third (56) were funds for qualified investors. All 87 investment funds with legal personality were funds for qualified investors.

Open-end collective investment mutual funds were managing assets totalling CZK 139.7 billion at the end of 2013 (up by 17.7% year on year). Market concentration in terms of the value of the assets managed by collective investment funds recorded a decline during 2013, partly due to an increase in the number of management companies. At the end of 2013, the three companies with the largest market shares were managing 70.8% (down by 4.7 percentage points) and the seven largest companies almost 91% of the assets of domestic collective investment mutual funds.

3.2.2 Assets of collective investment mutual funds

The assets of collective investment mutual funds amounted to CZK 139.7 billion at the end of 2013, up by CZK 21.0 billion on the end of 2012. The assets of collective investment mutual funds increased by 17.7% year on year. Compared to the end of 2010 and the end of 2011, the asset value was 12.9% and 26.8% higher respectively at the end of 2013.

As regards fund type, the largest volume of assets at the end of 2013 was managed by bond funds, whose share in the total assets of collective investment mutual funds was 40.6%, i.e. 4.6 percentage points lower than in the same period of 2012. At the end of 2013, the value of assets managed by bond funds was CZK 56.7 billion, an increase of 5.7% in year-on-year comparison.

Mixed funds were managing assets totalling CZK 28.7 billion, i.e. 16.5% higher than in the same period of 2012. The share of assets in mixed funds in the total assets of domestic collective investment mutual funds fell slightly by 0.2 percentage point year on year to 20.5%.

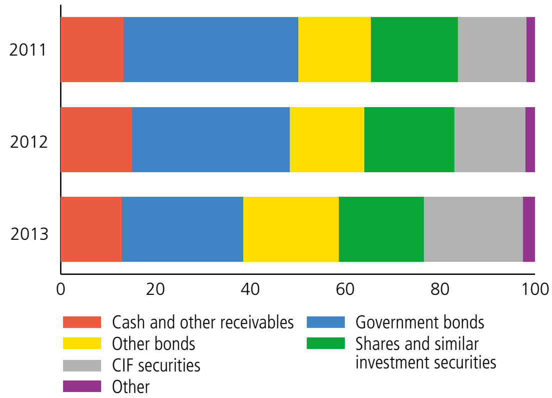
Significant growth in asset value was observed across all other fund types except money market funds in 2013. At the end of 2013, funds of funds were managing assets totalling CZK 24.3 billion, up by 36.1% on a year earlier. This represents 17.4% of the total value of assets of domestic collective investment mutual funds and a 2.3 percentage points year-on-year increase in the share of these funds in the total assets of the sector. The assets of equity collective investment funds amounted to CZK 23.9 billion at the end of 2013, i.e. 36.3% higher than at the end of 2012. Equity fund assets accounted for 17.1% of the total value of assets of domestic collective investment mutual funds. This represents a 2.3 percentage points year-on-year increase in their share of the sector's assets.

Although real estate funds also recorded a sizeable year-on-year rise in assets at the end of 2013 (of 84.9% to CZK 4.4 billion), this fund type has a relatively small share of the total assets of collective investment mutual funds (3.1%).

Assets managed by money market funds continued to decrease in 2013, falling by 34.0% year on year to CZK 1.8 billion. The importance of these funds thus declined further. Their share in the total assets of domestic collective investment mutual funds shrank to 1.3%.

CHART III.8

Asset structure of CI mutual funds
(at end of period; in %)



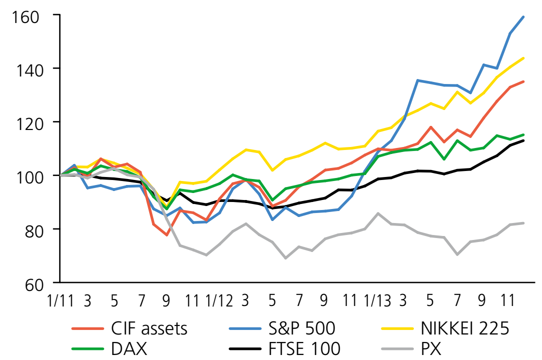
3.2.3 Structure of collective investment mutual fund assets

As regards the structure of investment instruments, almost one-half (45.7%) of the assets of domestic collective investment mutual funds were invested in debt securities, divided evenly between bonds issued by general government and bonds issued by other entities. Investments in shares and similar investment securities amounted to 18.0% of assets at the end of 2013, down by one percentage point from the end of 2012.

Domestic collective investment mutual funds had 20.9% of their assets invested in collective investment securities and 12.9% in deposits and other receivables. Other investments, for instance real estate and holdings in other companies, accounted for the remainder (less than 3%) of the total assets of collective investment mutual funds.

CHART III.9

Stock indices and assets of CI mutual funds
(1/2011 = 100%)



3.2.4 Sales and redemptions of fund units

The total assets of collective investment mutual funds are significantly affected by the net value of unit sales and redemptions. Positive net sales of units (except for money market funds) were recorded in 2013. The amount paid out of the assets of collective investment mutual funds for units redeemed (CZK 35.9 billion) was lower than the amount received for units issued (CZK 51.6 billion). The resulting balance of units issued and redeemed was thus positive at CZK 15.7 billion (up by CZK 11.9 billion year on year), contributing to a rise in the total balance sheet assets of collective investment mutual funds.

Investment of collective investment mutual fund assets generated a net profit of CZK 3.8 billion in 2013, down by 43.9% from a year earlier.

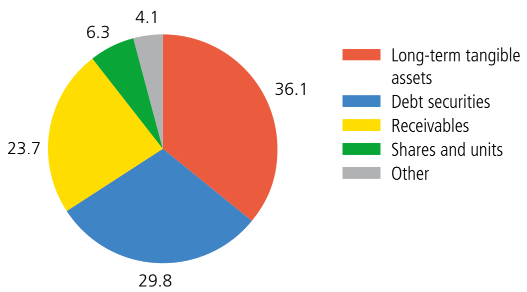
TABLE III.1

Unit sales and redemptions in 2013
(in CZK millions)

	Units issued	Units redeemed	Balance
Money market	923.6	1,874.7	-951.2
Equity	7,996.3	3,692.0	4,304.3
Mixed	8,925.3	4,971.9	3,953.4
Bond	20,994.9	19,421.0	1,573.9
Funds of funds	9,555.6	4,437.3	5,118.4
Real estate	3,172.4	1,544.4	1,627.9
OMFs, total	**51,568.0**	**35,941.3**	**15,626.7**

CHART III.10

Assets of funds for qualified investors
(as of 31 December 2013; in %)



3.2.5 Funds for qualified investors

As regards portfolio structure of funds for qualified investors, the largest share of these funds' assets (36.1%) was invested in long-term tangible assets at the end of 2013.

These funds had a significant proportion of their assets invested in debt securities (29.8% of assets) and receivables from banks (21.2% of assets). By contrast, only 1.5% of their assets were invested in shares and units.

3.3 PENSION MANAGEMENT COMPANIES AND FUNDS

In 2013, the private pension scheme and savings sector entered its first year under a new set-up following a substantial change stemming from the pension reform. The pay-as-you-go system (first pillar) was complemented by a second pillar enabling fund retirement saving, and the previous third pillar was reformed into a supplementary pension savings system, with voluntary pension schemes being maintained for current planholders (no new planholders may enter). As part of this change, existing pension funds were converted into transformed funds. The transformation consisted in the separation of client assets and fund managers' assets. Planholders are still guaranteed non-negative returns by the pension management company.

In addition to transformed funds (previous third pillar), the new pension management companies manage retirement funds (second pillar) and participation funds (reformed third pillar), which pool contributions from retirement saving planholders and supplementary pension saving planholders.

3.3.1 Pension management companies

A total of ten pension management companies (PMCs) were active in the private pension scheme and savings sector as of 31 December 2013. Five of them offered all types of savings, including pension schemes, three offered supplementary pension savings and private pension schemes, one offered retirement and supplementary pension savings and one offered supplementary pension savings only.

In 2013, their first year of operation, PMCs generated a loss of CZK 0.3 billion. The total capital of PMCs reached CZK 9.1 billion, representing a capital ratio of 148.1% relative to the specified capital requirements (CZK 6.1 billion).

During 2013 the number of planholders increased gradually for both retirement saving (from 7,500 in 2013 Q1 to 103,800 at the end of the year) and supplementary pension saving (from 13,600 to 92,400). By contrast, the number of pension scheme planholders fell slightly from 5.1 million in 2013 Q1 to 4.9 million in Q4.

At the end of 2013, PMCs were managing assets in 68 funds, roughly one-half of which were participation funds and around one-third were retirement funds.

TABLE III.2

Structure of second and third pillar participants in 2013
(in thousands)

Numbers of second and third pillar participants	
Number of retirement savings planholders	103.8
Number of supplementary pension savings planholders	92.4
Number of private pension scheme planholders	4,874.0
Third pillar participants (by contribution type)	
Planholders with own contribution	4,844.5
Planholders with employer contribution	1,334.4
Planholders with state contribution	4,446.9

CHART III.11

Structure of funds operated by PMCs
(as of 31 December 2013; numbers of funds)

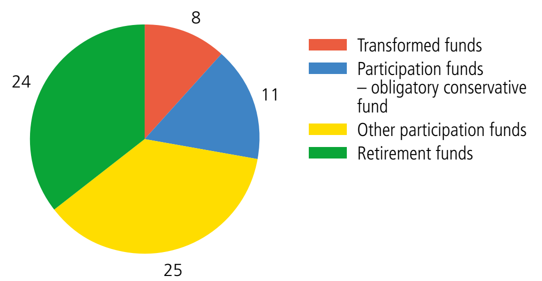
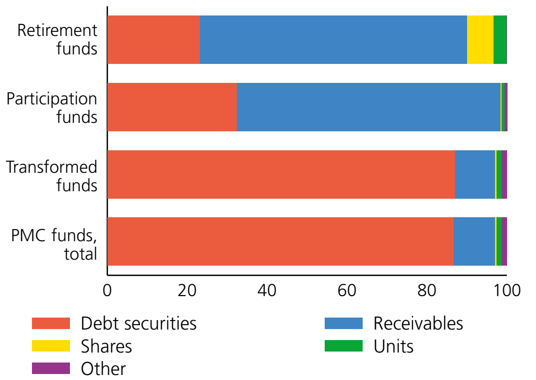


CHART III.12

Asset structure of funds operated by PMCs
(at end of period; in %)



3.3.2 Assets of PMC funds

The assets in funds managed by PMCs totalled CZK 297.4 billion at the end of 2013, of which a large majority (99.5%) were in transformed funds, 0.4% were in participation funds and 0.1% were in retirement funds.

The bulk of the assets of PMC funds were invested in debt securities (86.7% of total assets). Only 1.6% of assets were invested in shares and units and 10.4% of the investments of pension funds were in time deposits and on term accounts. PMC funds had 0.6% of their assets invested in real estate.

3.3.3 Contributions in PMC funds

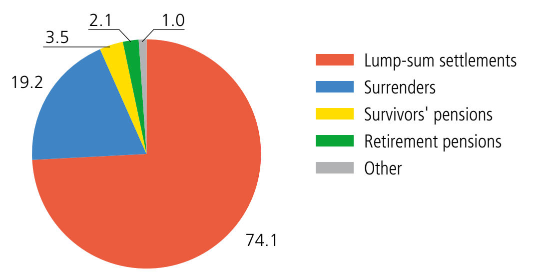
In 2013 PMC funds received contributions totalling CZK 56.3 billion, of which 97.0% went into transformed funds, 2.4% into participation funds and 0.6% into retirement funds.

With regard to structure, the majority of the contributions were planholders' own contributions (59.7%), while contributions from employers represented 13.5% and state contributions accounted for 11.6%. Roughly 7.5% were returns on contributions credited to transformed fund planholders. Transfers between PMCs had a share of about 7.0%.

PMC funds paid out a total of CZK 16.9 billion in 2013, of which 90.5% were funds paid to planholders of transformed and participation funds. The balance between funds received and funds paid out in 2013 was CZK 39.3 billion.

CHART III.13

Benefits paid to TF planholders
(as of 31 December 2013; in %)



Transformed funds of PMCs paid out a total of CZK 15.3 billion to planholders in 2013. Lump-sum settlements represented the largest part of this figure (74.1%). Surrenders also accounted for a significant proportion (19.2%).

Participation funds of PMCs paid out a total of CZK 8.9 billion to planholders in 2013, with retirement pensions accounting for the largest share (90%).

3.4 REGULATED MARKETS

3.4.1 Trading on the Prague Stock Exchange[60]

A total of 26 share issues could be traded on the share and unit market of the Prague Stock Exchange (PSE) at the end of 2013, i.e. two fewer than at the end of 2012, of which 15 issues were domestic. Bonds of 110 issues could be traded on the bond market, i.e. 12 more than a year earlier. As regards the other PSE segments, 28 issues of non-leveraged and 75 issues of leveraged investment certificates and 23 issues of separated coupons had been accepted for trading as of 31 December 2013.

The total volume of share/unit trades on the PSE continued to decline sharply, falling by 30.3% year on year to CZK 174.7 billion. As usual, ČEZ shares were the most traded issue on the PSE, accounting for more than one-third (37.1%) of the total volume of share trades in 2013. The volume of trading on the PSE remained concentrated on the most traded issues, with the three most traded share issues accounting for 78.6%, the five most traded issues for 93.9% and the ten most traded issues for 98.9% of the total volume of share trades.

The market capitalisation of shares traded on the PSE decreased by 4.3% year on year to CZK 1,093.5 billion at the end of 2013, approaching the low levels observed in 2011 and 2008 (CZK 1,060.8 billion and CZK 1,091.7 billion respectively). Domestic issues accounted for 55.2% (CZK 603.5 billion) of the total market capitalisation. At 27.4%, the ERSTE GROUP BANK issue is now the largest in terms of market capitalisation, followed by ČEZ with a share of 25.4% of the total. The three largest share issues accounted for 68.2% and the five largest issues for 88.3% of the total PSE market capitalisation.

The PSE's overall PX index fell back below 1,000 points in 2013. It went down by 49.7 points (4.8%) year on year, from 1,038.7 points to 989 points at the end of 2013. The PX index recorded its yearly maximum of 1,066.1 points on 9 January 2013 and its yearly minimum of 852.9 points on 25 June 2013.

Corporate issues totalling CZK 1.9 billion were the only bonds traded on the PSE bond market in 2013.

Following the discontinuation of futures and warrants trading in 2012, activity on the PSE was subdued in the case of other instruments as well. The volume of trading in separated coupons was zero in 2013 (compared to CZK 89.0 million a year earlier). By contrast, the total volume of trading in investment certificates more than tripled year on year to CZK 122.2 million.

CHART III.14

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

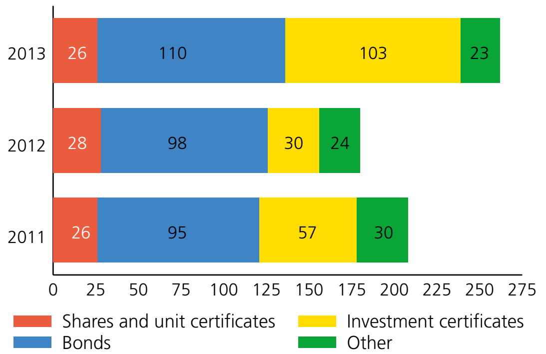
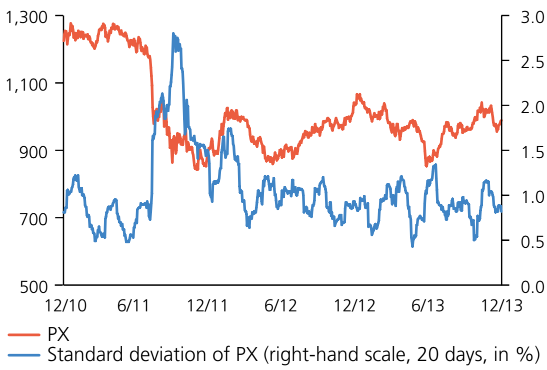


CHART III.15

PX index and its historical volatility in 2011–2013



Source: MFCR, CNB

60 Burza cenných papírů Praha, a.s. (Prague Stock Exchange, PSE), a member of CEE Stock Exchange Group together with the exchanges in Budapest, Ljubljana and Vienna.

3.4.2 Trading on the RM-SYSTÉM exchange[61]

Total annual trading on the other domestic regulated market (RM-S) amounted to CZK 4.8 billion in 2013 (down by 19.7% from a year earlier). Shares represented 99.6% of the trading volume. The RM index went up by 56.8 points (2.9%) to 2,048.6 points at the end of 2013 compared to the end of 2012.

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

4. THE INSURANCE MARKET

4.1 INSURANCE MARKET ENTITIES AND THEIR OWNERSHIP STRUCTURE

As of 31 December 2013, the insurance market in the Czech Republic consisted of 33 domestic insurance undertakings and 18 branches of insurance undertakings from the EU. This figure excludes the Czech Insurers' Bureau[62] and the reinsurance company VIG RE zajišťovna, a.s.

Compared to 2012, the number of domestic insurers operating in the Czech insurance market decreased by one, while the number of branches of foreign insurance undertakings remained unchanged. Insurance undertakings from the UK (four branches) and Germany (three branches) enjoy the largest representation via branches in the Czech insurance market. Most branches (a total of 15) focus on non-life insurance, while three specialise in 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.

In addition to the above-mentioned domestic insurers and branches of foreign insurers licensed by the CNB, insurance undertakings and branches thereof from other EU/EEA member states may provide services on the Czech insurance market under the freedom to provide services temporarily. The number of such institutions rose to 734 during 2013. These insurers specialise mainly in non-life insurance.

VIG RE zajišťovna, a.s., the only licensed reinsurance company in the Czech Republic, has been active in the Czech insurance market since September 2008. It 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 such as consultancy, intermediation, training and examination of reinsurance cases.

The ownership structure of domestic insurance undertakings is stable. Foreign capital is predominant, accounting for a 79.4% share at the end of 2013. This represents a modest rise of 1.1 percentage points compared to 31 December 2012. Out of the 33 domestic insurance undertakings, 22 were controlled by foreign owners at the end of 2013.

The total registered capital of domestic insurance undertakings saw no major changes in terms of shareholder geographical structure in 2013. The amount of registered capital of domestic insurance

62 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 under the aforementioned Act. For details on its activities and financial performance, see www.ckp.cz.

TABLE IV.1

Market structure by type of insurance undertaking

	2011	2012	2013
NUMBER OF DOMESTIC INSURANCE UNDERTAKINGS	35	34	33
of which:			
non-life	17	16	16
life	3	3	2
both life and non-life	15	15	15
NUMBER OF BRANCHES OF INSURANCE UNDERTAKINGS FROM EU AND THIRD COUNTRIES	18	18	18
of which:			
non-life	14	15	15
life	4	3	3
both life and non-life	0	0	0
TOTAL NUMBER OF INSURANCE UNDERTAKINGS[a)]	53	52	51
of which:			
non-life	31	31	31
life	7	6	5
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

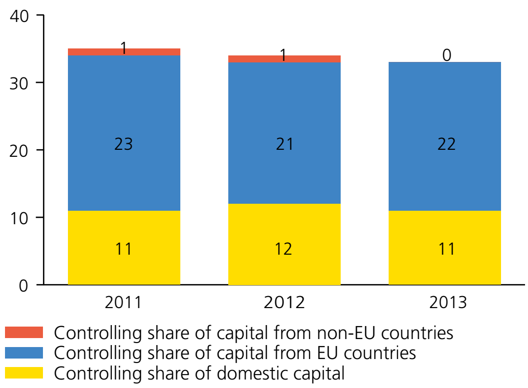


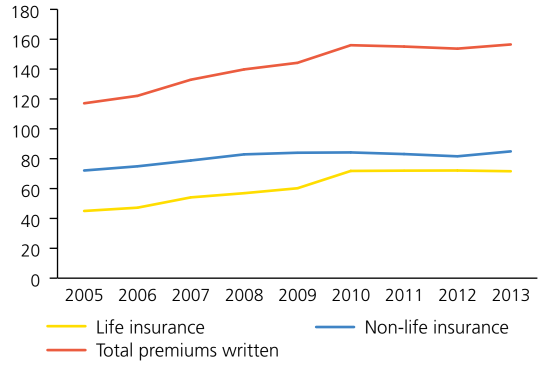
TABLE IV.2

Ownership structure of domestic insurance undertakings by share in registered capital
(as of 31 December 2013)

Country	Share in capital (CZK millions)	Share in capital (in %)
Netherlands	6,333,000	26.1
Austria	5,832,554	24.1
Czech Republic	4,996,069	20.6
Belgium	2,921,401	12.1
France	2,433,642	10.0
Germany	1,066,000	4.4
Slovenia	360,000	1.5
Ireland	155,820	0.6
Denmark	120,000	0.5
TOTAL CAPITAL	24,218,486	100.0

Chart IV.2

Gross premiums written
(in CZK billions)



undertakings was almost unchanged (up by 0.1%) in this period. Shareholders from the Netherlands and Austria have the largest shares in the registered capital of domestic insurance undertakings (26.1% and 24.1% respectively). The large share of Dutch shareholders is due to the fact that a direct shareholder of Česká pojišťovna a.s. has its registered office in the Netherlands. As in 2012, shareholders from France and Belgium had shares of more than 5% in registered capital.

4.2 PREMIUMS WRITTEN

Gross premiums written are one of the key indicators of the insurance market. They increased by 1.9% in 2013, compared to a decrease of 1.0% a year earlier. The increase in total gross premiums written was driven by a rise in non-life insurance of 4.2%, while premiums written in life insurance fell by 0.7%. Total gross premiums written amounted to CZK 156.5 billion in 2013.

Premiums written in life insurance decreased by CZK 0.5 billion year on year to CZK 71.6 billion at the end of 2013. The slight drop in premiums written in life insurance in 2013 was due to a decline in investment life insurance.

A recovery occurred in non-life insurance compared to 2012 (when premiums written fell by 1.8%). The increase was due to higher premium collection in motor third party liability insurance. Total gross premiums written in non-life insurance amounted to CZK 84.9 billion.

The share of life insurance in total premiums written was 45.7% in 2013, down by 1.2 percentage points from a year earlier. This share has long been rising slightly, but it is still low compared to advanced EU insurance markets.

Insurance penetration, as measured by the ratio of gross premiums written to GDP at current prices, is an important macroeconomic indicator relating to the insurance market. It remained unchanged at 4.0% in 2013. Like the share of life insurance in total premiums written, this indicator for the Czech insurance market lags behind that for advanced Western European countries, where insurance penetration is at higher levels.

Reinsurance is a very important tool used by insurers to mitigate the risks arising from potential large-scale losses. It is used mainly by non-life insurance undertakings in cases where higher claim limits could jeopardise their financial stability and solvency. Non-life insurance premiums ceded to reinsurers totalled CZK 26.0 billion in 2013, representing 30.6% of gross premiums written. The share of insurance ceded in life insurance is much lower than that in non-life insurance. In life insurance, premiums totalling CZK 4.4 billion were ceded to reinsurers, accounting for 6.1% of total premiums written in life insurance.

CHART IV.3

Gross premiums written in 2013
(in CZK billions)

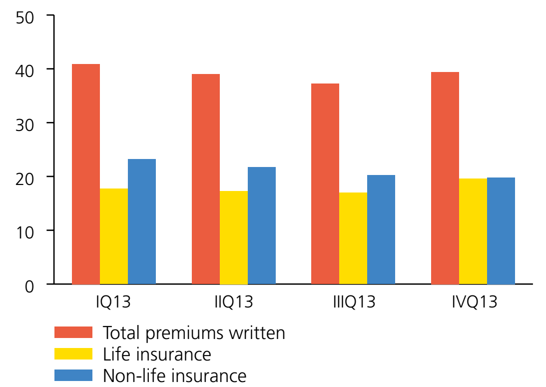


CHART IV.4

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

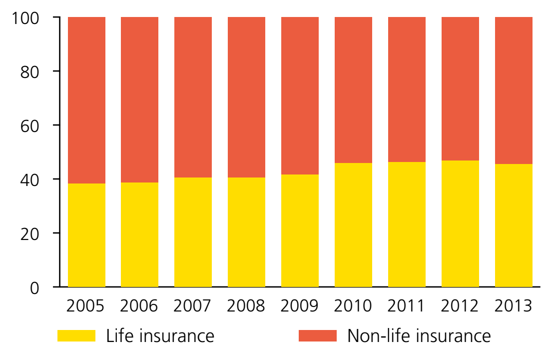


TABLE IV.3

Total insurance penetration in Czech Republic

	Amount (CZK bn)			Change 2013/2012 (in %)
	2011	2012	2013	
Premiums written	155.1	153.7	156.5	1.8
GDP (at current prices)	3,823	3,846	3,884	1.0
		in %		
Premiums written/GDP	4.1	4.0	4.0	x

CHART IV.5

Shares of premiums written in GDP
(in %)

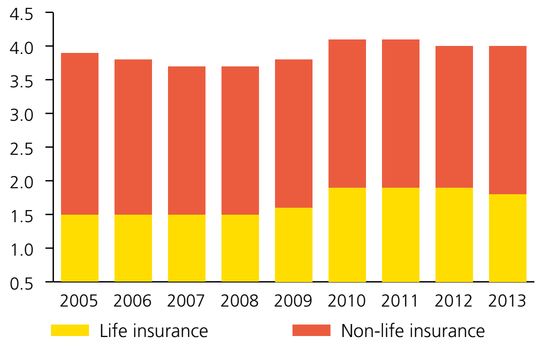


CHART IV.6

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

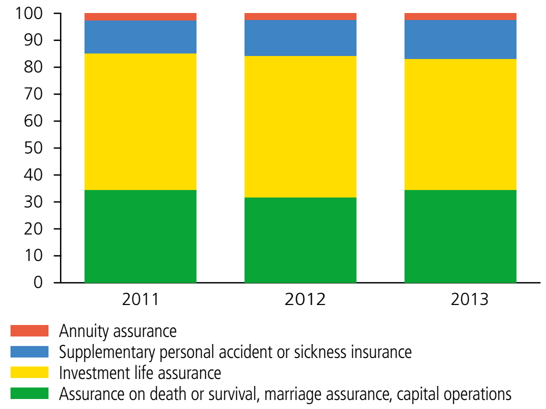
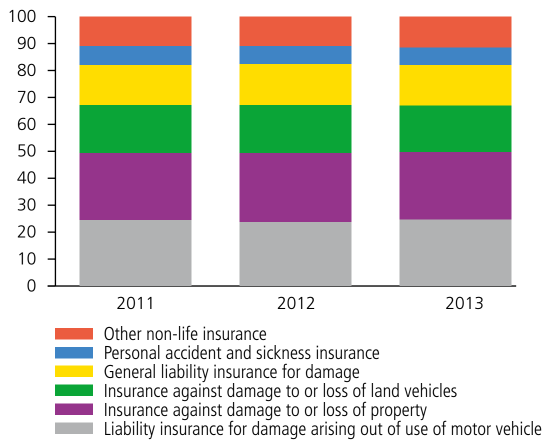


CHART IV.7

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



Unlike in previous years, the share of investment life insurance in the life insurance area fell in favour of standard products with guaranteed returns, whose share in premiums written increased. Premiums written in investment life insurance were affected by the prolonged period of low interest rates and a rising preference of households for more conservative investment alternatives. Investment life insurance decreased by 8% year on year and its share of the life insurance market fell by 3.9 percentage point to 48.6%. The share of traditional products, such as assurance on death or survival and marriage assurance, in total life insurance premiums written increased to 34.5%.

Premiums written in non-life insurance are still dominated by insurance against damage to or loss of property (with a share of 25.2%), followed by motor third party liability insurance (24.7%) and insurance against damage to or loss of land vehicles (17.1%). In 2013, premiums written rose fastest for motor third party liability insurance (8.0%) and general liability insurance for damage (3.5%). By contrast, insurance against damage to or loss of land vehicles recorded a very modest decline of 0.1%.

4.3 CLAIM SETTLEMENT COSTS[63]

The growth rate of claim settlement costs increased by 10.6 percentage points year on year to 14.1%, with total claim settlement costs rising to CZK 100.6 billion. Higher growth in claim settlement costs was recorded in non-life insurance (17.8%) owing to significant losses caused by floods (insurers settled claims totalling CZK 7.5 billion).[64] In the area of life insurance this indicator saw similar developments, with claim settlement costs rising by 10.7%, i.e. at roughly the same pace as in 2012, when it had increased by 10.3%.

The share of reinsurers in claim settlement costs is roughly equal to their share in premiums written. In non-life insurance, where it plays a greater role, reinsurers' share in claim settlement costs increased by 5.4 percentage points to 30.3%. In life insurance it remained almost unchanged at 2.8%. Reinsurers' share in non-life insurance claim settlement costs rose by 43.2% year on year to CZK 14.9 billion. Life insurance also saw a sizeable increase in reinsurers' claim settlement costs of 13.0% compared to 2012. In absolute terms, however, this figure is much lower than in non-life insurance (only CZK 1.4 billion).

CHART IV.8

Claim settlement costs
(in CZK billions)

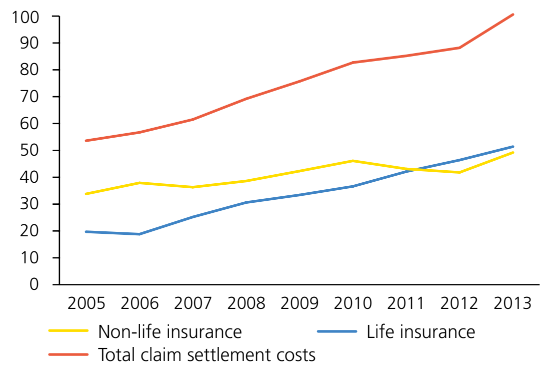


TABLE IV.4

Premiums written by insurance class

Insurance class	Amount (CZK millions) 2011	2012	2013	Change 2013/2012 (in %)
TOTAL LIFE INSURANCE	72,009	72,056	71,575	-0.7
Assurance on death or survival, marriage assurance, capital operations	24,792	22,860	24,729	8.2
Annuity assurance	1,881	1,810	1,775	-1.9
Investment life assurance	36,584	37,799	34,765	-8.0
Supplementary personal accident and sickness insurance	8,752	9,587	10,306	7.5
TOTAL NON-LIFE INSURANCE	83,083	81,554	84,947	4.2
Liability insurance for damage arising out of use of motor vehicle	20,460	19,418	20,976	8.0
Insurance against damage to or loss of property	20,585	20,861	21,442	2.8
Insurance against damage to or loss of land vehicles	14,862	14,546	14,532	-0.1
General liability insurance for damage[a)]	12,416	12,436	12,869	3.5
Accident and sickness insurance	5,708	5,434	5,481	0.9
Other non-life insurance	9,052	8,859	9,647	8.9

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

63 In this section, claim settlement costs are given on a gross basis inclusive of the reinsurer's share.
64 Source: Czech Insurance Association.

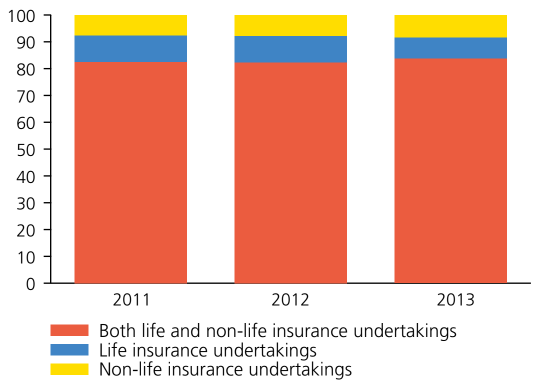
Table IV.5

Shares of insurance undertakings in total assets

	Amount (CZK millions)			Share 2013 (in %)
	2011	2012	2013	
TOTAL ASSETS	435,499	469,038	479,353	100.0
Domestic insurance undertakings	396,623	428,112	442,576	92.3
Branches of insurance undertakings	38,876	40,926	36,777	7.7

Chart IV.9

Shares of insurance undertakings in total assets of sector
(in %)



4.4 ASSETS OF INSURANCE UNDERTAKINGS

The total assets of insurance undertakings stood at CZK 479.4 billion as of 31 December 2013. This represents a year-on-year rise of 2.2%. The growth in total assets had been faster in 2012 (7.7%). The total assets of domestic insurance undertakings amounted to CZK 442.6 billion at the end of 2013 (up by 3.4% year on year) and those of branches of insurance undertakings CZK 36.8 billion (down by 10.1%).

As regards the types of insurance undertakings, the biggest contributors to total assets were again universal insurers, which slightly increased their share by 1.3 percentage points compared to 2012, to 83.7%. The share of life insurance undertakings in total assets dropped to 8.0% in the same period. The share of non-life insurance undertakings edged up to 8.3%. In 2013, the strongest growth in assets was recorded by undertakings carrying on non-life insurance (10.1%). In 2012 the growth had been 11.4%.

Financial placement (investment)[65] is the largest asset item in the balance sheet of domestic insurance undertakings. However, its share is falling gradually. As of 31 December 2013, financial placement accounted for 74.6% of total assets. Its share declined by 1.2 percentage points year on year, offset in particular by an increase in the share of financial placement linked with investment life insurance. Debt securities are the largest financial placement (investment) item. Their share in total assets declined by 1.7 percentage points to 58.9% during 2013. The major financial placement items also include shares and deposits with financial institutions (accounting for 5.1% of total assets in both cases). The share of financial placement of unit-linked life insurance in total assets reached 15.9% as of 31 December 2013.

Table IV.6

Asset structure of domestic insurance undertakings

	Amount (CZK millions)			Structure 2013 (in %)
	2011	2012	2013	
TOTAL ASSETS	396,623	428,112	442,576	100.0
Financial placements (investment)	309,576	325,155	330,360	74.6
of which:				
real estate	4,813	4,882	5,114	1.2
participating interests	13,599	16,778	19,984	4.5
shares, variable-yield securities	19,402	20,056	22,698	5.1
bonds and other fixed-income securities	248,488	259,726	260,579	58.9
deposits at financial institutions	23,095	23,342	22,679	5.1
other financial placements	179	371	-694	-0.2
Financial placements of unit-linked life insurance	51,759	63,861	70,296	15.9
Debtors (receivables)	15,922	14,663	16,089	3.6
Other assets	19,366	24,433	25,831	5.8

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

As technical provisions for life insurance are of a long-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.

The investments of domestic insurance undertakings arising from technical provisions are dominated by bonds. This applies to both life insurance and non-life insurance. Bonds account for 71.0% of investments arising from technical provisions for non-life insurance. This ratio is 2.2 percentage points higher than in 2012. Reinsurance receivables are the second-largest investment item arising from technical provisions for non-life insurance, with a share of 12.5%. Deposits are also represented in financial placement (4.6%), and equity securities also have a high share (8.2%).

Bonds are more dominant in the investments of domestic insurance undertakings arising from technical provisions for life insurance than in the case of non-life insurance, accounting for 75.6%. Equity securities have a significant 21.9% share. Reinsurance receivables have a negligible share of 0.5%. Investments arising from technical provisions for life insurance also include items linked with investment life insurance.

CHART IV.10

Investments of domestic insurance undertakings
(in %)

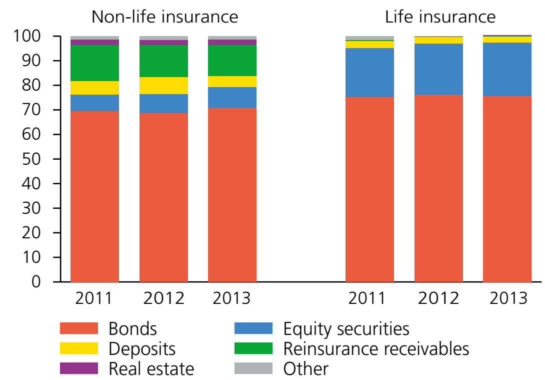


Table IV.7

Liability structure of domestic insurance undertakings

	Amount (CZK millions)			Structure 2013 (in %)
	2011	2012	2013	
TOTAL LIABILITIES	396,623	428,112	442,576	100.0
Shareholder's equity	69,879	78,797	80,794	18.3
Technical provisions[a)]	242,443	249,252	253,032	57.2
Provision for unit-linked life insurance[a)]	51,718	63,861	70,297	15.9
Creditors (liabilities)	20,521	20,553	22,635	5.1
Other liabilities	12,062	15,649	15,818	3.6

a) net amount

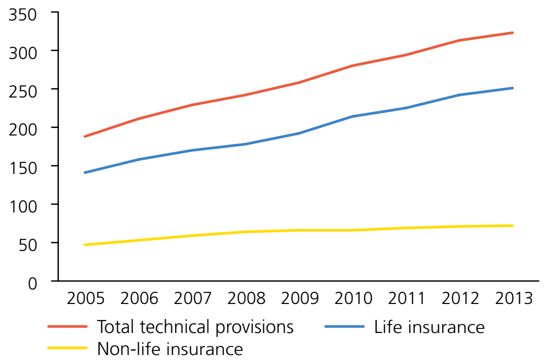
Table IV.8

Technical provisions of domestic insurance undertakings

	Amount (CZK millions)			Change 2013/2012 (in %)
	2011	2012	2013	
TOTAL GROSS TECHNICAL PROVISIONS	321,590	341,202	354,872	4.0
of which:				
non-life insurace	94,782	97,556	100,864	3.4
life insurance	226,808	243,646	254,008	4.3
TOTAL NET TECHNICAL PROVISIONS	294,160	313,112	323,328	3.3
of which:				
non-life insurace	68,752	71,279	72,090	1.1
life insurance	225,408	241,833	251,238	3.9

Chart IV.11

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



4.5 LIABILITIES OF INSURANCE UNDERTAKINGS

The most important item in insurance undertakings' liabilities 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 and as to the date on which they will arise. Technical provisions are reported gross and net of reinsurers' share in technical provisions. In 2013, the share of net technical provisions (excluding provisions for unit-linked life insurance) in the total liabilities of domestic insurance undertakings edged down by 0.8 percentage point year on year to 57.2%. The technical provision for unit-linked life insurance is another rather specific liability item. It is linked with investment life insurance and is the source of financial placement of unit-linked life insurance. This provision moved in line with financial placement of unit-linked life insurance: it rose by 10.1% in 2013 and its share in liabilities reached 15.9%.

Besides technical provisions, equity capital accounts for a relatively large proportion of the liabilities of domestic insurers. Equity capital increased by 2.5% in 2013 and its share in total liabilities was 18.3%. Share capital is the largest component of equity (30.0%). Aside from profit for the current year (with a share of 13.1%), other important equity items include retained earnings and other capital funds (each of which exceeds 15% of equity capital).

At the end of 2013, the total gross technical provisions of domestic insurance undertakings, including the provision for unit-linked life insurance, were up by 4.0% year on year to CZK 354.9 billion. The rate of growth of gross technical provisions decreased by 2.1 percentage points compared to the previous period. Gross technical provisions for life insurance and non-life insurance increased by 4.3% and 3.4% respectively. The total net technical provisions of domestic insurance undertakings rose by 3.3% during 2013.

4.6 FINANCIAL RESULTS OF INSURANCE UNDERTAKINGS

2013 was not as successful for the Czech insurance market as the previous year. Nevertheless, the financial results of insurance undertakings as a whole (including branches of foreign insurers) were relatively good. The net profit of the entire insurance sector was CZK 11.0 billion, down by 9.7% from 2012, when the insurance market generated a profit of CZK 12.2 billion. The profit on the technical account[66] for non-life insurance worsened by 18.2% year on year to CZK 5.4 billion. The technical account for life insurance ended 2013 in a profit of CZK 6.5 billion (down by 3.0% year on year).

TABLE IV.9

Profit of insurance undertakings

	Amount (CZK millions)			Structure 2013
	2011	2012	2013	(in %)
TOTAL NET PROFIT	9,183	12,184	11,004	100.0
Domestic insurance undertakings	8,460	11,564	10,545	95.8
Branches of insurance undertakings	723	620	459	4.2

TABLE IV.10

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

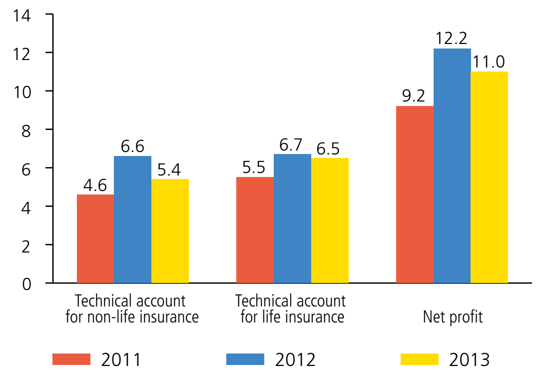
	2011	2012	2013
TOTAL INSURANCE SECTOR			
Net profit/assets (RoA)	2.1	2.7	2.4
Net profit/shareholder's equity (RoE)	12.1	14.7	13.1
Net profit/earned premiums	7.2	9.9	9.1
NON-LIFE INSURANCE			
Profit on technical account for non-life insurance/earned premiums	8.4	12.0	9.9
Claims incurred, including change in TPs/earned premiums	59.7	59.9	60.5
Net operating costs/earned premiums	30.7	31.6	31.3
Acquisition costs for insurance contracts/earned premiums	25.5	25.8	24.6
Administrative expenses/earned premiums	16.1	16.2	16.3
LIFE INSURANCE			
Profit on technical account for life insurance/earned premiums	7.4	9.5	9.7
Claims incurred, including change in TPs/earned premiums	59.1	65.8	71.2
Net operating costs/earned premiums	21.7	22.5	22.0
Acquisition costs for insurance contracts/earned premiums	16.5	17.6	17.0
Administrative expenses/earned premiums	6.4	6.5	6.8

The net profit recorded by the sector as a whole was chiefly due to domestic insurance undertakings, which accounted for 95.8% of the total. Their performance deteriorated by 8.8% year on year in 2013. The net profit of branches of insurance undertakings decreased by 26.0% to just CZK 0.5 billion.

The slightly worse financial results of domestic insurance undertakings than in 2012 were also reflected in their profitability and efficiency indicators. Return on assets (RoA), as measured by the ratio of net profit to assets, decreased from the 2.7% reported in 2012 to 2.4%. The ratio

CHART IV.12

Profits of insurance undertakings
(in CZK billions)



66 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.

of net profit to shareholders' equity (RoE) fell by 1.6 percentage points year on year to 13.1% in 2013, while the ratio of net profit to earned premiums[67] declined by 0.8 percentage point year on year to 9.1%.

As regards non-life insurance, the ratio of profit on the technical account to earned premiums fell by 2.1 percentage points to 9.9%. The ratio of claims incurred, including change in technical provisions, to earned premiums deteriorated slightly, rising by 0.6 percentage point to 60.5%. The ratio of net operating costs to earned premiums was virtually unchanged.

Compared to 2012, the ratio of the technical account for life insurance to earned premiums was almost unchanged at 9.7%. The ratio of claims incurred, including change in technical provisions, to earned premiums worsened, increasing by 5.4 percentage points year on year to 71.2%. The other monitored indicators of the technical account for life insurance were little changed from 2012.

67 Earned premiums and claim settlement costs, including change in technical provisions, are net of reinsurance.

ABBREVIATIONS

AIFMD	Alternative Investment Fund Managers Directive
AIRB	Advanced Internal Ratings Based
AMA	Advanced Measurement Approaches
AMCIF	Act on Management Companies and Investment Funds
AML/CFT	anti-money laundering/combating the financing of terrorism
APRC	annual percentage rate of charge
ATC	Advisory Technical Committee
AWG	Analysis Working Group
BCBS	Basel Committee on Banking Supervision
BCG	Basel Consultative Group
BRRD	Directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms
CAR	capital adequacy ratio
CBA	Czech Banking Association
CCR	Central Credit Register
CFM	Committee on Financial Markets
CIB	Czech Insurers’ Bureau
CJEU	Court of Justice of the European Union
CNB	Czech National Bank
Coll.	Collection of Laws of the Czech Republic
COREPER	Comité des représentants permanents
CRD IV/CRR	Capital Requirements Directive/Capital Requirements Regulation
CSDP	Central Securities Depository Prague
CU	credit union
CVR	Central Vehicle Register

CZK	Czech koruna
DDoS	distributed denial of service
DGSD	Deposit Guarantee Schemes Directive
EBA	European Banking Authority
EC	European Commission/European Communities
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EEA	European Economic Area
EFC	Economic and Financial Committee
EFRAG	European Financial Reporting Advisory Group
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds
EMIR	European Market Infrastructure Regulation
EP	European Parliament
ESAs	European Supervisory Authorities
ESFS	European System of Financial Supervision
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETFs	Exchange Traded Funds
EU	European Union
Euribor	Euro Interbank Offered Rate
FSC	Financial Services Committee
FSC	Financial Stability Committee
FTT	financial transaction tax
IA	internal audit
IASB	International Accounting Standards Board

IBNR	incurred but not reported
ICAAP	Internal Capital Adequacy Assessment Process
IFRS/IAS	International Financial Reporting Standards/International Accounting Standards
ILA	independent loss adjuster
IMD 2	Insurance Mediation Directive
IMF	International Monetary Fund
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commissions
IRB	internal ratings based
JEGR	Joint Expert Group on Reconciliation of credit institutions' statistical and supervisory reporting requirements
MCD	Mortgage Credit Directive
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
OECD	Organisation for Economic Cooperation and Development
OTC	over the-counter (derivatives)
PRIPs	Packaged Retail Investment Products Regulation
PSE	Prague Stock Exchange (Burza cenných papírů Praha, a.s.)
PSSC	Payment and Settlement Systems Committee
PXE	Power Exchange Central Europe
REMIT	Regulation on Energy Market Integrity and Transparency
RM-S	RM-SYSTÉM, česká burza cenných papírů a.s.
SEPA	Single Euro Payments Area
SKD	Short-term Bond System
SMEs	small and medium-sized enterprises
SRMR	Single Resolution Mechanism Regulation

SSM	Single Supervisory Mechanism
SVYT	Transaction Settlement System
TARGET	Trans-European Automated Real-time Gross Settlement Express Transfer System
TFEU	Treaty on the Functioning of the European Union
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))
VaR	value at risk

PART C – ANNEXES

Note: 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

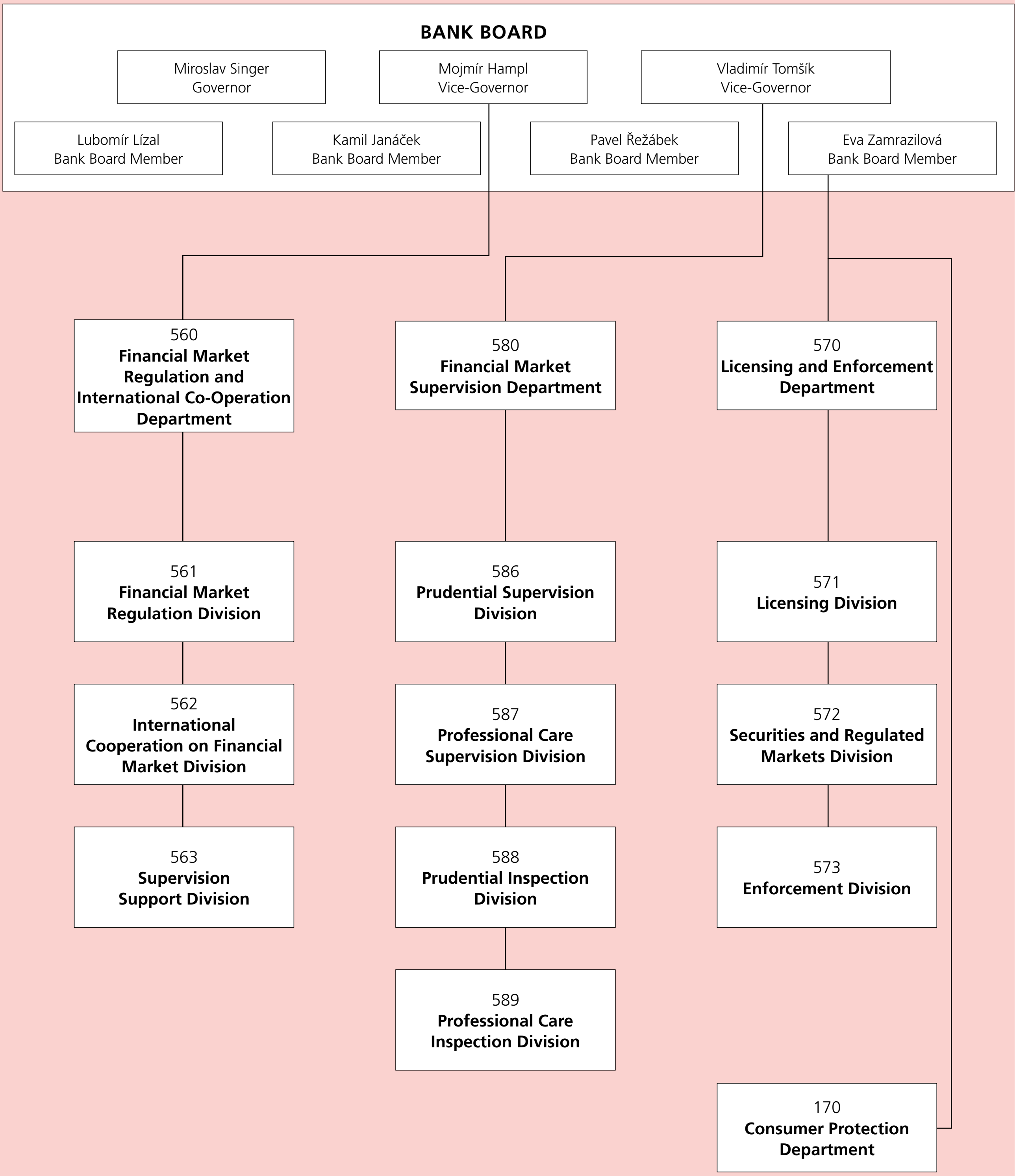
MAIN INDICATORS OF MONETARY AND ECONOMIC DEVELOPMENTS IN THE CZECH REPUBLIC

		2009	2010	2011	2012	2013
Gross domestic product [1] [2]	Volume (in CZK billions)	3,759.0	3,790.9	3,823.4	3,845.9	3,883.8
	Increase (in per cent)	-4.5	2.5	1.8	-1.0	-0.9
Output – percentage increase	Industry (sales) [1]	-15.9	9.5	7.6	1.7	1.4
	Construction [2]	-0.9	-7.4	-3.6	-7.6	-6.7
Prices [3]	Inflation rate (in per cent)	1	1.5	1.9	3.3	1.4
Unemployment	Unemployment rate (in per cent)	6.1	7.0	6.7	6.8	7.7
Foreign trade [2]	Exports of goods and services (in per cent)	-10.9	15.5	9.5	4.4	0.1
	Imports of goods and services (in per cent)	-12.0	15.5	7.0	2.2	0.6
Average wage [2]	Nominal (in per cent) [5]	3.3	2.2	2.5	2.7	0.1
	Real (in per cent) [5]	2.3	0.7	0.6	-0.6	-1.3
Balance of payments	Current account (in CZK billions)	-89.3	-146.6	-104.0	-51.3	-56.0
	Financial account (in CZK billions)	143.2	174.3	59.4	74.3	187.9
State budget balance	(in CZK billions)	-192.4	-156.4	-142.8	-101.0	-81.3
State budget balance/GDP	(in per cent)	-5.1	-4.1	-3.7	-2.6	-2.1
Exchange rates [4]	CZK/USD	19.1	19.1	17.7	19.6	19.6
	CZK/EUR	26.4	25.3	24.6	25.1	26.0
Average interbank	7-day	1.69	0.95	0.82	0.64	0.21
deposit rate (PRIBOR)	3-month	2.19	1.31	1.19	1.00	0.46
in per cent [4]	6-month	2.39	1.60	1.53	1.24	0.58
Discount rate [6]	(in per cent)	0.25	0.25	0.25	0.05	0.05
Lombard rate [6]	(in per cent)	2.00	1.75	1.75	0.25	0.25
2W repo rate [6]	(in per cent)	1.00	0.75	0.75	0.05	0.05
PX capital market index		1,117.30	1,224.80	911.10	1,038.70	989.00

Source: CZSO (macroeconomic indicators) data as of 15 April 2014, 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
6) As of 31 December of given year

Annex 2

ORGANISATIONAL STRUCTURE OF CNB FINANCIAL MARKET SUPERVISION
as of 31 December 2013



Note:
The President of the Czech Republic appointed Jiří Rusnok as a member of the CNB Bank Board with effect from 1 March 2014. Jiří Rusnok replaced Eva Zamrazilová, whose mandate ended.

Annex 3

BREAKDOWN OF BANKS INTO GROUPS [1)]

(as of 31 December 2013)

I. Large banks	**IV. Foreign bank branches**
1. Česká spořitelna, a. s.	1. Bank Gutmann Aktiengesellschaft, pobočka Česká republika
2. Československá obchodní banka, a. s.	2. Bank of Tokyo-Mitsubishi UFJ (Holland) N. V. Prague Branch, organizační složka
3. Komerční banka, a. s.	3. BNP Paribas Fortis SA/NV, pobočka Česká republika
4. UniCredit Bank Czech Republic and Slovakia, 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. HSBC Bank plc – pobočka Praha
3. GE Money Bank, a. s.	9. ING Bank N. V.
4. Hypoteční banka, a. s.	10. MEINL BANK Aktiengesellschaft, pobočka Praha
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. Sberbank 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 (zkráceně VUB, a. s., pobočka Praha)
3. Evropsko-ruská banka, a. s.	19. Waldviertler Sparkasse Bank AG
4. Fio banka, a.s.	20. Western Union International Bank GmbH, organizační složka
5. LBBW Bank CZ a. s.	21. ZUNO BANK AG, organizační složka
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 – Aggregate information on the financial sector – Basic indicators of the financial market – Banks – Methodology.*

Annex 4

CREDIT UNIONS
(as of 31 December 2013)

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.	Moravský Peněžní Ústav – spořitelní družstvo
9.	Peněžní dům, spořitelní družstvo
10.	Podnikatelská družstevní záložna
11.	WPB Capital, spořitelní družstvo
12.	Záložna CREDITAS, spořitelní družstvo

Annex 5

LICENSED INVESTMENT FIRMS
(as of 31 December 2013)

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

Annex 6

PENSION MANAGEMENT COMPANIES
(as of 31 December 2013)

1. AEGON Penzijní společnost, a.s.
2. Allianz penzijní společnost, a.s.
3. AXA penzijní společnost a.s.
4. Conseq penzijní společnost, a.s.
5. Česká spořitelna – penzijní společnost, a.s.
6. ČSOB Penzijní společnost, a. s., člen skupiny ČSOB
7. ING Penzijní společnost, a.s.
8. KB Penzijní společnost, a.s.
9. Penzijní společnost České pojišťovny, a.s.
10. Raiffeisen penzijní společnost a.s.

Annex 7

MANAGEMENT COMPANIES
(as of 31 December 2013)

1. AKRO investiční společnost, a.s.	13. Partners investiční společnost, a.s.
2. AMISTA investiční společnost, a.s.	14. Pioneer investiční společnost, a.s.
3. AVANT investiční společnost, a.s.	15. PROSPERITA investiční společnost, a.s.
4. AXA investiční společnost a.s.	16. QI investiční společnost, a.s.
5. CLOVIS, investiční společnost, a.s.	17. Raiffeisen investiční společnost a.s.
6. Conseq Funds investiční společnost, a.s.	18. REDSIDE investiční společnost, a.s.
7. ČP INVEST investiční společnost, a.s.	19. REICO investiční společnost České spořitelny, a.s.
8. ČSOB Asset Management, a.s., investiční společnost	20. Safety invest funds, investiční společnost, a.s.
9. I.C.P. Czech, investiční společnost, a.s.	21. VIG Asset Management investiční společnost, a.s.
10. Investiční kapitálová společnost KB, a.s.	22. WMS investiční společnost, a.s.
11. Investiční společnost České spořitelny, a.s.	23. WOOD & Company investiční společnost, a.s.
12. J&T INVESTIČNÍ SPOLEČNOST, a.s.	24. ZFP Investments, investiční společnost, a.s.

Annex 8

INSURANCE UNDERTAKINGS
(as of 31 December 2013)

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

Annex 9

PROSPECTUSES OF LISTED BONDS APPROVED IN 2013

Issue date	ISIN	Issuer	Maximum size
14 March 2013	CZ0002003064	Komerční banka, a.s.	12.5 bn CZK
29 March 2013	CZ0003510646	Czech Property Investments, a.s.	2.25 bn CZK
7 May 2013	CZ0003510679	CPI BYTY, a.s.	300 m CZK
7 May 2013	CZ0003510687	CPI BYTY, a.s.	500 m CZK
7 May 2013	CZ0003510695	CPI BYTY, a.s.	900 m CZK
7 May 2013	CZ0003510703	CPI BYTY, a.s.	1.3 bn CZK
3 June 2013	CZ0002003080	UniCredit Bank Czech Republic, a.s.	50 m EUR
7 June 2013	CZ0002003114	UniCredit Bank Czech Republic, a.s.	30 m EUR
20 June 2013	CZ0003510851	Diamond Point, a.s.	1.1 bn CZK
27 June 2013	CZ0003510844	CETELEM ČR, a.s.	1.5 bn CZK
18 July 2013	CZ0002003148	UniCredit Bank Czech Republic, a.s.	30 m EUR
25 July 2013	CZ0003510885	České dráhy, a.s.	4 bn CZK
4 October 2013	CZ0000000351	KOFOLA S.A.	450 m CZK
21 October 2013	CZ0002003262	UniCredit Bank Czech Republic, a.s.	80 m EUR
23 October 2013	CZ0002003254	Sberbank CZ a.s.	1 bn CZK
20 December 2013	CZ0003511107	Trianon Building Prague, s.r.o.	849 m CZK

Note: Highlighted in blue – final terms for a prospectus drawn up as a base prospectus (Article 36a of the Capital Market Undertakings Act).

Annex 10

PROSPECTUSES OF UNLISTED BONDS APPROVED IN 2013

Issue date	ISIN	Issuer	Maximum size
11 March 2010	CZ0003702334	UniCredit Bank Czech Republic, a.s.	50 m USD
31 January 2011	CZ0003702698	UniCredit Bank Czech Republic, a.s.	50 m EUR
31 January 2011	CZ0003702706	UniCredit Bank Czech Republic, a.s.	50 m EUR
31 January 2011	CZ0003702771	UniCredit Bank Czech Republic, a.s.	50 m USD
5 December 2011	CZ0003702979	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 December 2011	CZ0003702987	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 December 2011	CZ0003702995	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 December 2011	CZ0003703001	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 December 2011	CZ0003703019	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 December 2011	CZ0003703027	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 December 2011	CZ0003703035	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 December 2011	CZ0003703043	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	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	CZ0003703159	UniCredit Bank Czech Republic, a.s.	5 bn CZK
20 February 2012	CZ0002002660	Wüstenrot hypoteční banka a.s.	1 bn 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	CZ0003703324	UniCredit Bank Czech Republic, a.s.	5 bn CZK
10 May 2012	CZ0003703332	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	CZ0003703357	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	CZ0003703407	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	CZ0003703423	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 June 2012	CZ0003703431	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	CZ0003703456	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 June 2012	CZ0003703464	UniCredit Bank Czech Republic, a.s.	5 bn CZK
21 December 2012	CZ0003703704	UniCredit Bank Czech Republic, a.s.	5 bn CZK
21 December 2012	CZ0003703712	UniCredit Bank Czech Republic, a.s.	5 bn CZK
21 December 2012	CZ0003703720	UniCredit Bank Czech Republic, a.s.	5 bn CZK

Annex 10

PROSPECTUSES OF UNLISTED BONDS APPROVED IN 2013 – (continued)

Issue date	ISIN	Issuer	Maximum size
28 December 2012	CZ0003703670	Raiffeisenbank a.s.	5 bn CZK
1 June 2013	N/A	GB Investment Company a.s.	5 m CZK
17 June 2013	CZ0003703977	Správa Aktiv a Bankovní Poradenství, a.s.	100 m CZK
25 June 2013	CZ0002003130	Hypoteční banka, a.s.	2 bn CZK
1 July 2013	N/A	GB Investment Company a.s.	5 m CZK
23 September 2013	CZ0003704017	UniCredit Bank Czech Republic, a.s.	50 m EUR
23 September 2013	CZ0003704025	UniCredit Bank Czech Republic, a.s.	50 m EUR
23 September 2013	CZ0003704033	UniCredit Bank Czech Republic, a.s.	50 m EUR
23 September 2013	CZ0003704041	UniCredit Bank Czech Republic, a.s.	50 m EUR
23 September 2013	CZ0003704058	UniCredit Bank Czech Republic, a.s.	50 m EUR
23 September 2013	CZ0003704066	UniCredit Bank Czech Republic, a.s.	50 m EUR
23 September 2013	CZ0003704074	UniCredit Bank Czech Republic, a.s.	50 m EUR
23 September 2013	CZ0003704082	UniCredit Bank Czech Republic, a.s.	50 m EUR
23 September 2013	CZ0003704090	UniCredit Bank Czech Republic, a.s.	50 m USD
23 September 2013	CZ0003704108	UniCredit Bank Czech Republic, a.s.	50 m USD
23 September 2013	CZ0003704116	UniCredit Bank Czech Republic, a.s.	50 m USD
23 September 2013	CZ0003704124	UniCredit Bank Czech Republic, a.s.	50 m USD
23 September 2013	CZ0003704132	UniCredit Bank Czech Republic, a.s.	50 m USD
23 September 2013	CZ0003704140	UniCredit Bank Czech Republic, a.s.	50 m USD
23 September 2013	CZ0003704157	UniCredit Bank Czech Republic, a.s.	50 m USD
23 September 2013	CZ0003704165	UniCredit Bank Czech Republic, a.s.	50 m USD
23 September 2013	CZ0003703993	UniCredit Bank Czech Republic, a.s.	1 bn CZK
1 October 2013	N/A	GB Investment Company a.s.	2 m CZK
1 November 2013	N/A	GB Investment Company a.s.	2 m CZK
1 November 2013	N/A	GB Investment Company a.s.	2 m CZK
1 December 2013	N/A	GB Investment Company a.s.	5 m CZK
9 December 2013	CZ0003511065	Štěpánská apartmá, a.s.	150 m CZK
2 May 2014	US153443AK24	Central European Media Enterprises ltd.	341,846,700 USD

Note: The prospectus for issue US153443AK24 was approved at the same time as a prospectus for unit warrants to purchase 71,787,807 shares of the issuer's common stock, issue date: 2 May 2014, ISIN: BMG200451455.

Highlighted in blue – final terms for a prospectus drawn up as a base prospectus (Article 36a of the Capital Market Undertakings Act).

Annex 11

ISSUES/TRANCHES OF LISTED SHARES APPROVED IN 2013

Issuer	ISIN	Face value	Size
Central European Media Enterprises ltd.	BMG200452024	0.08 USD	57,132,931 pcs
Borealis Exploration Limited	GI000A1J9JJ0	0.01 USD	5,000,000 pcs

Annex 12

INVESTMENT CERTIFICATES ISSUED IN 2013 IN OFFER PROGRAMMES APPROVED BY THE CNB

Issuer	ISIN	Name of IC
Československá obchodní banka, a.s.	CZ0000300157	ČSOB Investiční certifikát I.
UniCredit Bank Czech Republic, a.s.	CZ0000300173	UCB certifikát HALLIBURTON 2014

Annex 13

OFFER PROGRAMMES APPROVED IN 2013

Issuer	Type of security	Maximum size	Duration
Československá obchodní banka, a.s.	investment certificates	N/A	N/A
GB Investment Company a.s.	bonds	100 m CZK	2 years
CPI BYTY, a.s.	bonds	3.8 bn CZK	8 years

Annex 14

SQUEEZE-OUTS IN 2013

Bidder (Main shareholder)	Target company	Decision
RWE Gas International N.V.	Východočeská plynárenská, a.s.	Approved
RWE Gas International N.V.	Severomoravská plynárenská, a.s.	Approved

Annex 15

LICENSING PROCEEDINGS IN THE MARKET INFRASTRUCTURE AREA IN 2013

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 16

SUMMARY OF SUBMISSIONS RECEIVED BY CONSUMER PROTECTION DEPARTMENT IN 2013

PART A
TOTAL NUMBERS OF SUBMISSIONS RECEIVED

Time period	Total number of submissions received
1 January–31 December 2013	**1,482**

PART B
BREAKDOWN BY SEGMENT

	Credit institutions	Investment firms and intermediaries	Insurance undertakings and intermediaries	Non-bank consumer credit providers	Payment institutions	Foreign exchange entities	Others	Total
Costs of products (including submissions to bureaux-de-change)	122	12	70	5	2	110	12	333
Payments (including payment cards)	76	0	1	1	5	0	19	102
Product information	96	22	201	3	1	16	32	371
Insurance claims	0	0	109	0	0	0	5	114
Discrimination against consumers	8	0	3	0	0	0	1	12
Dealing with complaints	19	3	28	0	0	1	6	57
Aggressive business practices	19	1	38	0	0	1	2	61
Consumer credit	43	0	1	18	2	0	20	84
Consumer protection	95	21	104	10	0	11	107	348
TOTAL	**478**	**59**	**555**	**37**	**10**	**139**	**204**	**1,482**

PART C
BREAKDOWN BY INVESTIGATION RESULT

	Submissions closed					Submissions under investigation	Total
	Penalty proposal	Remedied by financial entity	Unjustified submissions	Failure of evidence	Written explanations		
Credit institutions	0	43	19	21	350	45	478
Investment firms and intermediaries	1	2	0	8	39	9	59
Insurance undertakings and intermediaries	2	52	78	39	310	74	555
Non-bank consumer credit providers	0	1	0	0	31	5	37
Payment institutions	0	2	2	3	0	3	10
Foreign exchange entities	0	3	1	0	118	17	139
Others	0	5	3	6	181	9	204
TOTAL	**3**	**108**	**103**	**77**	**1,029**	**162**	**1,482**

Issued by:
CZECH NATIONAL BANK
Na Příkopě 28
115 03 Praha 1
CZECH REPUBLIC

Contact:
COMMUNICATIONS DEPARTMENT
Tel.: +420 22441 3494
Fax: +420 22441 2179

http://www.cnb.cz

Produced by: Jerome s.r.o.
Design: Jerome s.r.o.