FINANCIAL MARKET SUPERVISION REPORT

2017

CZECH NATIONAL BANK

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The Czech National Bank has issued a Financial Market Supervision Report since 2006[1] on the basis of Article 45d of Act No. 6/1993 Coll., on the Czech National Bank, as amended. The CNB is obliged to compile such a report each year and submit it for information to the Chamber of Deputies, the Senate and the Government by 30 June of the following year.

The Financial Market Supervision Report 2017 consists of three parts.

Part A gives information on CNB supervision, including supervision of compliance with the rules of consumer protection, on licensing and enforcement procedures, on changes in the Czech and EU legislation regulating the financial market and on the CNB's activities in the area of international cooperation.

Part B describes developments in the individual segments of the financial market supervised by the CNB, i.e. credit institutions, insurance companies and capital market entities, including pension management companies and their funds.

Part C contains annexes relating to financial market supervision.

The Financial Market Supervision Report 2017 was discussed and approved by the CNB Bank Board on 14 June 2018.

It will be published on the CNB website in Czech and English.

1 The Financial Market Supervision Reports for 2006–2016 are published on the CNB website at www.cnb.cz/en > *Supervision, regulation* > *Aggregate Information on the financial sector* > *Financial Market Supervision Reports.*

The CNB performed its role of integrated supervisory authority in 2017 by means of broadly defined supervisory activities, which it pursued based on powers conferred on it by Act No. 6/1993 Coll. on the Czech National Bank. These activities included conducting off-site surveillance and on-site examinations of financial market entities, supervising the procedures of supervised entities and the capital market infrastructure, carrying on licensing, approval and authorisation work, imposing remedial measures where shortcomings had been detected in entities' activities and imposing other measures, including penalties where necessary.

The CNB was supervising 23 domestic banks, including five building societies, and ten credit unions as of the end of 2017. To a limited extent, it was also supervising 24 branches of foreign banks, 23 of them based in EU countries and one domiciled outside the European Economic Area. In line with the risk-oriented approach, off-site surveillance of credit institutions mainly involved checking compliance with prudential rules based on regular evaluations of the financial condition of supervised institutions. Off-site surveillance was supplemented by 16 examinations conducted directly in credit institutions.

The structure and size of the banking sector's balance sheet was influenced in 2017 by the exit from the CNB's exchange rate commitment. At the end of 2017, the banking sector recorded total assets of CZK 7,008.7 billion, up by 17.6% year on year. The volume of client loans nevertheless rose at a slower pace of 4.9% year on year, down by 2 percentage points from 2016. The quality of the credit portfolio increased in 2017, as there was a continued downward trend in the ratio of non-performing loans to total client loans, which amounted to 4.0% at the year-end. The domestic banking sector has long been reporting favourable liquidity characteristics, primarily due to a constant excess of client deposits over client loans. Banking entities generated an aggregate net profit of CZK 75.5 billion in 2017, up by CZK 1.6 billion compared to 2016. The capitalisation of the sector is satisfactory. The total capital ratio increased by 0.8 percentage point year on year to 19.3%.

Turning to supervision of insurance companies, the CNB was supervising one reinsurance company, 26 domestic insurance companies and, to a limited extent, also the Czech Insurers' Bureau and the Export Guarantee and Insurance Corporation. A total of 22 branches of insurance companies based in EU Member States were also supervised to a limited extent. In 2017, supervision in the insurance sector was based on regularly assessing the financial condition and solvency situation of the supervised entities. This was supplemented by 14 examinations in insurance companies and branches of foreign insurance companies.

The Czech insurance sector could be regarded as stable in 2017. The total assets of domestic insurance companies including foreign branches increased by 4.4% year on year to CZK 486.4 billion. Total gross premiums written rose by 2.1% to CZK 151.4 billion in the same period, the growth being driven mainly by premiums written in non-life insurance. The domestic insurance sector recorded an after-tax profit of CZK 10.9 billion, down by CZK 1.1 billion from 2016. The median ratio of the eligible own funds of domestic insurance companies to the solvency capital requirement was 225% at the year-end, 11 percentage points higher than at the end of 2016.

The CNB was supervising eight pension management companies, 28 participation funds and eight transformed funds at the end of 2017. One on-site examination focused on the rules and principles for the conduct of business was commenced in a pension management company. The sector of pension management companies and their funds saw no major structural changes. Pension funds were characterised by stable economic results and sufficient capitalisation in the period under review. At the end of 2017, pension management companies were managing assets totalling CZK 445.4 billion, up by 10.8% on 2016.

At the end of 2017, the CNB was also supervising 33 entities holding an investment firm licence, 29 management companies, 123 investment funds with legal personality and 227 mutual funds. In the investment firm sector, the number of clients, the total value of client assets and the amount of funds managed all increased year on year. The fund investment sector was exposed only to minor regulatory and structural changes in 2017. Management companies recorded improved economic results compared to 2016. The assets in investment funds managed by Czech management companies, the branch of a foreign management company and autonomous investment funds went up by 19.6% year on year to CZK 485.0 billion, so the gradual upward trend in investment in these funds continued.

In 2017, the CNB also performed supervisory activities in the sector of consumer credit providers and intermediaries, predominantly in the licensing area, and also focused on bureau-de-change licence holders.

Supervisory activities in the area of compliance with the duties set out in the Consumer Protection Act were another integral part of the CNB's supervisory work. These activities were focused mainly on checking whether unfair commercial practices had been used against consumers and whether financial market entities had complied with the duty to treat customers with professional care, and on checking shortcomings in informing consumers.

In 2017, the CNB also participated in the preparation of a series of important legal rules governing the conditions for doing business on the domestic financial market. In particular, it was involved in the preparation of a major amendment to the Act on Banks and an amendment to the Recovery and Resolution Act, the publication of an implementing decree for an amendment to the Capital Market Undertakings Act and the finalisation of technical standards and guidelines for the implementation of directives and regulations such as MiFID II/MiFIR, CRD IV, BRRD and Solvency II.

In 2017, the CNB also attended meetings within EU institutions focusing on financial market regulation and supervision, in particular at the European Supervisory Authorities, the ECB, the ESRB and other international organisations such as the BCBS, the IOSCO and the IAIS. The CNB was also involved in the preparation of the Czech Republic's positions for meetings within EU structures (such as the EFC and the ECOFIN Council) and in supervisory colleges for the supervision of international groups.

PART A
FINANCIAL MARKET SUPERVISION IN 2017

1. THE CNB'S SUPERVISORY PRIORITIES IN 2017

The Czech National Bank (CNB) performs a range of activities in its role as integrated financial market supervisory authority. Besides autonomous off-site surveillance and on-site inspections, these include activities in the fields of regulation, licensing and enforcement and international cooperation. Its key framework document regarding supervision of regulated financial market entities is the *Long-term Supervisory Strategy of the Czech National Bank*, published in October 2015 and updated in April 2017. The CNB's supervisory work in 2017 was based primarily on the following priorities and major changes to the legislation.

Major changes to legislation

- an amendment to the Capital Market Undertakings Act[2] implementing a transposition of MiFID II[3] and an adaptation of directly applicable EU regulations into Czech law;
- Regulation (EU) 2017/565 supplementing MiFID II as regards organisational requirements and operating conditions for investment firms;
- Regulations (EU) 2017/583 and 2017/587 stipulating transparency requirements for trading venues and investment firms in respect of investment instruments;
- Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation;
- Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market;
- Regulation (EU) 2017/1131 on money market funds.

Priorities in the area of regulation

- assistance in the preparation of a major amendment to the Act on Banks[4], an amendment to the Recovery and Resolution Act[5] and the transposition of the IDD directive[6] into the new Act on Insurance and Reinsurance Distribution;
- publication of implementing decrees (in particular for an amendment to the Capital Market Undertakings Act) so that they take effect at the same time as the relevant law;
- finalisation of the preparation of new level-three regulations, i.e. technical standards and guidelines on the implementation of directives and regulations, in particular the MiFID II/MiFIR, CRD IV,[7] BRRD,[8] Solvency II directives and regulations and other EU legislation.

2 Act No. 256/2004 Coll., on Capital Market Undertakings, as amended.

3 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

4 Act No. 21/1992 Coll., on Banks, as amended.

5 Act No. 374/2015 Coll., on Recovery and Resolution in the Financial Market.

6 Directive 2016/97/EU of the European Parliament and of the Council of 20 January 2016 on insurance distribution.

7 Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

8 Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms.

Priorities in the area of financial market supervision

- improving processes for reviewing and assessing credit institutions' risk profiles, especially in the area of credit risk and IS/IT risks;

- in the area of prudential supervision of credit institutions, monitoring the ways in which credit (both mortgage and consumer) is provided to households, especially as regards processes for assessing client creditworthiness and collateral valuation methods, including compliance with CNB's Recommendation on the management of risks associated with the provision of retail loans secured by residential property and Supervisory Benchmark No. 1/2017 on the provision of loans to households by credit institutions;[9]

- in line with technological trends, assessing risks connected with the provision of FinTech financial services and the use of cloud services;

- in the area of conduct of business of credit institutions, focusing on the area of investment services, information duties pertaining to payment services and examinations of banks' bureau-de-change activities;

- supervising fulfilment of the Solvency II requirements by insurance companies, in particular in the areas of valuation of technical provisions, configuration of governance systems and disclosure of information. Supervision was additionally focused on high-quality configuration of the process of premium sufficiency management and examination of insurance companies' compliance with the statutory duty to ensure that claims arising from vehicle liability insurance can be settled any time;

- monitoring the management of the quality of insurance distribution activities and insurance companies' loss adjustment obligations;

- assessing the capital management and capital adequacy of pension management companies and the ability of transformed funds to cover their liabilities with assets;

- performing supervision of non-bank bureau-de-change operators, focused on proper compliance with all information duties to clients, and applying practical experience when assisting in the preparation of an amendment to the Act on Bureau-de-change Activity;[10]

- ensuring the implementation of the PSD II directive[11] and related legal rules and ongoing adjustment of the conduct of supervision, including methodologically ensuring fulfilment of the new requirements stipulated PSD II, the new Payment System Act[12] and other related legal rules;

- performing off-site surveillance of bank consumer credit providers and assuming supervisory powers over non-bank consumer credit providers and intermediaries granted authorisation pursuant to the Consumer Credit Act in 2017;[13]

- performing on-site examinations in accredited entities, i.e. institutions authorised by the CNB to organise professional examinations aimed at demonstrating professional expertise and competence necessary for the provision or intermediation of consumer credit;

9 For more details, see the CNB website: *Dohled a regulace > Výkon dohledu > Dohledová úřední sdělení a benchmarky* (in Czech only).

10 Act No. 277/2013 Coll., on Bureau-de-Change Activities, as amended.

11 Directive 2015/2366 (EU) of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) 1093/2010, and repealing Directive 2007/64/EC.

12 Act No. 370/2017 Coll., on Payment Systems, as amended.

13 Act No. 257/2016 Coll., on Consumer Credit, as amended.

- assisting in the preparation of the transposition of the IDD directive into the new Act on Insurance and Reinsurance Distribution;

- overseeing the implementation of an amendment to the Capital Market Undertakings Act[14] and of MiFID II and directly applicable regulations;

- as regards professional care in non-bank investment firms, putting an emphasis on the area of offering debt securities to and placing debt securities with retail clients.

Priorities in the area of international cooperation

- active CNB involvement in the activities of the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA);

- CNB participation in the activities of the European Systemic Risk Board (ESRB) relating, for instance, to the risks associated with rapid credit growth. From the CNB's perspective, the key topic last year was the preparation of the ESRB's position on future legislative changes regarding structural capital buffers under the CRD directive;

- CNB involvement in discussions within the EU Council and its structures, in particular on the Banking Union (reducing risk in the banking sector, the European Deposit Insurance Scheme, the common backstop) and the capital union (the review of the European System of Financial Supervision).

14 Act No. 256/2004 Coll., on Capital Market Undertakings, as amended.

2. REGULATIONS IN THE CZECH REPUBLIC IN 2017

In 2017, the Czech National Bank contributed to changes in the legislation governing the regulatory framework for the financial market in the Czech Republic. These changes arose primarily from the implementation of EU legal rules. As regards the preparation of new laws, the CNB worked mainly with the Czech Ministry of Finance and also with other state administration bodies. Further to changes to laws, the CNB issued decrees and explanatory and methodological opinions on the application of regulatory requirements pertaining to financial market participants. This section provides an overview of the most important legislative changes in the financial market area.

2.1 CHANGES TO LAWS

In accordance with the agreement on cooperation in the preparation of draft national legislation concerning the financial market[15] signed by the CNB and the Ministry of Finance in May 2006, 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. The CNB also prepares comments on such draft laws as part of the legislative process.

2.1.1 Acts and government decrees promulgated in the Collection of Laws in 2017

The legislative process for the following laws and government decrees, which the CNB was involved in preparing, was completed in 2017:

Amendment to the Capital Market Undertakings Act (No. 204/2017 Coll.)
This amendment to the Capital Market Undertakings Act mainly implements the directive and regulation on markets in financial instruments (MiFID II/MiFIR), the market abuse regulation (MAR) and the directive on criminal sanctions for market abuse (CSMAD). In accordance with European regulations, significant changes have been made in the area of distribution of investment instruments (including new rules for the creation and marketing of new products, an obligation to inform customers of the costs associated with investment services and investment instruments, and changes to the rules for incentives). In addition, this law expands the requirements for the disclosure of pre-trade and post-trade information to include bonds, derivatives and other investment vehicles and gives national supervisory authorities and ESMA intervention powers to prohibit products endangering the interests of consumers or financial stability. The amendment was promulgated in the Collection of Laws on 14 July 2017 and took effect on 3 January 2018.

Amendment to the Act on Management Companies and Investment Funds (No. 204/2017 Coll.)
Together with the amendment to the Capital Market Undertakings Act (see above), changes to the Act on Management Companies and Investment Funds were implemented. In particular, the rules for calculating the reference limit for registered administrators below the limit were modified, new rules were set for suspending the issuance and redemption of equities in the event of a "technical break", a new limit of CZK 1 million was set for qualified investors conditional on the performance of suitability test, and the possibility of collective investment funds making changes to their investment strategies was enacted.

Amendment to the Act on Motor Third Party Liability Insurance (No. 293/2017 Coll.)
The amendment to the Act on Motor Third Party Liability Insurance re-introduced the contribution for non-compliance with the obligation to have all registered vehicles insured for third-party liability irrespective of whether they are actually operated on the roads. The contribution is collected by the Czech Insurers' Bureau and constitutes an income of the guarantee fund that is used, among other things, for making payments in relation to damages caused by uninsured

15 http://www.cnb.cz/cs/legislativa/postaveni_cnb/download/dohoda_CNB_MF.pdf

motor vehicles. On making a payment of damages from the guarantee fund in the case of an uninsured vehicle, the Czech Insurers' Bureau is now entitled to compensation of only one-third of the amount it paid out to the injured party, subject to a limit of CZK 300,000. The amendment was promulgated in the Collection of Laws on 15 September 2017 and took effect on the first day of the fourth month after its promulgation.

Payment System Act (No. 370/2017 Coll.)
This new act implements the Directive on Payment Services in the Internal Market.[16] In connection with the directive, the act increases the security of internet payments through a combination of at least two user verification methods, reduces the limit on user liability for unauthorised transactions in the event of the loss, theft or abuse of payment cards, regulates the blocking of money, introduces the possibility to view information about all a user's payment accounts via a single application and introduces regulation of innovative payment methods via mobile and internet applications. It was promulgated in the Collection of Laws on 13 November 2017 and took effect on 13 January 2018.

Amendment to the government regulation on investment fund investments (Government Decree No. 133/2017 Coll.)
This amendment to the government regulation primarily abolishes regulation of qualified investors' investment fund investments, enables special funds to invest up to 10% of their assets in funds of qualified investors and clarifies the possibility to invest in certificates representing a commodity. It was promulgated in the Collection of Laws on 28 April 2017.

2.1.2 Acts prepared in 2017

The following laws regulating the business activities of financial market participants subject to regulation and supervision were prepared in 2017 with the active participation of the CNB.

Amendment to the Act on Banks and the Act on Credit Unions
Among other things, the Amendment to the Act on Banks and the Act on Credit Unions unifies the terminology relating to governance systems across laws, sets rules for qualifying holdings, refines the method for calculating the settlement share in a credit union's assets, and introduces rules for the conversion of a bank into a branch and the possibility to cover the operating costs of the Deposit Insurance Fund with extraordinary operational contributions or with a subsidy or repayable financial assistance from the state budget. It also simplifies the rules of the notification procedure for cross-border activities of credit institutions and unifies the legislation governing the conditions for winding up a bank after its licence has been revoked and for appointing or dismissing a liquidator with the legislation on credit unions. The amendment was submitted to the Chamber of Deputies in March 2017, but the debate thereof was not completed before the end of the past parliamentary term.

Amendment to the Recovery and Resolution Act
This amendment predominantly modifies some of the instruments transposed from the Bank Recovery and Resolution Directive (BRRD). It thus changes the framework for introducing a moratorium on institutions' capital instruments and other liabilities, defines in more detail the CNB's powers to limit an institution's exposure so as to remove impediments to the resolvability of another institution and refines the rules for the setting of contributions to the Resolution Fund (by, among other things, clarifying the currency and defining the procedure to be followed in the event of the annulment of a decision). The amendment also extends the confidentiality requirements to obliged persons and state administration bodies involved in resolution. The amendment was submitted to the Chamber of Deputies in February 2017, but the debate thereof was not completed before the end of the past parliamentary term.

16 Directive 2015/2366 (EU) of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) 1093/2010, and repealing Directive 2007/64/EC.

Act on Insurance and Reinsurance Distribution

In March 2017, the Ministry of Finance submitted a bill on insurance and reinsurance distribution for interdepartmental comments. The bill implements the Insurance Distribution Directive (IDD) and focuses on unifying regulatory principles and consumer protection across the financial market, strengthening the emphasis on comprehensibility and comparability of information about financial products (in particular life insurance products) and increasing the required level of professionalism of persons working in this segment.

The CNB made several major comments, in particular regarding the unsuitability of large-scale re-licensing of intermediaries, excessively short deadlines for acquiring expertise under the new act, insufficient regulation of the assessment of customers' requirements and needs, the transparency of compensation of persons involved in insurance distribution and the incorporation of provisions on "fleet" insurance. The legislative process of preparing an amendment to the act will continue in 2018.

Amendment to the Act on the Czech National Bank

This amendment covers some issues connected with the position of the CNB, its issuing function and the conduct of monetary and macroprudential policy. It also contains a new CNB power to set (through provisions of a general nature) binding indicators relevant to the provision of loans backed by residential property, such as the LTV (loan-to-value) and DTI (debt-to-income) ratios, in the event of elevated systemic risks to credit providers. The amendment was submitted to the Chamber of Deputies in January 2017, but the debate thereof was not completed before the end of the past parliamentary term.

Amendment to the Act on Certain Conditions for Business in the Tourism Industry

The Amendment to the Act on Certain Conditions for Business and the Performance of Certain Activities in the Tourism Industry is intended to transpose the directive of the European Parliament and of the Council on package travel and linked travel arrangements into Czech law and thereby unify the rules for package travel and linked travel arrangements in the EU internal market. The amendment to the act also establishes a guarantee fund to which travel agencies will make contributions. The purpose of the fund is to provide insurance companies with money to settle the claims of customers of bankrupt travel agencies if the losses they incur exceed the agreed cover. The amendment was submitted to the Chamber of Deputies for debate in November 2017.

Amendment to the Act on Bureau-de-Change Activity

Based on supervisory findings, the CNB prepared a proposal to amend the Act on Bureau-de-Change Activity, which was submitted to the Ministry of Finance in December 2016. The substance of the draft was the introduction of the right of a consumer to withdraw from an exchange (cancellation) without giving reasons and without incurring any fees within two hours of entering into the contract, a prohibition to offer and advertise an exchange rate different from that given on the exchange rate list, a prohibition of tied selling and a requirement that the senior officer actually managing bureau-de-change activities must hold the position of senior officer for only one bureau-de-change. In 2017, the CNB contributed to the Ministry of Finance's public consultation on possible changes to the act and subsequently to the working draft of the amendment to the Act on Bureau-de-Change Activity that the Ministry of Finance sent to the CNB in December. In its contributions, the CNB insisted on its original proposals, including a prohibition of providing information about more advantageous conditions in any other way than individually, a requirement for each bureau-de-change to have a responsible person, and a clear definition of the cancellation procedure. The CNB was also of the view that the introduction of the right to cancellation constitutes no grounds for abolishing pre-contract information. The legislative process of preparing an amendment to the act will continue in 2018.

A General Personal Data Processing Act and an accompanying act

In connection with the General Data Protection Regulation (GDPR), the Ministry of the Interior in August circulated for comments from other government departments a General Personal Data Processing Act to replace Act No. 101/2000 Coll., on Personal Data Protection, and an accompanying act containing changes to related acts. The accompanying act also includes an amendment to the CNB Act concerning the treatment of personal data in the course of supervision of the financial market, resolution and statistics compilation, and an amendment to the Act on the Central Register of Accounts, which is operated by the CNB. The CNB made comments on the draft accompanying act, focusing on the sufficiency of exemptions from entities' rights in respect of information relating to the conduct of financial market supervision and resolution. In the process of discussing the comments, the CNB prepared specific draft changes to the Act on the CNB and the Act on the Central Register of Accounts, which it forwarded to the Ministry of the Interior after discussing them with the Ministry of Finance and the Financial Analytical Unit. The legislative process of preparing the two acts will continue in 2018.

2.2 CNB DECREES

The CNB is entitled to issue implementing legal rules in the form of decrees on the basis of authorisations defined in individual laws. The following list contains the decrees issued by the CNB which implement new or amended laws in the financial market area:

- Decree No. 308/2017 Coll., on the more detailed regulation of certain rules in the provision of investment services.
- Decree No. 309/2017 Coll., on applications and notifications under the Capital Market Undertakings Act.
- Decree No. 319/2017 Coll., professional qualification for distribution on the capital market.
- Decree No. 392/2017 Coll., amending Decree No. 163/2014 Coll., on the performance of the activities of banks, credit unions and investment firms.
- Decree No. 402/2017 Coll., amending Decree No. 233/2009 Coll., on applications, approval of persons and the manner of proving professional qualifications, trustworthiness and experience of persons, as amended.
- Decree No. 424/2017 Coll., on the reporting duties of some entities operating on the capital market.
- Decree No. 454/2017 Coll., on the reporting duties of some persons authorised to provide payment services or to issue electronic money.
- Decree No. 476/2017 Coll., amending some decrees in relation to the discontinuation of retirement savings.

2.3 OFFICIAL AND OTHER INFORMATION ISSUED

The CNB issues official information documents containing information for financial market participants regarding its approach to the application of legal rules and other important facts. In 2017, the CNB issued the following official information documents:

- Official Information of the Czech National Bank of 20 January 2017 regarding the method for calculating risk weights for the purposes of setting contributions to the Deposit Insurance Fund.
- Official Information of the Czech National Bank of 11 April 2017, announcing the recognition of the professional examination organised by the University of Finance and Administration, a. s., proving the expertise of an investment advisor whose activities exclude derivatives.
- Official Information of the Czech National Bank of 24 October 2017 on demonstrating professional expertise and competence for the provision of investment services by a professional examination before 3 January 2018.
- Official Information of the Czech National Bank of 13 November 2017 on the repealing of some of the CNB's official information in the area of prudential rules for banks, credit unions, investment firms and insurance and reinsurance companies.

- Supervisory Benchmark of the Czech National Bank of 28 November 2017 on the provision of loans to households, the aim of which was to inform credit institutions about the supervisor's expectations regarding the configuration of their governance systems for prudential provision of such loans.

The CNB also 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 2017, explanatory opinions on the application of legal rules, including a set of explanatory opinions (16 topics) related to the implementation of MiFID II/MiFIR and a general explanatory opinion on procedures for marketing investment in the Czech Republic in EU alternative investment funds, were published on the CNB website. In addition, the CNB answered more than 500 queries on financial market regulation received as expert queries from market participants and law firms and as queries from the general public.

A complete and up-to-date list of the CNB's decrees, provisions of a general nature, official and other information and opinions relating to the financial market can be found on the CNB website (*Supervision, regulation* > *Legislation*).

3. EU REGULATIONS IN 2017

In 2017, as in previous years, new rules in the area of financial market regulation were prepared at the EU level. This work included in particular the preparation of framework directives and regulations of the European Parliament and of the Council and implementing regulations of the European Commission. The CNB paid considerable attention to EU legislative proposals and prepared opinions on them on an ongoing basis. Within the European Supervisory Authorities (the EBA, the ESMA and the EIOPA) the CNB was involved in the preparation of draft technical standards and guidelines

3.1 REGULATIONS AND DIRECTIVES OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

The following regulations and directives of the European Parliament and of the Council were issued in 2017:

- Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC. The regulation is effective from 20 July 2017.

- Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds. The regulation is effective from 21 July 2018.

- Regulation (EU) 2017/1991 of the European Parliament and of the Council of 25 October 2017 amending Regulation (EU) 345/2013 on European venture capital funds and Regulation (EU) 346/2013 on European social entrepreneurship funds. The regulation makes these funds accessible to alternative investment fund managers and expands the portfolio of eligible assets in which the funds may invest. The regulation is effective from 18 March 2018.

- Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State. This amendment to the CRR regulation contains two topics that were excluded from the discussed amendment of CRD/CRR and were passed separately. Institutions are given the option of spreading the impact of provisioning under IFRS 9 on the capital ratio and the adjustment of limits on large exposures in particular to governments of Member States that are not in the Member State's currency. The regulation is effective from 1 January 2018.

- Regulation (EU) 2017/2394 of the European Parliament and of the Council of 12 December 2017 on cooperation between national authorities responsible for the enforcement of consumer protection laws and repealing Regulation (EC) 2006/2004. The new regulation should introduce more effective mechanisms of cooperation between national supervisory authorities responsible for enforcing EU consumer protection laws, which are specified in an annex to the regulation. The regulation will apply from 17 January 2020, until which date the current regulation applies.

- Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy. The deadline for the transposition of the directive is 29 December 2018.

- Regulation (EU) 2017/2401 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms. This is an amendment to the CRR regulation connected with the above new securitisation regulation. It simultaneously implements the revised Basel III securitisation standard into EU law. The regulation is effective from 1 January 2019.

- Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) 1060/2009 and (EU) 648/2012. The regulation is effective from 1 January 2019.

The legislative proposals to reduce risk in the EU banking sector which the European Commission published in November 2016 were under discussion in 2017. They include proposals to revise the prudential regulatory rules contained in CRD IV and CRR, the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR). A rather broad revision has been proposed for CRD IV/CRR, including changes to the rules for calculating capital requirements for market risk and counterparty credit risk, the introduction of a binding leverage ratio and a binding net stable funding ratio as a mandatory liquidity standard, changes to the requirements applying to interest rate risk management systems, changes to the remuneration system and a modification of the Pillar 2 rules (the supervisory review process). The main aims of the proposed changes to BRRD are to further harmonise the insolvency ranking of bank creditors (the discussions of this part have been completed and the changes were published in the Official Journal in late 2018), to harmonise the introduction of a moratorium on the fulfilment of a bank's obligations and to implement the international standard for own funds and eligible liabilities (TLAC) in European legislation.

When discussing these legislative proposals, the CNB worked closely with the Ministry of Finance on the preparation of instructions for the meetings of EU Council working groups, which were attended by CNB representatives as observers. The CNB also prepared and presented non-papers on selected regulatory topics. This made it possible to push through a single set of rules for stable financing (NSFR) in the CRD IV/CRR proposal, with proportionality resolved with the aid of reporting, instead of creating a separate system for smaller institutions. Similarly, a requirement to maintain the power of host authorities to remove impediments to the resolvability of institutions was incorporated into the BRRD proposal.

On 29 June 2017, the European Commission published a draft regulation on a pan-European personal pension product (PEPP), whose discussion process in the EU Council working group was not completed in 2017. This draft regulation aims to lay the foundations for a more cost-effective and transparent market for voluntary personal pension savings managed on a pan-European scale, although only to complement the existing national systems.

3.2 IMPLEMENTING MEASURES FOR FRAMEWORK DIRECTIVES AND REGULATIONS

Many EU directives and regulations require the European Supervisory Authorities (the EBA, the ESMA and the EIOPA) to prepare regulatory and implementing technical standards which the Commission then issues as a directly applicable regulation. Directives and regulations likewise empower the Commission to issue delegated regulations, for which the European Supervisory Authorities (ESAs) draw up technical advice. Within the ESAs the CNB was actively involved, among other things, in preparing the following implementing measures:

Implementing measures for the directive and regulation on markets in financial instruments (MiFID II, MiFIR)

- Commission (delegated) regulations published in the Official Journal in 2017 (two in total) governing organisational requirements and operating conditions for investment firms, transparency, portfolio compression and supervisory measures on product intervention and positions.

- A Commission (delegated) directive published in the Official Journal of the EU in 2017 specifying requirements for safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits.

- Commission regulations (regulatory technical standards) published in the Official Journal of the EU in 2017 (32 in total) governing transparency requirements for trading venues and investment firms in respect of investment instruments, admission to and suspension from trading, the determination of a material market in terms of liquidity, the obligation to clear derivatives traded on regulated markets, reporting of transactions and information to be notified by investment firms and market operators, the application of position limits to commodity derivatives, the establishment of when an activity is considered to be ancillary to the main business, the authorisation of investment firms and data reporting services providers, organisational requirements for trading systems, data reporting services providers and investment firms engaged in algorithmic trading and exchange of information between competent authorities when cooperating in supervisory activities.

- Commission regulations (implementing technical standards) published in the Official Journal of the EU in 2017 (nine in total) specifying standard forms, templates and procedures for consultation and cooperation arrangements between competent supervisors in the granting of authorisations, the acquisition of qualifying holdings and the performance of supervision and for the transmission of information and notifications in accordance with MiFID II.

Implementing measures for the directive on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II)

- A Commission (delegated) regulation (EU) 2017/1542 amending Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings (infrastructure corporates).

- Commission regulations (technical standards) published in the Official Journal of the EU in 2017 (six in total) specifying information for the calculation of technical provisions and primary capital for reporting and the templates for the submission of information to supervisory authorities.

Implementing measures for the directive on the prudential supervision of credit institutions and investment firms (CRD IV/CRR)

- Commission regulations (regulatory technical standards) published in the Official Journal of the EU in 2017 (four in total) governing disclosure of encumbered and unencumbered assets, further specifying the additional objective criteria for the application of a preferential liquidity outflow or inflow rate for cross-border undrawn credit or liquidity facilities within a group or an institutional protection scheme, additional liquidity outflows corresponding to collateral needs resulting from the impact of an adverse market scenario on an institution's derivative transactions and specifying conditions for data waiver permissions.

- Commission regulations (implementing technical standards) published in the Official Journal of the EU in 2017 (four in total) on the extension of the transitional periods related to own funds requirements for exposures to central counterparties and on changes concerning templates, instructions and reporting by institutions for supervisory purposes.

Implementing measures for the regulation on OTC derivatives, central counterparties and trade repositories (EMIR)

- Commission regulations (regulatory technical standards) published in the Official Journal of the EU in 2017 (three in total) changing indirect clearing arrangements, the deadline for compliance with clearing obligations for certain counterparties dealing with OTC derivatives and the list of entities exempted from EMIR.

Implementing measures for the regulation on improving securities settlement in the EU and on central securities depositories (CSDR)

- Commission regulations (regulatory technical standards) published in the Official Journal of the EU in 2017 (four in total) governing authorisation and supervisory and operational requirements for central securities depositories, prudential requirements for central securities depositories and designated credit institutions offering banking-type ancillary services, the parameters for the calculation of cash penalties for settlement fails and the operations of central securities depositories in host Member States and the content of the reporting on internalised settlements.

- Commission regulations (implementing technical standards) published in the Official Journal of the EU in 2017 (two in total) specifying standard forms, templates and procedures for authorisation, review and evaluation of central securities depositories, for the cooperation between authorities of the home Member State and the host Member State and for the consultation of authorities involved in the authorisation to provide banking-type ancillary services and templates and procedures for the reporting and transmission of information on internalised settlements.

Implementing measures for the regulation on key information documents for packaged retail and insurance-based investment products (PRIIPS)

- A Commission regulation (regulatory technical standard) published in the Official Journal of the EU in 2017 specifying the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents.

3.3 GUIDELINES

In addition to technical standards, guidelines are drawn up with a view to ensuring uniform application of EU law. Although the guidelines are issued by the European Supervisory Authorities (the EBA, the ESMA and the EIOPA) as non-binding legal acts, national supervisory authorities and financial market participants should make every effort to comply with them. However, national supervisory authorities may inform the competent European supervisory authority that they do not comply or do not intend to comply with the guidelines, giving their reasons for not doing so. Within the ESAs, the CNB contributed to the preparation of numerous draft guidelines, concerning, for example, MiFID II, CSDR or CRD IV. A total of 22 guidelines were issued in 2017.

In one case only, namely the joint guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector, the CNB stated that it intended to comply with the guidelines only partially, as it did not agree with the multiplication method for calculating an indirect holding, which – unlike the control method – disproportionately widens the scope of persons assessed.

More information about the preparation of guidelines and technical standards is available in section 5. *International cooperation.*

4. FINANCIAL MARKET SUPERVISION IN 2017

Act No. 6/1993 Coll., on the Czech National Bank, tasks the CNB with supervising the financial market in the Czech Republic. The supervisor's role includes, in particular, performing off-site surveillance and on-site examinations in financial market entities subject to the regulations in force, supervising the procedures applied by those entities in practice, and supervising the capital market infrastructure. The CNB's supervisory work also includes licensing, approval and authorisation activities, including the formulation of guidance for the supervised entities, and the application of remedial measures and penalties.[17] The following section presents basic information on supervision by the CNB, taking into account the specificities of financial market sectors.

4.1 SUPERVISION OF CREDIT INSTITUTIONS

Supervision of credit institutions involves supervision of banks, foreign bank branches domiciled both in EU countries and outside them, building societies and credit unions. The main aim of supervision is to contribute to safeguarding and maintaining the stability of credit institutions, and hence also of the sector as a whole. In accordance with this aim, the CNB applies a risk-oriented approach to supervision with an emphasis on timely identification of risks. On the basis of continuous assessment of qualitative and quantitative information about individual credit institutions and about the sector as a whole and its segments, the CNB actively responds to changes in the individual risk factors. The focus of the supervisory work is thus continuously and flexibly adjusted as needed to reflect significant risks identified, so that supervisors can take appropriate measures.

4.1.1 Licensing, approval and authorisation activities

The CNB was supervising 23 domestic banks, including five building societies, and ten credit unions as of the end of 2017. To a limited extent, it was also supervising 23 foreign bank branches from EU/EEA countries. Creditas was converted from a credit union into a bank at the start of the year. A branch of a Chinese bank (a branch from a third country), Industrial and Commercial Bank of China Limited, Prague Branch, entered the Czech market after obtaining a banking licence.

Table A.1 – Numbers of entities in the credit institutions sector

	As of 31 December 2016	Entries in 2017	Exits in 2017	As of 31 December 2017
Banks [i)]	22	1	0	23
Branches of foreign banks from EU/EEA	23	2	2	23
Branches of foreign banks from third countries	0	1	0	1
Credit unions	11	0	1	10
Credit institutions, total	56	4	3	57

i) Of which five building societies.

17 Enforcement activity consists mainly in investigating petitions for the opening of administrative proceedings, making decisions on the opening of administrative proceedings, and conducting administrative proceedings, including imposing fines and remedial measures, revoking licences and cancelling registrations. Administrative enforcement proceedings are also conducted against entities that provide financial market services without having the relevant authorisation. Statements of final decisions, or full final decisions, in most areas of the financial market are published by law in the *Supervision, regulation* section of the CNB website. Sanctions imposed on insurance intermediaries are entered in the Register of Insurance Intermediaries.

Table A.2 – Numbers of administrative proceedings in the credit institution sector

Number of administrative proceedings conducted in 2017	Continuing from 2016	Opened in 2017	Closed in 2017	Continuing into 2018
31	7	24	21	10

Almost a quarter of the above administrative proceedings concerned regulatory approvals for the performance of the position of member of a credit union body.

Among the more significant administrative proceedings, it should be noted that another, third application to convert a credit union into a bank was submitted in December 2017. Prior consent was given to Raiffeisenbank a.s. to conclude a contract on the purchase of the Czech part of ZUNO BANK AG, which merged with this domestic bank. Raiffeisenbank a.s. was also granted approval to acquire qualifying holdings for 21 applicants from the Raiffeisen group. J & T BANKA, a.s., obtained approval to conclude a contract to acquire a part of the investment firm ATLANTIK finanční trhy, a.s.

4.1.2 Off-site surveillance

the main off-site supervisory activities in 2017 again included checking compliance with prudential rules, regularly assessing the financial condition of supervised institutions and monitoring other relevant qualitative information. The aim of off-site surveillance was to evaluate the risk profiles of individual entities on an ongoing basis. Close cooperation with partner supervisory authorities in other countries also remained a priority.

In line with the application of a risk-oriented approach to supervision, the largest part of the CNB's supervisory resources was devoted, as in previous years, to systemically significant institutions. As part of its supervisory activity, the CNB also paid attention to the performance of entities with a short market history, small and rapidly growing entities and domestic groups with specific business models and/or risk profiles. The credit union sector was also continuously monitored in spite of its small market share.

Information for supervisory work was obtained mainly from the statements and reports regularly submitted by individual entities on a solo and consolidated basis. An extraordinary reporting duty was imposed on some entities when a risk factor had been identified, in order to enable more intensive risk monitoring. In addition to the regular reports, information from on-site inspections and other sources was used for continuous monitoring of entities and the market. These sources include annual and auditors' reports, public presentations and press releases. Regular meetings with representatives of credit institutions to discuss the latest results, risks in the banking industry, strategic objectives and business plans, usually held quarterly or half-yearly, were also an important source of information.

The main analytical instrument employed in off-site surveillance was regular comprehensive analyses of the financial condition of individual entities and the sector as a whole. The observance of prudential limits and the evolution of key financial indicators – in particular credit portfolio developments (categorisation, provisioning and collateral value), profitability, capitalisation and liquidity – were monitored on a monthly basis for credit institutions. Early warning information was also assessed every month. This helps supervisors to identify potential negative trends in financial indicators. A comprehensive analysis of the credit institutions sector was also produced quarterly.

When performing supervision, the CNB also monitored the situation of parent groups and analysed intra-group transactions on a continuous basis.

In the supervisory review and evaluation process (SREP), the CNB regularly prepares comprehensive evaluations of the risk profiles of individual credit institutions. Risk profiles are determined on the basis of a quantitative and qualitative assessment of the scope of credit institutions' exposures to individual types of risks and an evaluation of each institution's risk management system and internal control environment. In 2017, the SREP was thus again based on monitoring of the institution's key indicators, an analysis of its business model, a review of its management and control mechanisms, an assessment of the risks to its capital and an evaluation of liquidity and financing risks. Under the SREP, the CNB set additional Pillar 2 capital requirements for all credit institutions in accordance with the regulatory rules.

The CNB, in cooperation with selected banks, continued to implement the joint project of stress testing of banks in 2017. The frequency of the joint stress testing was unchanged from the previous year, i.e. yearly testing using year-end data. The ten largest domestic banks, together accounting for 75% of the assets of the Czech banking sector, took part. As in 2016, the interest rate risk of banks' investment portfolios was tested in addition to credit risk. The aggregated results of the stress tests confirmed the good resilience of domestic banks. Their capital adequacy ratio stayed above the regulatory minimum by a sufficient margin even in an adverse scenario. In addition to these bottom-up tests, the CNB conducted stress tests of the entire banking sector (top-down tests), the results of which were published on the CNB website.

The CNB last year also assessed the quality of resolution plans and their compliance with the requirements of BRRD and the Recovery and Resolution Act. As of the end of 2017, a majority of resolution plans were compliant with the legislation. In supervisory colleges, the CNB is pushing for a requirement for the resolution plans of significant domestic banks to be integrated into the group resolution plans of European banking groups in sufficient detail.

Given the ever-rising number and sophistication of hacking attacks and the new technologies increasingly being used by banks and their clients, banks are devoting more and more resources to the issue of cyber security. This area is also a subject of increased supervisory attention, for example with regard to banks' growing interest in using cloud solutions from external suppliers and their extensive outsourcing.

The rapidly changing regulatory environment, to which banks are having to adjust, is putting heavy demands on them and, in turn, on the CNB as supervisor. In 2017, banks paid considerable attention to the implementation of PSD 2 (effective January 2018 via a new Payment System Act), which should bring about substantial changes to the operation of banks in the future. Banks and the CNB also devoted significant capacity to projects connected with the preparations for the new IFRS 9 reporting framework, which, when implemented, will have a major impact on the assignment of exposures to credit quality steps and the calculation of relevant provisions. A considerable proportion of the resources and capacity of banks (and non-bank investment firms) was also taken up by the implementation of reporting in accordance with MiFID II/MiFIR. During 2017, the CNB dealt with the related expected effects with banks both individually and in its own sector-wide survey.

A significant increase in the amount of credit provided to households, primarily due to the favourable economic conditions, has also been observed in recent years. For this reason, the CNB informed credit institutions that at times of increased growth in total household indebtedness and rising macroeconomic risks (including that of a spiral between property prices and property purchase loans) it intensifies its supervision of such lending. In this context, the CNB also published Supervisory Benchmark No. 1/2017 on the provision of loans to households by credit institutions, via which the CNB informs credit institutions about how it assesses the functionality and effectiveness of a credit institution's governance system so as to ensure that such lending is sound and sustainable and to avoid excessive growth in credit institutions' risks due to softening lending standards.

In the credit union sector, given the frequency of the shortcomings identified, the CNB continued to focus mainly on credit portfolio categorisation, sufficient provisioning, financing of groups of connected persons, compliance with regulatory limits, the origin of credit unions' capital, the use of outsourcing services and compliance with the conduct of business rules, especially as regards the provision of deposit products. During 2017, the CNB also focused on credit unions' preparedness to fulfil the requirements of the amendment to the Act on Banks and the Act on Credit Unions effective 1 January 2018.

As part of its off-site surveillance work, the CNB also assessed the competence and integrity of proposed senior officers in banks and approved external auditors of banks and credit unions, lists of shareholders for the purposes of banks' general meetings and the inclusion of interim profits in regulatory capital.

The CNB also focused on compliance with the conduct of business rules and consumer protection rules in its off-site surveillance work in 2017. Supervision in the conduct of business area is based on sector-specific laws governing the activities of credit institutions.[18] Conduct of business supervision also examines whether credit institutions observe other laws (for example the Civil Code in relation to contracts with clients and the Civil Procedure Code and the Distraint Procedure Code in relation to distraints), which impose further duties on credit institutions. In such cases, conduct of business supervision entails evaluating whether credit institutions' internal processes are compliant with these laws and whether credit institutions are capable of providing services to their clients with proper professional care. As for consumer protection, supervisors examine whether credit institutions engage in unfair business practices with respect to consumers under the Consumer Protection Act.

When performing conduct of business supervision, the CNB investigates possible cases of unlawful conduct by credit institutions which it learns about on the basis of submissions received from the public or internal initiatives from other CNB units. It also invites all credit institutions to submit documentation regarding specific areas in "thematic investigations".

In 2017, off-site surveillance of credit institutions in thematic investigations was focused on how banks and credit unions handle unauthorised payment transactions under the Payment System Act and on compliance with the regulation on interchange fees. Subsequent to its investigations, the CNB notified several credit institutions of partial shortcomings in their activities and procedures connected with unauthorised payment transactions. Based on these notifications, the relevant credit institutions rectified the shortcomings concerned. In late 2017, the CNB started to devote systematic attention to banks' and credit unions' procedures for proposing changes to master agreements under the Payment System Act and their procedures connected with the transfer of amounts owed from accounts in the enforcement of judgements or distraints.

Off-site supervision of credit institutions also covers conduct of business in investment services provision. Besides conducting routine checks of compliance with disclosure duties and investigating submissions made by members of the public, the CNB communicated with banks authorised to provide investment services regarding adjustment to the MiFID II requirements.

Supervision of banks' activities as investment fund depositaries is also a part of off-site supervision of credit institutions. This is due mainly to depositaries' essential role in checking, monitoring and registering investment funds' assets and financial resources on a daily basis. As a depositary's job involves protecting the rights and legitimate interests of investors in investment funds, it is vital for the depositary's control function to be correctly configured and fully functional. The CNB therefore continued to supervise compliance with depositaries' duties arising from national and European legislation in 2017. Its communications with depositaries concerned in particular the rules for checking the pricing of investment instruments in funds' portfolios. Attention was also paid to depositaries' procedures relating to the asset separation requirement applying to SICAVs with no sub-funds, which as of 1 June 2017 are obliged to keep separate records for assets and debts from investment activity and for other assets.

4.1.3 On-site examinations

Both comprehensive and more detailed examinations were conducted in the credit institutions sector during 2017. A total of 13 examinations were undertaken in banks in 2017, four of which were of a comprehensive nature. The remainder were partial examinations. In credit unions, three examinations were performed, one of which was a comprehensive one. An overview of the areas of focus of these examinations is given in Table A.3.

18 In this context primarily the Act on Banks, the Building Savings Schemes Act, the Act on Credit Unions and the Payment System Act.

Table A.3 – Focus of examinations in credit institutions in 2017

	ICAAP	Credit risk	Market risks, including IRRBB	Provision of payment services	Provision of investment services	Liquidity risk	Internal control system	Operational risk	IS/IT risks	AML/CFT	Remuneration	Money-changing activities
Banks	4	6	5	4	3	4	3	3	4	4	5	3
Credit unions	1	1	1	1	0	1	1	0	0	3	0	0

Examinations of credit risk management

Six examinations in banks and one examination in a credit union were conducted in the credit risk management area. In all cases, the examinations focused on compliance with prudential rules arising from regulatory rules, especially in relation to the configuration of governance systems and risk management functions in institutions. Greater attention continued to be paid to property financing in light of the persisting significant growth of this credit market segment. In addition to mortgages and property development loans, property financing includes project, acquisition and export financing, for which properties usually make up a substantial part of the collateral. Where relevant, the inspection team also assessed compliance with remedial measures imposed in previous examinations and compliance of the institutions' advanced credit risk management methods with regulatory standards.

The shortcomings identified in the inspections varied significantly from institution to institution in terms of scale, nature and seriousness. The most frequently identified shortcomings in the entities inspected included errors in the creditworthiness assessment process, especially for household sector clients, where in some cases (primarily in the unsecured consumer credit segment) the inspectors found that the process for assessing a income and outgoings was insufficiently prudent. In an effort to provide such credit as quickly and efficiently as possible, credit institutions use automated credit assessment and approval procedures, which in some cases, however, are unable to identify the specific situation of individual clients and thus insufficiently evaluate their creditworthiness.

Shortcomings were also identified repeatedly in collateral valuation and record-keeping. Among the most frequently identified shortcomings were acceptance of old valuations of pledged property (when refinancing mortgage loans, for example), insufficient conduct of (or failure to conduct) regular revaluation of the portfolio of property held as collateral for loans, omission of high correlation between some collateral values and the borrower's credit quality, and insufficient monitoring of collateral insurance.

In some cases, non-compliance with the classification of receivables rules was identified, although the number of such cases decreased due to the favourable economic situation. The repayment probability was assessed in the above cases not on the basis of the customer's ability to service the loan from his own resources, but taking into account sources stemming from collateral (such as support from parent companies or other companies from the customer's group). In these cases, the examined institutions had not assessed the loans as default receivables.

Problems relating to an insufficient role of the risk management units within the governance systems of banks and credit unions (and to the requirement for segregation of conflicting duties) were also identified. Shortcomings in evaluating and recording groups of economically connected persons (for example, insufficient evaluation of links arising from business relations between entities) also occurred repeatedly. In the area of debt recovery, shortcomings in the setting of mandatory rules for the transfer of claims under the administration of the debt recovery unit and the absence of a debt recovery strategy were often detected.

Based on the nature, scale and seriousness of the findings, the entities examined were called on to eliminate the shortcomings and to regularly report the remedial measures adopted, or enforcement proceedings were opened against them with a view to imposing a duty to adopt a remedial measure to eliminate the shortcomings identified.

Examinations of internal capital systems (ICAAP)

Five on-site examinations (four in banks and one in a credit union) focused on evaluating internal capital systems (ICAAP) were conducted in 2017. The most common shortcomings concerned verification and consistency of assumptions used, planning methods, concentration risk quantification and the stress testing concept (such as failure to conduct stress tests at regulated consolidated group level or to include all material risks). However, the shortcomings identified did not jeopardise the ability of the examined banks and credit unions to cover the internal capital requirements with available capital. On the basis of the results, the entities examined were called on to eliminate the shortcomings identified. The CNB is monitoring the elimination of the shortcomings on an ongoing basis using regular information from the entities examined.

Examinations in the area of market risk management

In 2017, market risk management was examined in five banks and one credit union as part of on-site examinations. The shortcomings identified mainly concerned the calculation of investment portfolio interest rate risk, insufficient or absent checks of the market conformity of prices, the calculation of additional valuation adjustment (AVA) and internal auditing. However, the shortcomings identified did not jeopardise the financial situation and capital of the examined entities or their ability to manage such risk.

Regulatory reporting in the area of risks associated with trading in financial markets was subject to examination in five banks and one credit union. Shortcomings were identified mainly in connection with the interest rate risk statement, in securities and derivatives reporting, and in the calculation of capital requirements for general and specific interest rate risk, counterparty risk and credit valuation adjustment (CVA) risk. The CNB called on the institutions examined to eliminate the shortcomings identified. The elimination of those shortcomings is being monitored on an ongoing basis.

Examinations in the area of liquidity risk

Liquidity risk management was examined in four banks and one credit union as part of on-site examinations. The shortcomings in this area most often related to an insufficient or unclear definition of risk appetite and mutual inconsistency of components of the liquidity risk management system. They also concerned limits that did not reflect the institution's risk profile, stress scenarios that failed to take sufficient account of relevant risk factors and emergency plans that were not integrated with stress testing and failed to define relevant indicators of exceptional events. Nonetheless, the shortcomings identified did not jeopardise the ability of the examined entities to manage liquidity risk. The CNB called on the institutions examined to eliminate the shortcomings identified and to regularly report the remedial measures adopted. The CNB is monitoring the implementation of the remedial measures on an ongoing basis.

As regards regulatory reporting of liquidity risk, reporting of the liquidity coverage ratio (LCR) and additional monitoring metrics (AMM) for liquidity were verified in three banks and one credit union. The most significant shortcomings included the absence of deposit stability analyses and failure to report on a consolidated basis. In other cases the shortcomings were formal and had no material impact on the figures reported.

Examinations of internal control systems

Internal control systems (compliance and internal auditing) are traditionally checked as part of the individual areas examined (e.g. credit risk management and market risk management). However, this approach may inherently fail to provide a true picture of the configuration of the overall internal control system framework. In 2017, therefore, the CNB conducted detailed examinations of internal control systems as a separate area in three banks and one credit union. This examination approach enabled the CNB to aggregate the findings from the individual examination areas and subsequently to identify those signalling misconfiguration of the internal control system and, on the basis thereof, to arrive at conclusions regarding the quality of the compliance and internal audit functions of the credit institutions examined. By emphasising this area, the CNB aims, among other things, to continuously motivate credit institutions to enhance the compliance of their activities with legal rules and to allocate sufficient capacity and funds for this vital control activity.

Examinations of the application of advanced methods for determining capital requirements
During 2017, the CNB's expert teams for the use of advanced methods for determining capital requirements continued their discussions with all regulated institutions that apply advanced approaches to calculate capital requirements for credit risk, market risk and operational risk. They also communicated with foreign supervisory authorities on a regular basis.

In 2017, the inspection team conducted on-site examinations focusing mainly on continuous verification of the procedures of banks which had already received approval to use the internal ratings-based (IRB) approach. It also dealt with banks' applications for consent to change their IRB models by means of a joint application from their parent bank (several dozen applications and notifications regarding consent to changes in the IRB approach were handled in 2017). The discussions between the CNB and the banks focused on assessing the compliance of the banks' procedures with Decree No. 163/2014 Coll. and Regulation (EU) 575/2013. Most applications were approved (some with additional conditions), although in some cases banks were asked for additional information. Cooperation with banks at an expert level involved regular meetings at which CNB representatives discussed planned changes to IRB models and methodological issues with the relevant members of staff. In 2017, meetings were also held at an expert level with the ECB and other supervisory authorities regarding the joint approach to the assessment of IRB models.

No internal VaR models for the calculation of market risks were validated in 2017. However, rectification of shortcomings identified during a 2016 internal model examination in one bank was verified. In addition, preliminary validation and validation of option pricing models took place in two banks in the year under review. In line with the result of the validation process, one bank was then granted consent to use the option model for the calculation of the delta parameter for commodity and currency options. In the case of the other bank, an official application for the approval of the model is expected to be filed during 2018.

The validation of a material change to a group advanced internal model for the calculation of the capital requirement and economic capital for operational risk (an AMA model) of one bank was commenced in cooperation with foreign supervisory authorities in 2017.

Examinations of operational risk management
Three examinations in this area were conducted in banks in 2017. They focused chiefly on the appropriateness of the operational risk management system with regard to the nature, scope and complexity of each bank's activities. Emphasis was placed on the appropriate choice, sufficient implementation, maturity and interconnectedness of the tools used to manage operational risk. Considerable attention was paid to the management of outsourcing-related risks and compliance with the requirements for determining the capital requirement for operational risk. The most frequent shortcomings concerned the division of responsibility for operational risk management, processes associated with the collection and assessment of information on operational risk events, inappropriate indicators capturing potential changes in exposure to operational risk, and errors in the identification and recognition of outsourcing relationships.

Examinations of IS/IT risk management
Four examinations were conducted in the information systems and information technology (IS/IT) risk management area in 2017. The examinations focused on IT governance processes and critical systems and processes for IS/IT operations and security. On the basis of past experience, considerable attention was paid to IS risk analyses, IT outsourcing and IT access security management. In addition, the examinations focused on ensuring cyber security and verifying compliance with the CNB's expectations regarding the use of cloud computing[19] in regulated institutions.

The shortcomings identified concerned IS testing and operation, electronic banking security (including insufficient penetration testing), insufficient analysis of IS risks, IT outsourcing, insufficient IS access security management, and security monitoring.

19 The provision of IT services (e.g. servers, storage, databases, networks and software) via the internet.

The CNB continuously monitored and assessed compliance with remedial measures agreed in previous on-site examinations. As part of this process, meetings were held with the entities examined in order to bring their procedures into line with the CNB's expectations. As regards cyber security, the CNB worked in partnership with the National Cyber and Information Security Agency, with an emphasis on aligning cyber security requirements.

Examinations of remuneration principles and procedures

Five examinations in the remuneration area were conducted in banks in 2017. Overall, the examinations were focused on the correct configuration of key performance measures for the measurement of flexible components of remuneration, which should incentivise proper risk management and take into account capital and liquidity costs. Increased attention was also paid to the manner of applying special remuneration principles and the disclosure of information about remuneration. The most frequently identified shortcomings in 2017 included insufficient application of special remuneration principles, insufficient incorporation of the institution's business cycle into specific remuneration parameters and problematic legal enforceability of some remuneration paid using ex post adjustment tools.

In most cases, the institutions examined were called on to eliminate the shortcomings identified in the form of a supervisory call. An administrative proceeding was opened in one case.

Examinations in the area of conduct of business in the provision of investment and payment services

Five on-site examinations in banks and one on-site examination in a credit union were conducted in the conduct of business area in 2017.

In the credit union and in four banks, the examinations focused on compliance with disclosure duties by payment service providers. The shortcomings consisted above all in the absence of mandatory information, the provision of information in a different manner than on a durable information medium, and incomprehensible (or ambiguous) information. Shortcomings were also found in the provision of information about time limits for executing transactions, along with related shortcomings in the governance system.

Examinations were conducted in three banks focusing on checking compliance with legal regulations in the area of conduct of business and professional care in the provision of investment services. Shortcomings were identified in the storage of communications with clients and potential clients, the maintenance of accounts and a transactions and orders book of an investment firm, the provision of information to clients, the requesting of information from clients and the processing of clients' orders.

Furthermore, examinations of money-changing activities were conducted in three banks. Shortcomings were found in information on exchange rate lists and reporting on premises before the launch or termination of their activity.

Cooperation with law enforcement authorities was checked in one bank. Shortcomings were identified in compliance with time limits and processes connected with the processing of applications, in the record-keeping process in this area and in related control activities.

Further to these examinations, the credit institutions concerned took remedial measures, the implementation of which is being continuously monitored. Petitions for the opening of administrative proceedings were submitted in two cases.

Examinations in the area of AML/CFT[20]

AML/CFT examinations are focused primarily on verifying the efficiency and effectiveness of the measures meant to protect credit institutions from being used for money laundering and terrorist financing. Such measures are also intended to create conditions for detecting such conduct.

20 Anti-Money Laundering/Combating the Financing of Terrorism.

Four examinations were conducted in banks and three in credit unions in 2017. The shortcomings identified in the credit institutions examined related mainly to the application of preventive measures in the implementation of international sanctions, the identification of risk factors and the application of procedures against clients for whom increased risk had been identified. The institutions in which the examinations revealed shortcomings were called upon to take remedial measures, the implementation of which is being continuously monitored by the CNB.

The CNB conducted a large-scale AML/CFT survey in the credit institutions sector in 2017. This survey was focused on obtaining up-to-date qualitative and quantitative information relating to this area. The survey results were used for internal CNB supervisory purposes and were also presented to sector representatives in aggregated and generalised form. The long-running cooperation between the CNB and the Financial Analytical Unit (FAU) also continued in 2017. It consisted primarily in exchange of information and experience relating to CNB and FAU inspection work and in assessment of risks. It also included preparations for the MONEYVAL[21] evaluation of the Czech Republic.

4.1.4 Assessment of information from submissions made by members of the public

In 2017, submissions made by members of the public were again a major source of information on compliance with the duties of credit institutions towards their clients, used for the purposes of off-site surveillance of compliance with the conduct of business and consumer protection duties of credit institutions.

Generally, the CNB uses the findings it obtains in the course of dealing with submissions made by members of the public in the supervisory area in several ways:

- if any shortcomings are uncovered in the activities of a credit institution, the institution is notified of the shortcomings identified and called upon to provide information on remedial measures adopted or proposed. Based on such notifications, most shortcomings are then eliminated in the course of supervision by the credit institution bringing its internal procedures into conformity with the legal rules of the CNB's opinions contained in the notifications;

- in some cases, information obtained in the course of off-site surveillance is used as a basis for thematic surveys on the breadth of occurrence of a particular type of unlawful conduct in the financial market;

- based on its findings, the CNB identifies potential systemic shortcomings in the financial market or problem areas where it deems it useful to prepare and publish interpretations to clarify or tighten particular legal provisions;

- among other things, supervisory findings are also used in the preparation of legislative proposals and in the interpretation of existing legal rules;

- the CNB also uses information from supervisory practice in the selection of specific supervised entities or specific areas of their activity where it deems it useful to conduct on-site examinations. On-site examinations subsequently check whether credit institutions are complying with remedial measures adopted on the basis of notifications of shortcomings identified or on the basis of an administrative decision.

Information on particularly serious or systemic shortcomings is assessed and described in internal petitions for the opening of administrative proceedings.

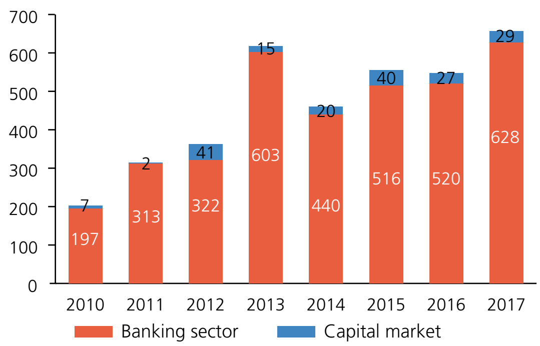
In 2017, the CNB registered a significant increase in the number of submissions from the public regarding activities of credit institutions. Table A.4 shows the numbers of submissions received in 2013–2017 regarding activities of credit institutions.

21 The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism.

Table A.4 – Numbers of submissions received from members of the public in the conduct of business area in the credit institutions sector

Financial market sector	Type of entity	2013	2014	2015	2016	2017	Change 2017/2016 (in %)
Banking sector	Credit institutions	603	440	516	520	628	+20.8
Capital market	Investment firms – banks	15	20	40	27	29	+7.4
Total		618	460	556	547	657	+20.1

Chart A.1 – Submissions received from members of the public in the conduct of business area in the credit institutions sector



As in previous years, the submissions received by the CNB in 2017 from the public mainly concerned the provision of payment services, changes and terminations of master agreements on payment services, the handling of clients' complaints, the provision of investment services, the provision of information to clients at their request and private law relationships between clients and credit institutions. Therefore, as in previous years, supervisors paid particular attention to the provision of payment services and the execution of payments, including compliance with other duties under the Payment System Act, in the credit institutions sector.

In addition to the areas described above, the CNB dealt with the following issues based on submissions made by members of the public in the conduct of business area: the configuration of credit institutions' governance systems in specific areas, payment cards, the procedure for the termination of master agreements on payment services, banking secrecy, compliance with information duties to clients and transfers of contractual relationships.

Shortcomings of various degrees of seriousness in credit institutions' activities, consisting in non-compliance with the conduct of business rules or in breaches of legal rules, may be found when submissions made by members of the public are investigated. Supervisors subsequently decide whether such shortcomings will be remedied on a voluntary basis or resolved in administrative proceedings, depending primarily on the seriousness and effectiveness of possible remedial measures. In 2017, supervisors dealt with shortcomings in specific credit institutions regarding, for example banking secrecy and the duty of credit institutions' staff to maintain confidentiality, the configuration of the system for dealing with clients' complaints, procedures regarding unauthorised payment transactions and procedures for blocking accounts due to enforcement of a judgement or distraint.

In connection with new payment system legislation and the ensuing duties for credit institutions (including changes to the basic payment account, the payment account switching procedure and the new payment services directive), a gradual increase in the number of submissions made by members of the public can be expected in this area.

4.1.5 Enforcement

One new administrative enforcement proceeding was opened in the area of supervision of credit institutions in 2017. Four decisions became final and conclusive, with a fine and a remedial measure being imposed in one case, only a fine being imposed in one case, a remedial measure being imposed in one case and one administrative proceeding being discontinued. Fines totalling CZK 2,650,000 were imposed in the area of credit institutions.

4.2 SUPERVISION OF INSURANCE COMPANIES

The general aim of CNB supervision in the insurance sector is to safeguard and maintain the financial stability of the sector and to protect policy holders, insured persons and beneficiaries. Decisions on licence, permit and registration applications and prior consents under special legal rules, and especially the assessment of compliance with the current legislative and regulatory framework applicable in the Czech Republic, can be considered the key supervisory activities performed by the CNB in this sector. In line with these objectives, the CNB obtains, verifies and, where necessary, enforces information provided by supervised entities. It may also impose remedial measures, decide to impose sanctions if necessary, and conduct administrative proceedings.

4.2.1 Licensing, approval and authorisation activities

A total of 27 domestic insurance companies (excluding the Czech Insurers' Bureau) and one reinsurance company were subject to CNB supervision as of the end of 2017. A total of 22 branches of foreign insurance companies were subject to supervision by the CNB to a limited extent. Two domestic insurance companies closed down at their own request: Cestovní pojišťovna ADRIA Way, družstvo, which transferred its insurance portfolio to UNIQA pojišťovna, a.s. before its licence was withdrawn and it went into liquidation, and ING pojišťovna, a.s., which transferred its insurance portfolio to NN Životná poisťovňa, a.s. before its licence was withdrawn and it went into liquidation.

Table A.5 – Numbers of entities in the insurance sector

	As of 31 December 2016	Entries in 2017	Exits in 2017	As of 31 December 2017
Insurance companies (including branches and reinsurers)	54	0	4	50
of which:				
domestic insurance companies (excluding the CIB)	29	0	2	27
branches of insurance companies from the EU/EEA	24	0	2	22
reinsurance companies	1	0	0	1

The number of administrative proceedings in the insurance sector decreased in 2017 due to the abolition of the duty to obtain regulatory consent to the discharge of office of director in insurance companies.

The number of administrative proceedings in the insurance sector decreased in 2017 due to the abolition of the duty to obtain regulatory consent to the discharge of office of director in insurance companies..

Table A.6 – Numbers of administrative proceedings in the insurance sector

Number of administrative proceedings conducted in 2017	Continuing from 2016	Opened in 2017	Closed in 2017	Continuing into 2018
9	4	5	7	2

Following an administrative proceeding lasting almost three years, the business of Pojišťovna VZP, a.s. was expanded to include new categories of non-life insurance. The length of the administrative proceeding was affected by extensive requirements for the implementation of Solvency II principles in this insurance company's internal governance system.

The range of insurance activities was amended in the case of Slavia pojišťovna, a.s. (activities narrowed) and BNP Paribas Cardif pojišťovna, a.s. (activities widened).

4.2.2 Off-site surveillance

The CNB's supervisory activities in the insurance sector generally focus on compliance with the prudential rules based on a reliable and functioning governance system. The key element of off-site supervision of insurance companies is regular assessment of the financial condition and solvency situation of regulated insurance companies on the basis of regularly submitted statements. The CNB reviewed capital positions, risk profiles and economic and technical insurance indicators in 2017. It obtained source data for these key supervisory activities from statements submitted in compliance with Solvency II and other regularly submitted statements. Ongoing communication with insurance companies, comprising information-gathering meetings with representatives of insurance companies, including board members, is also an important part of supervisory work.

Timely identification of changes and potential risks to the capital situation and financial condition of insurance companies is ensured by the supervisory review process (SRP) used by the CNB to monitor insurance companies' financial results on the basis of a quarterly evaluation of selected indicators. The SRP allows any negative trends and relevant risks to be identified in time. The facts identified are then analysed in detail and insurance companies are called on to provide additional information and take relevant action if any shortcomings are detected.

The scope of supervision of individual insurance companies is set, among other things, on the basis of their risk profile and the complexity of their activities. To this end, the CNB conducts regular assessments of insurance companies based on their risk profiles, financial and capital condition, the nature, scope and complexity of their risk exposures and the adequacy of their management and governance processes. Analytical and other supervisory activities are performed more often and in greater detail for systemically important insurance companies and for high-risk entities.

In 2017, the CNB used information submitted by, and intensive communication with, insurance companies to continue to assess the implementation status and compliance with the new regulatory requirements under all three pillars[22] on which Solvency II is based. The key areas discussed with insurance companies as part of the implementation of the Solvency II requirements and focused on by the CNB in its supervisory work have long included the methodology for calculating the best estimate of technical provisions, compliance with requirements for configuring the risk and key function management system, and internal risk and solvency assessments.

The key areas of CNB prudential supervision in the insurance sector included assessing premium sufficiency management in third-party vehicle liability insurance and the adequacy of technical provisions for covering all claims arising from vehicle liability policies.

As regards supervision of vehicle liability insurance, the CNB responded to developments in the market in recent years where changes in the premium amount had failed to sufficiently cover the increase in the costs of meeting obligations arising from this type of insurance. The CNB had already communicated its expectations to insurance companies in 2016, its main objective having been to improve the quality of governance systems in the area of premium sufficiency management in vehicle liability insurance providers. In 2017, the CNB put the emphasis on ensuring that insurance companies' decision-making processes and internal control mechanisms were appropriately configured and their

22 Quantitative requirements, supervision including qualitative requirements, disclosure of information and the submission of information to supervisory authorities.

business strategies were consistent with their risk and capital management strategies, including ensuring that claims arising from third-party liability insurance could be settled at any time. The responsibility of boards of directors for complying with and continuously fulfilling this statutory requirement was considered a crucial aspect by the CNB.

In 2017, the CNB focused on assessing compliance with the main principles, procedures, methods and criteria which a vehicle liability insurance management system should satisfy at the individual level of all vehicle liability insurance providers. Supervisory work in this area was focused mainly on evaluating whether premium sufficiency management systems were suitably configured, including whether the methods used to measure premium sufficiency and the quality of internal processes were appropriate. As regards the responsibility of insurance companies' boards of directors, the assessments were focused on the scope and quality of the information submitted to insurance companies' boards of directors and their degree of involvement in the governance system. The results of the analysis of the documents submitted were discussed with representatives of the management of insurance companies. Given the situation in the vehicle liability insurance market, the CNB will continue to address this area intensively. It will expand its activities to include quantitative analyses focused on checking premium sufficiency in individual insurance companies.

Owing to the persisting environment of low interest rates, the CNB has long also focused on assessing insurance companies' ability to generate investment yields in the medium term to cover guarantees arising from life insurance policies. The CNB is focusing mainly on the quality of risk management and asset and liability management systems in this area.

The CNB also stress-tests the insurance sector's resilience to adverse future economic scenarios once a year. Most domestic insurance companies were included in this testing in 2017. The 2017 stress scenario was derived from the adverse scenario used to test the resilience of the banking sector. It assumes a fall in domestic economic activity as a result of adverse developments in the Czech Republic's main trading partner countries and increased uncertainty in financial markets associated with a sharp rise in investors' risk aversion to the EU and emerging economies. These adverse developments were also linked with a fall in the stock market and a drop in property prices. The scenario for insurance companies was extended to include a 10% decline in premiums written for motor vehicle insurance at the 2016 cost level. The extended scenario additionally tested how the capitalisation of insurance companies would be affected if floods were to occur. In the case of the application of the stress scenario extended to include the impact of floods, the overall solvency ratio of the insurance companies tested was 152%. The participating insurance companies accounted for 99% of the domestic insurance market based on gross premiums written in 2016. The aggregated results thus demonstrated that the sector as a whole was sufficiently capitalised even under Solvency II and was able to absorb major changes in risk factors.

Given the implementation of Solvency II, work continued on modifying and adjusting supervisory processes, methodologies and instruments in 2017. The biggest factors affecting the scope and scale of these necessary changes included reinforcement of the risk-oriented and prospective approach and a revision of the risk assessment system methodology and the systemic importance of individual insurance companies.

As regards conduct of business in the insurance sector, the CNB focused mainly on the configuration of contractual relationships, the offering and promotion of services, the provision of information to, and conduct towards, clients, the process of entering into, amending and terminating contractual relationships with clients, and loss adjustment. The supervisory work also covered consumer protection, in particular in the offering and promotion of insurance products. Conduct of business supervision in the insurance sector continued to include ongoing monitoring of compliance with rules of conduct, enhanced by a system for handling submissions made by members of the public. Based on possible shortcomings indicated in such submissions, reviews – including thematic ones – were conducted to identify and eliminate systemic shortcomings in specific areas. Whenever shortcomings were uncovered in an insurance company's activities, the institution concerned was, in the context of other supervisory findings, usually notified of the shortcomings identified and called upon to take remedial action. The CNB used the findings obtained in examinations when commenting on insurance legislation, especially the draft Act on Insurance and Reinsurance Distribution.

As part of its conduct of business supervision, the CNB continuously monitored the preparedness of insurance companies for the new requirements set out in the directly applicable regulation on key information documents (PRIIPs) during 2017. The monitoring outputs provide the basis for conduct of business supervision in the insurance sector in 2018.

In 2017, the CNB continued to pay attention to insurance companies' compliance with the statutory reporting duty to the Czech Insurers' Bureau (CIP). By comparison with previous years, there was a change in the scope of the information submitted to the CNB in relation to the attainment of set error thresholds.

A thematic review on incentives from asset managers to insurance companies in the unit-linked life insurance market was completed in cooperation with EIOPA. The final report on the outputs of this review was published on the EIOPA website.

The CNB also worked to attain effective supervision in the insurance sector by taking appropriate preventive and proactive action vis-à-vis supervised entities. To this end, it held several meetings with representatives of selected insurance companies and branches of foreign insurance companies in 2017 focusing on conduct of business in selected areas. For the same reason, the CNB published generalised supervisory findings on the CNB website on an ongoing basis. As regards information for the public, the CNB published a public notice on its website in 2017 pointing to the risks of taking out insurance by "acceding" to an existing insurance relationship (acceding to an insurance contract), i.e. of purchasing insurance together with a consumer good or service from a seller or service provider.

4.2.3 On-site examinations

A total of 12 examinations were conducted in insurance companies and a further two in branches of foreign insurance companies in 2017.

In the non-life insurance area, the examinations focused mainly on technical provisions and premium sufficiency. Premium sufficiency and the premium sufficiency management system were assessed in the motor third-party liability insurance market. Shortcomings concerned the calculation of technical provisions and the premium sufficiency management system. An insufficient motor third-party liability insurance premium was identified in one case.

The Solvency II on-site examinations focused on the risk and capital management system, core functions, the asset and liability management system, the remuneration system and the methodology for the calculation of life insurance technical provisions. Shortcomings were identified mainly in the organisation structure (conflicts of interest), accumulation and configuration of responsibility, own risk and solvency assessment (ORSA) processes and the remuneration system. Other examinations focused on the assessment of correct breakdown of liabilities into risk-homogeneous categories (segmentation) and the determination of the contractual limits of a contract for the calculation of technical provisions under Solvency II. The main findings included incorrect classification of liabilities into risk-homogeneous groups, shortcomings in the process of setting the contractual limits of a contract and missing documentation. One of the examinations also covered IS/IT risk management, identifying shortcomings in information security management, IS/IT operation security, outsourcing risk management and IS/IT access management.

Four of the examinations focused on insurance intermediary distribution network quality control. In all cases, shortcomings were identified in the extent of pre-contract vetting of a distributor and in distribution activity quality control during contractual cooperation with a distributor. The insurance companies examined had no effective preventive measures in place to prevent misselling[23] and unfair commercial practices. The insurance companies were also not paying sufficient attention to the quality of the records of potential clients' requirements and needs and did not have a system in place for contacting clients when contradictions are identified in records. In one case, shortcomings were detected

23 A situation where an insurance product or specific parameters of a concluded insurance contract do not meet clients' requirements and needs.

in the promotion of life insurance products, especially the use of the term "saving" in relation to the investment part of investment life insurance. It was ascertained in one case that an investment life insurance product contained no risk component under certain conditions, since claims depended solely on clients' investments and returns on them. Shortcomings in the assessment of the content of complaints about the activities of insurance intermediaries and follow-up remedial measures were identified in two cases.

Five examinations focused on the duty of insurance companies to act with professional care in loss adjustment. The shortcomings concerned wrong recording of the date of loss announcements, late registration of insurance losses, loss adjustment delays, shortcomings in loss adjustment, both material and in terms of the manner and content of communication, and in traceability of processes, control processes and the regulation of procedures in internal rules.

Two examinations focused on the procedure of an insurance company for the termination of a contract by the insurance company. The examinations identified shortcomings in the content of internal rules, the content of forms for terminating an insurance contract and shortcomings in the conduct of systemic quality controls of activities in the area of expiration of insurance. Three examinations also focused on compliance with duties under the Consumer Protection Act relating to the subject of the examination. One examination detected a breach of the prohibition of unfair commercial practices in the promotion of investment life insurance.

AML/CFT examinations are also conducted in insurance companies carrying on life insurance-related activities. One such examination was conducted in 2017. The inspection findings related to insufficient effectiveness of preventive measures in the process of client vetting and compliance with international sanctions.

Further to the results of the examinations, insurance companies took remedial measures, the implementation of which is being continuously monitored and assessed. A proposal to open administrative proceedings was submitted in one case.

4.2.4 Assessment of information from submissions made by members of the public

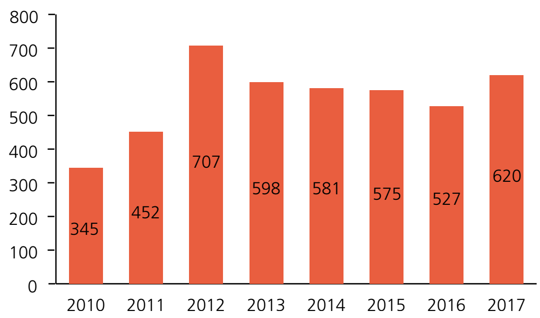
Submissions from the public drawing the CNB's attention to possible shortcomings in the areas of conduct of business and consumer protection (and dealing with such submissions) are an integral part of the supervision of conduct of business in insurance companies and are also an important source of information. When examined, the initial indications contained in such submissions may lead to the identification of individual or even systemic shortcomings in insurance companies' activities, the rectification of which is subsequently sought.

In 2017, the CNB received a total of 620 submissions from the public concerning the activities of insurance companies.

Table A.7 – Numbers of submissions received from members of the public in the conduct of business area in the insurance sector

Financial market sector	Type of entity	2013	2014	2015	2016	2017	Change 2017/2016 (in %)
Insurance	Insurance companies	598	581	575	527	620	+17.6

Chart A.2 – Submissions received from members of the public in the conduct of business area in the insurance sector



More than half of the submissions received from the public in 2017 pointed to shortcomings in the activities of insurance companies relating to maladministration in dealing with claims and loss adjustment. The shortcomings concerned mainly disagreement with the refusal to pay insurance claims or the provision of a lower-than-claimed amount. The other faults concerned excessive duration of dealing with claims, including infringement of the duty to notify the client that the claims could not be dealt with within the statutory time limit, and also insufficient information about the results or insufficient justification of the amount of insurance claims, including further insufficient communication by insurance companies with clients. Submissions by the public also pointed to shortcomings in the termination of insurance relations with clients and the determination of the surrender value, shortcomings when arranging insurance and the provision of wrong information, and shortcomings in the actions of insurance companies when dealing with clients' submissions, complaints or claims, especially failure to deal with them within the statutory time limit. Almost a third of the submissions made by members of the public in 2017 concerned motor third-party liability insurance. Notifications concerning various kinds of life insurance were the second most frequent subject of submissions from the public.

The submissions received from the public and the follow-up investigations resulted in the identification of shortcomings in the activities of insurance companies consisting in the breach of legal rules, the duty to act with professional care and the terms and conditions of consumer protection. These shortcomings were both individual and systemic in nature and including repeated shortcomings. They were subsequently resolved with the insurance companies concerned on an individual basis. In some cases, a thematic survey was used to verify whether the unlawful conduct in question was also going on in other insurance companies.

4.2.5 Enforcement

A further two administrative enforcement proceedings were opened in the area of supervision of insurance companies in 2017. Four decisions became final and conclusive, with a fine being imposed on an insurance company in one case, remedial measures being imposed in two cases and the administrative proceeding being discontinued in one case. Fines totalling CZK 500,000 were imposed in the area of insurance companies.

4.3 SUPERVISION OF PENSION MANAGEMENT COMPANIES AND RETIREMENT FUNDS

As with other financial market sectors, supervision of pension management companies (PMCs) and retirement funds is based on continuous assessment of compliance with the regulatory rules. In this case, the CNB primarily assesses PMCs' compliance with the capital adequacy requirements, sufficiency of the assets of transformed funds, compliance with investment limits by funds managed by PMCs and the accuracy of the accounting of PMCs' fees for the accounting period.

4.3.1 Licensing, approval and authorisation activities

The CNB registered eight pension management companies, 28 participation funds and eight transformed funds at the end of 2017.

Table A.8 – Numbers of entities in the pension management companies and retirement funds sector

	As of 31 December 2016	Entries in 2017	Exits in 2017	As of 31 December 2017
Pension management companies	8	0	0	8
Transformed funds	8	0	0	8
Participation funds	27	1	0	28
Accredited entities [i]	17	3	3	17

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

A total of eight administrative proceedings were conducted by the CNB in the pension management companies and retirement funds sector in 2017. Decisions were made in seven cases.

Table A.9 – Numbers of administrative proceedings in the pension management companies and retirement funds sector

	Number of administrative proceedings conducted in 2017	Continuing from 2016	Opened in 2017	Closed in 2017	Continuing into 2018
Pension management companies and retirement funds	8	0	8	7	1
Accredited entities	7	3	4	4	3

In 2018, the CNB granted authorisation to establish one participation fund called Etický účastnický fond doplňkového penzijního spoření se státním příspěvkem Česká spořitelna – penzijní společnost, a.s. Consent to a change in the statute of a participating fund was granted in one case, one proceeding to approve a change in the statute of a transformed fund was discontinued and consent to a change in the pension plan of a transformed fund was granted in one case. The CNB granted prior consent to the discharge of office of director of a pension management company in three cases.

4.3.2 Off-site surveillance

Off-site surveillance of pension management companies and funds managed by them was concentrated on assessing their compliance with the regulatory requirements, above all capital adequacy compliance by PMCs, i.e. whether they keep their capital above the capital requirement, and on generally evaluating the capital position of PMCs. CNB supervision of transformed funds focused on compliance with the requirement to always cover liabilities with assets. Given the requirement for reliable monitoring of the capital requirement and the requirement to cover liabilities in transformed funds with assets and continuous compliance therewith by PMCs, appropriate configuration of the governance system in this area was also supervised by the CNB. In this context, the CNB focused mainly on assessing the quality of risk management systems, taking into account the persisting low-yield environment.

The CNB also focused on compliance with the rules for the management of assets of funds managed by PMCs, in particular compliance with the legal and internal investment limits for such funds and the accuracy of the accounting of PMCs' fees for the accounting period.

As regards off-site surveillance of conduct of business in PMCs, the CNB mainly assessed compliance with information duties to planholders and on PMCs' procedures and internal rules for dealing with planholders and procedures for concluding, amending and terminating contractual relationships between PMCs and planholders.

4.3.3 On-site examinations

One on-site examination was commenced in a PMC at the end of 2017. The examination focused on the rules and principles for the conduct of business in the management of assets of transformed and participation funds and follow-up control mechanisms (including control of delegated activities), the process for sending supplementary pension savings statements, the provision of information at the written request of a law enforcement authority and the governance system relating to the above-mentioned areas. Given its extent and start date, the examination was not completed in 2017.

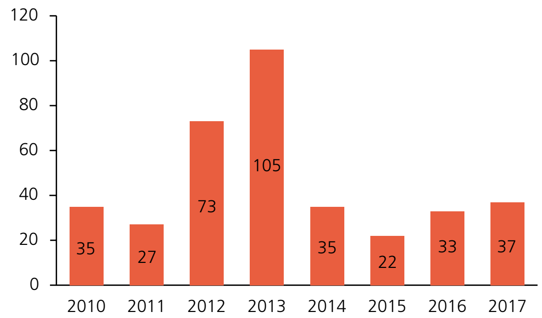
4.3.4 Assessment of information from submissions made by members of the public

The CNB received a total of 37 submissions from the public in the area of private pension schemes and supplementary pension savings in 2017. Unlike in previous years, there were no massive migrations of planholders between PMCs and related negotiation and termination of private pension policies or supplementary pension savings.

Table A.10 – Numbers of submissions received from members of the public in the conduct of business area in the pension savings sector

Financial market sector	Type of entity	2013	2014	2015	2016	2017	Change 2017/2016 (in %)
Pension savings	Pension management companies	105	35	22	33	37	+12.1

Chart A.3 – Submissions received from members of the public in the conduct of business area in the pension savings sector



In 2017, submissions regarding supplementary pension savings slightly outnumbered submissions concerning private pension schemes. The most frequent submissions from the public concerned the provision of information to clients by PMCs and payments of benefits from private pension schemes or supplementary pension savings.

Where shortcomings in activities are identified on the basis of submissions from the public, they are resolved with the PMC concerned. After the CNB points out shortcomings, PMCs usually take remedial action to prevent such shortcomings from occurring in the future. If the shortcomings are of a serious nature or no effective remedial measures are taken by the PMC, an administrative proceeding is opened against the PMC in question.

4.3.5 Enforcement

No administrative enforcement proceedings were opened in the area of supervision of PMCs in 2017. Three penalty decisions became final and conclusive in 2017. Fines were imposed in two cases and a remedial measure was imposed in one case. The fines totalled CZK 1,900,000.

4.4 SUPERVISION OF INVESTMENT FIRMS

Supervision of investment firms focuses on both compliance with prudential rules and conduct of business. Off-site surveillance is supplemented by on-site examinations. The selection of investment firms to be examined is based on findings obtained in the course of off-site surveillance. On-site examinations subsequently focus on risky investment firms.

4.4.1 Licensing, approval and authorisation activities

At the end of 2017, the CNB registered 33 entities holding an investment firm licence. In 2017, two investment firm licences were granted (Accredio a. s., and RSJ Custody s. r. o.) and one licence expired due to entry into liquidation (brokerjet České spořitelny, a. s.). The CNB received three notifications from foreign investment firms of the provision of investment services through a branch in the Czech Republic (two non-banks and one bank).

Table A.11 – Numbers of investment firms

	As of 31 December 2016	Entries in 2017	Exits in 2017	As of 31 December 2017
Investment firms	32	2	1	33
of which: banks	13	0	0	13
non-banks	19	2	1	20
Branches of investment firms	33	3	2	34
of which: banks	14	2	1	15
non-banks	19	1	1	19

A total of 24 administrative proceedings conducted with investment firms were closed in 2017. Two of these concerned investment firm licences, both of which were approved. Another 12 proceedings concerned prior consent to the discharge of office of director of an investment firm (11 approvals, one proceeding discontinued), nine proceedings were conducted in connection with consent to the acquisition of qualifying holdings in investment firms (consent granted in six cases, three proceedings discontinued) and one proceeding concerned prior consent to the transfer of part of a business (application approved).

Table A.12 – Numbers of administrative proceedings conducted with investment firms

Number of administrative proceedings conducted in 2017	Continuing from 2016	Opened in 2017	Closed in 2017	Continuing into 2018
40	10	30	24	16

4.4.2 Off-site surveillance

Off-site surveillance of investment firms in 2017 involved checking compliance with prudential rules and regularly assessing the financial condition of individual regulated entities. CNB supervision focused mainly on entities with riskier profiles.

Information for supervisory work in the area of prudence was sourced from statements and reports on a solo and consolidated basis. In addition to regular reports, information from other sources, such as annual reports, financial statements and auditors' reports on the adequacy of measures taken to protect client assets, was used to monitor entities on an ongoing basis. Quarterly analyses of the financial condition and capitalisation of individual entities were the main analytical instrument employed in off-site surveillance. Attention was focused on the overall financial results of investment firms and their consolidated groups.

Investigations initiated on the basis of submissions made by members of the public or other entities (such as foreign supervisors) are used as the main source of information for conduct of business supervision. Such supervision also draws on information about instructions and transactions in investment instruments, which investment firms regularly report to the CNB.

Supervision of the capital market was performed primarily in accordance with special sectoral legal rules.[24] Following changes made to the CNB's organisational structure, conduct of business supervision also includes supervision of compliance with consumer protection duties. In the area of consumer protection, special attention was paid to compliance with the prohibition of certain aggressive commercial practices under the Consumer Protection Act[25] and compliance with the duties set out in the Civil Code[26] for financial services agreements concluded remotely, which are not specifically regulated in sectoral laws.

Numerous foreign investment firms authorised to provide cross-border investment services based on authorisations granted by their home supervisory authority carry on business in the investment service providers sector in the Czech Republic (1,876 entities held such authorisation as of 31 December 2017). These consisted mainly of entities domiciled in the UK (1,445 investment firms, or 77% of the total). Entities based in Cyprus were the second largest group (195 entities, or 10% of the total). In supervising these foreign investment firms, the CNB applies its limited supervisory powers and works with their home supervisors.

As regards the activities of foreign investment firms in the Czech Republic, concurrent notification of the provision of investment services through a branch and of cross-border provision of services has long been a problem. Compliance with the prudential duties of foreign investment firms is supervised solely by the supervisory authority of the home Member State, while compliance with conduct of business duties is supervised by the supervisory authority of the host Member State as regards investment services provided through a branch in the territory of the state. However, as regards investment services provided by the investment firm's foreign headquarters or provided by a branch located in the territory of a state other than the host Member State, discrepancies arise in some cases between the CNB and the

24 Act No. 15/1998 Coll., on Supervision in the Capital Market Area and on the Amendment of Other Acts, as amended, Act No. 256/2004 Coll., on Capital Market Undertakings, as amended, and directly applicable EU legislation.

25 Act No. 634/1992 Coll., the Consumer Protection Act, as amended.

26 Act No. 89/2012 Coll., the Civil Code, as amended.

supervisory authority of the home Member State regarding competences, even though they have been defined properly by law. The CNB has therefore long been working to enhance cooperation with home supervisors.

Problems are also being caused by a significant expansion in investment services relating to speculative investment instruments, most notably contracts for difference (CFD) and binary options. Such investment services are provided mainly by foreign investment firms. Speculation in investment instruments which are totally inappropriate for most non-professional customers is thus available in the Czech Republic. The services are offered on a cross-border basis, which means that supervisory competences in such cases fall to the home supervisory authority and the CNB's powers are limited. Clients are often contacted by persons who collaborate with foreign investment firms but officially provide their clients with, for example, language or IT support or marketing services rather than investment services and it is very difficult to prove otherwise. Transactions in the above-mentioned derivatives are usually executed against the investment firm's own account or by a third party, which, however, pays the investment firm a commission. This, coupled with the fact that the profitability of customers' trading is negatively correlated with the profitability of investment firms' trading, with customers unable to verify the correctness of realisation prices from an independent source, offers scope for unfair practices.

The CNB responded to this problem earlier by publishing a warning about the risks of investing in CFDs on its website. It also published an opinion on the provision of investment services for binary options, stating clearly that, given the nature of this investment instrument, investing in binary options will be inconsistent with the knowledge and experience of most non-professional clients. The CNB recently published a supervisory benchmark to inform professional investors of the CNB's expectations regarding conduct of business in the CFD area. In 2017, the CNB also focused on raising investors' awareness of the risks of speculative investment instruments. The CNB also attended meetings on this issue with relevant national authorities in order to enhance the exchange of information in the cross-border provision of investment services and to strengthen practical aspects of supervisory cooperation in accordance with the applicable legislation.

As the issue of compliance with the conduct of business rules in the provision of investment services relating to CFDs and binary options has reached EU-wide proportions, two ESMA working groups have been established to find a solution to this problem. The CNB was actively involved in these working groups in 2017.

4.4.3 On-site examinations

The main objective of on-site examinations was to check compliance with legislation connected with the duty to provide investment services with professional care. The on-site examinations also assessed compliance with the rules for the conduct of business in the provision of investment services in relation to legislation regulating governance systems and related prudential rules.

A total of five on-site examinations focusing on conduct of business were conducted in non-bank investment firms in 2017, two of which were not completed in the same year. The findings from the three completed examinations included issues relating to compliance with conduct of business rules for the provision of investment services in connection with risky products. These included the offering and sale of CFDs, investment certificates and corporate bonds. Shortcomings were also identified in the provision of information to clients, the obtaining and assessment of information about clients and client asset protection processes. Other issues concerned traceability of control processes, governance systems and internal auditing, compliance, IT systems and vetting of investment intermediaries. Formal shortcomings in the internal regulations of companies were also identified.

The CNB successively called on the entities examined to take remedial measures and assessed the implementation of those measures on an ongoing basis. Based on the inspection results, the CNB opened administrative proceedings in two cases.

4.4.4 Assessment of information from submissions made by members of the public

In 2017, the CNB received 122 submissions from the public regarding conduct of business in the provision of investment services by non-bank investment firms or similar foreign entities.[27]

These submissions can be divided into the following thematic categories (in some cases, the submissions fell into several categories):

- activities concerning administrative services provided to clients;
- the arrangement or settlement of transactions;
- compliance with contractual terms by investment service providers;
- provision of information before the use of an investment service or the execution of a transaction, including information meeting the criteria of unfair commercial practices;
- provision of investment advice;
- unauthorised provision of investment services.

The most significant category in terms of numbers of submissions was that of activities associated with administrative services provided to clients, most frequently handling of clients' complaints and claims, general communication with clients, dividend payment processes and failure to enable withdrawals from trading accounts. Most of the submissions in this category of complaints drew attention to the activities of foreign investment firms.

Many of the submissions received in 2017 concerned compliance with the terms and conditions of contracts between investment firms and clients and the arrangement or settlement of transactions in accordance with clients' instructions. Most of the complaints were about unjustified fees charged for services and transactions made without the client's instruction. Other submissions concerned the functioning of internet trading applications and platforms (such as how the prices at which clients' instructions were executed were set and whether the prices of investment instruments shown in the application were up-to date). Again, the submissions in this category most often concerned the activities of foreign investment firms.

A significant number of submissions drew attention to unauthorised business. Besides submissions relating to entities holding no authorisation to provide investment services in the Czech Republic, a relatively large number of complaints concerned breaches of the scope of authorisation to provide investment services by licensed entities consisting in the provision of unauthorised investment advice. The majority of the submissions relating to unauthorised business involved the activities of foreign companies or entities collaborating with foreign investment firms.

Compared to previous years, there was a significant increase in the number of submissions relating to the quality of information provided or the provision of insufficient information about the properties of investment instruments and investment-related risks, both when promoting investment services and during the contractual relationship. As with the previous areas, the submissions in this area related largely to the activities of foreign investment firms or entities collaborating with them.

The CNB therefore views the provision of investment services by foreign investment firms – both when they provide investment services in the Czech Republic on a cross-border basis under notification and when they have given

27 Submissions from the public concerning investment firms that are banks are contained in section 4.1.4.

notification of their intention to provide investment services in the Czech Republic through a branch – as a major problem in the capital market area. Of the total number of 122 submissions relating to non-bank investment firms, 74 – or around 60% – concerned foreign investment firms (44 of which were Cypriot). Given its statutory competences, the CNB usually notified the clients that they had to contact the home supervisor, which is the only authority authorised to examine an entity subject to its supervision.

4.4.5 Enforcement

Six administrative enforcement proceedings were opened in the area of supervision of investment firms in 2017. Three decisions became final and conclusive, a fine and a remedial measure were imposed in one case, only a remedial measure was applied in one case and one administrative proceeding was discontinued. Fines totalling CZK 2,000,000 were imposed in the administrative proceedings.

4.5 SUPERVISION OF MANAGEMENT COMPANIES AND INVESTMENT FUNDS

Supervision of management companies and investment funds takes the form of off-site surveillance and on-site examinations. Supervision is concentrated mainly on collective investment funds managing funds from the public and on funds with a potentially significant systemic impact. Inspection work is focused on the configuration of governance systems, compliance with the rules of conduct of business for fund management and the fund investment fee structure.

4.5.1 Licensing, approval and authorisation activities

The CNB registered 29 management companies, one branch of a foreign investment company, 123 investment funds with legal personality (of which 26 autonomous investment funds) and 227 mutual funds at the end of 2017.

Three new management companies (Fio investiční společnost, a.s., APRIN investiční společnost a.s. and RSJ Investments investiční společnost, a.s.) obtained licences in 2017. Licences were granted to three autonomous investment funds switching from the non-autonomous regime (K-INVEST uzavřený investiční fond, a.s., DEKINVEST, investiční fond s proměnným základním kapitálem, a.s., and PROARTE investiční fond s proměnným základním kapitálem, a.s.). VIG Asset Management investiční společnost, a.s., and three autonomous investment funds terminated their activities at their own request. One autonomous investment fund wound up due to its merger with another investment fund.

Table A.13 – Numbers of entities in the management companies and investment funds sector

	As of 31 December 2016	Entries in 2017	Exits in 2017	As of 31 December 2017
Management companies	27	3	1	29
Main administrators	0	1	0	1
Branches of foreign management companies	1	0	0	1
Management funds with legal personality	108	26	11	123
of which: autonomous funds	27	3	4	26
Mutual funds	201	33	7	227
of which: standard funds	54	5	0	59
Depositaries	4	0	0	4

In all, 130 administrative proceedings were conducted and 107 decisions made in the management companies and investment funds sector in 2017.

Table A.14 – Numbers of administrative proceedings in the management companies and investment funds sector

Number of administrative proceedings conducted in 2017	Continuing from 2016	Opened in 2017	Closed in 2017	Continuing into 2018
130	15	115	107	23

A total of 107 administrative proceedings were completed in 2017, of which three concerned management company licences (all applications approved) and five concerned autonomous investment fund licences (three applications approved and two proceedings discontinued). A primary administrator licence was granted in one case. Licences were withdrawn from one management company and three autonomous investment funds at their own request.

The largest number of closed administrative proceedings (32) concerned prior consent to the discharge of office of director of a management company or an autonomous investment fund (including a nominee) or a person discharging another office in a management company subject to the CNB's prior consent (25 consents, one application rejected and six proceedings discontinued). Decisions on granting consent to the acquisition of a qualifying holding in a management company were issued in nine proceedings. The other proceedings closed were conducted in connection with the entry of a standard fund in the list of mutual funds (five proceedings), consent to a change in the statute of a standard fund (32 consents granted and three proceedings discontinued), authorisation to merge management companies (one consent granted), the entry of a depositary in the list maintained by the CNB (one proceeding discontinued) and determination of comparability of a foreign investment fund with a special fund (14 proceedings, one of which was discontinued).

4.5.2 Off-site surveillance

In its off-site surveillance work, the CNB supervises the activities of investment fund managers and their administrators, especially in terms of their capital quality, governance systems and other prerequisites for doing business. The CNB monitors the situation in the investment funds managed or administered by them mainly in terms of compliance with the portfolio management rules, especially compliance with investment funds' statutes, statutory limits, proper valuation of assets and the determination of the current value of capital. Another important area monitored is investor relations, especially whether the information an investor is to obtain is complete, accurate and up-to-date. CNB supervision is also concentrated on relations with depositaries and distributors, which are a significant component of the fund infrastructure. Depositaries are a security element substituting for financial guarantee schemes with regard to funds. Since distributors have a major effect on the quality and quantity of investment firms' sales, the CNB puts great emphasis on the distribution process and the setting of responsibilities in this process, including with respect to compliance with the duties arising from the AML legislation.

The fund investment sector was affected by only partial regulatory changes in 2017. Supervisory attention was directed primarily at the duties arising from an amendment to the AML Act. A new duty in this area was to create an AML risk matrix and incorporate its outputs into the company's processes.

The CNB continued to work with the Czech Capital Market Association on resolving practical issues connected with compliance with statutory requirements. It also continued to work in cooperation with the Chamber of Auditors of the Czech Republic in 2017.

4.5.3 On-site examinations

On-site examinations were held in two management companies in 2017. One examination focused on the rules of conduct and principles of conduct of business in the management of investment fund assets, cooperation with the depositary and the governance system in respect of management of conflicts of interest, and compliance and internal audit activities. The shortcomings identified in the examination concerned internal audit activities and the limit control system (both ex ante and ex post). The examination also revealed insufficient regulation of fund management procedures and rules, and conflicts of interest and procedures in the acquisition of immovable property and assets consisting in investment instruments. An administrative proceeding was opened against the management company in the areas of conduct of business in the management of assets, valuation of assets in fund portfolios, risk management and conflicts of interest.

The other examination concentrated on the governance system, with an emphasis on selected features, most notably management of conflicts of interest, compliance and internal audit activities, the systemic configuration of the investment fund management process and the AML/CFT area. Shortcomings were identified in internal audit activities and shortcomings in the governance system and in the areas of promotion, control of delegated activities (outsourcing) and management of conflicts of interest. The main shortcomings in the AML/CFT area related to client identification and vetting, the application of preventive measures in the implementation of international sanctions and traceability of processes.

Further to these completed examinations, the companies examined took remedial measures, the implementation of which is being continuously monitored.

4.5.4 Assessment of information from submissions made by members of the public

In 2017, the CNB received 46 submissions from the public drawing attention to the activities of management companies and investment funds or persons registered in the list referred to in Article 15 of the AMCIF.[28] The complaints and suggestions can be divided into the following categories:

most submissions concerned the conditions for purchasing shares in foreign investment funds, where the provision of misleading information by tied agents of the fund's distributor played a major role; the queries stemmed mainly from a lack of knowledge about the activities and role of the contact bank;

the CNB was also sent queries arising from a lack of information about some aspects of fund investment, especially as regards entrusting funds to persons registered on the CNB's lists pursuant to Article 15 of the AMCIF, whose activities are not subject to CNB supervision;

a smaller proportion of the queries pointed to shortcomings regarding conduct of business in supervised entities, such as complaints about insufficient currency hedging and the process of recovering debt in a fund's portfolio.

4.5.5 Enforcement

Seven administrative enforcement proceedings were opened in the area of supervision of management companies in 2017. Nine decisions became final and conclusive. Fines were imposed in eight cases and consent to the discharge of office of director was withdrawn in one case. The fines imposed in the area of management companies and investment funds totalled CZK 2,750,000.

28 Act No. 240/2013 Coll., on Management Companies and Investment Funds, as amended.

4.6 SUPERVISION OF BUREAUX DE CHANGE

In 2017, the CNB also used part of its supervisory capacity to supervise the bureau-de-change sector. Supervision in this area of the financial market mainly took the form of on-site examinations and local investigations. Submissions made by members of the public were a major source of information leading to the identification of shortcomings in the activities of bureaux de change.

4.6.1 Licensing, approval and authorisation activities

The CNB registered 986 bureaux de change as of 31 December 2016. In 2017, 52 bureaux de change were granted licences, while 24 terminated their activity. The CNB registered 1,014 bureaux de change as of 31 December 2017.

Table A.15 – Numbers of bureaux de change

	As of 31 December 2016	Entries in 2017	Exits in 2017	As of 31 December 2017
Bureaux de change	986	52	24	1,014

A total of 58 administrative proceedings to grant bureau-de-change licences were opened in the bureau-de-change sector in 2017. An additional 17 administrative proceedings to revoke bureau-de-change licences were conducted in the sector at the request of the bureaux de change concerned.

4.6.2 Off-site surveillance

The CNB's supervisory activities in the bureau-de-change area focused mainly on compliance with the reporting duty. At the same time, in line with the risk-oriented approach to supervision, the major players in the market were contacted at the end of 2017 to provide detailed information relating to their activities, including in the AML/CFT area. Information obtained in the course of off-site surveillance provided the CNB with a basis for planning examinations.

In response to the shortcomings identified in off-site surveillance and on-site examinations and in connection with the draft amendment to the Act on Bureau-de-change Activity, the CNB actively assisted the Czech Ministry of Finance in preparing this amendment.[29]

4.6.3 On-site examinations

Despite its low importance relative to other financial market sectors, the bureau-de-change sector was again subject to a greater intensity of on-site examinations in 2017, as they are the most effective supervisory instrument in this sector. On-site examinations were conducted on the basis of shortcomings identified in other supervisory work (especially in the investigation of submissions made by members of the public). When conducting examinations, CNB focused primarily on due compliance with information duties to clients, including verifying compliance with the statutory prohibition to publish information about more favourable exchange rates in a manner mistakable for the exchange rate list.

29 See section 2 *Regulations in the Czech Republic in 2017*.

A total of 37 examinations were carried out and completed in 2017 (including the examinations started in 2016). Another four examinations were started in 2017. A total of 457 local investigations in individual bureaux de change were conducted as part of the supervision of bureaux de change.

Shortcomings relating to exchange rate lists, especially failure to give all information in the statutory shape and form, were identified repeatedly in the examinations. Shortcomings in the provision of information before bureau-de-change transactions and the issuing of receipts for bureau-de-change transactions also persisted to a significant extent. Shortcomings relating to the mistakability of information about offers of more favourable exchange rates for the exchange rate list were identified to an increased extent.

Most of the examinations conducted in bureaux de change in 2017 also focused on compliance with the conditions laid down in the Consumer Protection Act. The most frequent finding concerning shortcomings in the provision of information to clients about the options of out-of-court resolution of consumer disputes by supervised entities.

In addition to compliance with the Act on Bureau-de-Change Activity and the Consumer Protection Act, the on-site examinations focused on the AML/CFT area, in which the most frequent findings were shortcomings in the system of internal policies, shortcomings in client identification and vetting and shortcomings in compliance with the duty to hold a certificate of completion of a course on the identification of suspected counterfeit or altered banknotes and coins pursuant to the Act on the Circulation of Banknotes and Coins.[30]

Further to the examination findings, bureaux de change were called on to take remedial measures. Administrative proceedings to impose a fine were opened where major shortcomings were identified.

4.6.4 Assessment of information from submissions made by members of the public

In 2017, the CNB received 294 submissions from the public regarding bureau-de-change activities. The number of complaints pointing to a situation where more favourable exchange conditions were mistakable for the exchange rate list rose significantly compared to 2016. The main cause can be seen in an increased number of bureaux-de-change applying this approach.

The complaints also concerned disadvantageous exchange rates or commissions where clients had expected a bureau-de-change to offer the same exchange rate as that declared by the CNB, together with a zero or low commission. However, the level of exchange rates and commissions is not regulated at present, so the CNB has no power to intervene.

The most frequent shortcomings found in this sector in the investigation of submissions made by members of the public lay in the area of informing customers about exchange rates (including the above situation where the offer of more favourable rates was mistakable for the exchange rate list) and commissions for services rendered.

In order to remedy shortcomings indicated by off-site surveillance, the CNB intensified its checks on the provision of information about exchange conditions.

4.6.5 Enforcement

A total of 19 administrative proceedings were opened in 2017 for violation of the Act on Bureau-de-change Activity. The CNB issued 15 final and conclusive decisions, with fines being imposed in all 15 cases. Fines totalling CZK 2,045,000 were imposed in this area.

30 Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins and on the amendment of Act No. 6/1993 Coll., on the Czech National Bank, as amended, as amended.

4.7 SUPERVISION OF OTHER SMALL FINANCIAL MARKET ENTITIES

Supervision of other small financial market entities comprises supervision of payment institutions, electronic money institutions, small-scale electronic money issuers and small-scale payment service providers (unless they are also investment firms). In addition, the CNB supervises investment and insurance intermediaries. It also supervises consumer credit providers and intermediaries who also provide or intermediate credit on the basis of a CNB authorisation, licence or registration.

4.7.1 Payment service providers and electronic money issuers

Supervision of payment service providers and electronic money issuers includes supervision of payment institutions, foreign payment institutions operating in the Czech Republic through a branch, small-scale payment service providers, electronic money institutions, foreign electronic money institutions operating in the Czech Republic through a branch, and small-scale electronic money issuers other than investment firms.

At the start of 2017, the CNB registered 20 payment institutions. In 2017, four new entities (Benefit Management s. r. o., EUPS Provider s. r. o., MMG Corporation s. r. o. and Twisto Payments a. s.) were granted licences for the pursuit of business of a payment institution. Two branches of foreign payment institutions closed down in the Czech Republic in 2017.

Table A.16 – Numbers of payment institutions and electronic money institutions

	As of 31 December 2016	Entries in 2017	Exits in 2017	As of 31 December 2017
Payment institutions	20	4	0	24
Branches of payment institutions	12	0	2	10
Electronic money institutions	2	0	0	2
Branches of electronic money institutions	1	0	0	1

Nine administrative proceedings were completed in the payment system area in 2017. Eight concerned licences for the pursuit of business of a payment institution (four applications were approved, three proceedings were discontinued and one application was refused). The remaining proceeding, relating to an extension of the scope of business of an electronic money institution, was discontinued.

Table A.17 – Numbers of administrative proceedings in the sector of payment institutions and electronic money institutions

	Number of administrative proceedings conducted in 2017	Continuing from 2016	Opened in 2017	Closed in 2017	Continuing into 2018
Payment institutions	12	4	8	8	4
Electronic money institutions	1	1	0	1	0

Off-site surveillance

Supervision in the sector of payment institutions and electronic money institutions focused mainly on monitoring compliance with the prudential rules and with the rules for protecting clients' funds. It was also concentrated on compliance with the rules of conduct of business and conduct towards clients laid down in private law relating to the

Payment System Act.[31] Last but not least, in 2017 the CNB focused on small-scale payment service providers, whose number and importance in terms of the amount of payment transactions executed increases every year.

Quarterly and annual statements submitted by supervised entities to comply with their information duty to the CNB are the main source of information for prudential off-site surveillance. Entities in which shortcomings were detected in the discharge of the regular reporting duty or in the course of other supervisory work were called on to remedy the shortcomings and adopt measures to prevent them from recurring. Where more serious, repeated or systemic shortcomings were identified, administrative proceedings were opened against the entities concerned. The main shortcomings detected in the course of off-site surveillance included breaches of the statutory cap on the monthly average amount of payment transactions for small-scale payment service providers and shortcomings in updates of reported data in the event of changes associated with the auditing of financial statements in payment institutions. Failure to submit data on the amounts of payment transactions within the set deadlines was also a frequent supervisory finding.

The business plans and requisites of the governance systems of entities applying for authorisation to operate as payment institutions were also evaluated as part of the surveillance work in 2017.

On-site examinations

A total of nine on-site examinations were performed and completed in small-scale payment service providers in 2017 (including those commenced in 2016). In addition, two examinations of credit institutions and two examinations of small-scale payment service providers were commenced in 2017. All the examinations conducted in 2017 also focused on compliance with the conditions set forth in the Consumer Protection Act. Twelve of them also verified compliance with the conditions laid down in the AML Act.

The most frequently identified shortcomings concerned due compliance with pre-contract information duties and information duties vis-à-vis the CNB. As regards the AML Act, the shortcomings mostly pertained to the system of internal policies, failure to prepare evaluation reports within the set deadlines and shortcomings in the process of client identification and vetting.

The examinations conducted in non-bank payment service providers also focused on compliance with the duty to hold a certificate of completion of a course on the identification of suspected counterfeit or altered banknotes and coins pursuant to the Act on the Circulation of Banknotes and Coins.

Further to the findings, the entities examined took their own remedial measures. In more serious cases and in cases of systemic shortcomings, proceedings to impose a fine or to withdraw authorisation to provide payment services were opened against the entities concerned.

Submissions made by members of the public

A total of 43 submissions made by members of the public were received in the sector of payment service providers and electronic money issuers in 2017. The complaints related mainly to unsolicited sending of credit cards, unjustified charging of fees for services rendered and dissatisfaction with the way clients' complaints had been dealt with. Despite a sizeable increase in the number of submissions referring to the activities of non-bank payment service providers, such submissions remained a minor source of information on the activities of supervised entities.

31 Act No. 284/2009 Coll., on the Payment System, as amended.

Enforcement
Ten administrative proceedings were opened in the payment system area in 2017. Ten final decisions were taken. Fines were imposed in six cases, fines and remedial measures were imposed in two cases, a fine was imposed and the registration of a small-scale payment service provider was withdrawn in one case, and the registration of a small-scale payment service provider was withdrawn in one case. The fines totalled CZK 5,880,000. In 2017, a fine of CZK 80,000 was imposed on one entity registered as a small-scale payment service provider for breach of duties pursuant to the AML Act.

4.7.2 Handlers of domestic banknotes and coins

In 2017, one proceeding to authorise the activities of a handler of domestic banknotes and coins was conducted and closed by the issuing of an authorisation to BONUL CZ s.r.o.

Table A.18 – Numbers of handlers of domestic banknotes and coins

	As of 31 December 2016	Entries in 2017	Exits in 2017	As of 31 December 2017
Handlers of domestic banknotes and coins	4	1	0	5

The CNB supervises compliance with the Act on the Circulation of Banknotes and Coins and the directly applicable EU legal rules to which this law relates. Credit institutions providing cash services and handlers of domestic banknotes and coins are obliged to provide the Czech National Bank with the information it needs and the explanations it requests when performing supervision. If there is a reason to suspect that domestic banknotes and coins have been handled unlawfully, the CNB is authorised to carry out an on-site examination. If the obligations arising from this Act have been breached or unlawful conduct is detected, the CNB may impose remedial measures or a fine.

Enforcement
A total of 11 new administrative proceedings were opened pursuant to the Act on the Circulation of Banknotes and Coins in 2017. Nine decisions became final and conclusive, with fines being imposed in all cases. The fines totalled CZK 2,730,000.

4.7.3 Consumer credit providers

With the entry into effect of the new Consumer Credit Act, the CNB also acquired supervisory competences over non-bank consumer credit providers and gradually started supervising the entire consumer credit market as from 1 December 2016.

During 2017, entities that had previously been providing or intermediating consumer credit under a trade licence were licensed pursuant to the new Act No. 257/2016 Coll., on Consumer Credit, as amended. As from its date of effect, i.e. 1 December 2016, the CNB started to accept applications for authorisation to provide and intermediate consumer credit and applications for accreditation to organise professional examinations. The first five licences for non-bank consumer credit providers and 258 licences for independent intermediaries were granted in 2017.

Table A.19 – Numbers of entities in the consumer credit sector

	As of 31 December 2016	Entries in 2017	Exits in 2017	As of 31 December 2017
Non-bank consumer credit providers	0	5	0	5
Independent intermediaries	0	258	4	254
Accredited entities [i]	0	19	0	19

i) Entities accredited to organise professional examinations under the Consumer Credit Act.

Table A.20 – Numbers of administrative proceedings in the consumer credit sector

	Number of administrative proceedings conducted in 2017	Continuing from 2016	Opened in 2017	Closed in 2017	Continuing into 2018
Non-bank consumer credit providers	111	8	103	14	97
of which: applications in the transition period	108	8	100	13	95
new applications	3	0	3	1	2
Independent intermediaries	416	27	389	302	114
of which: applications in the transition period	344	27	317	251	93
new applications	72	0	72	51	21
Accredited entities	23	11	12	22	1

Off-site surveillance

In the area of off-site surveillance, the CNB conducted supervisory examinations across credit institutions to verify whether they had adapted their procedures to the requirements of the new Consumer Credit Act. The purpose of the supervisory examinations was to check which measures individual institutions had adopted to meet the requirement stipulated in Article 169 of the Consumer Credit Act to bring their situation in the provision of consumer credit other than credit for house purchase and consumer credit for house purchase into conformity with the law within three months from its date of effect. The CNB also examined credit institutions' compliance with the information duty set forth in Article 92 of the Consumer Credit Act, i.e. the requirement to give consumers permanent access to information to the extent and in the manner laid down in that provision of the law.

On-site examinations

In 2017, the CNB opened seven on-site examinations in accredited entities, i.e. institutions that had obtained authorisation from the CNB to organise professional examinations aimed at demonstrating the professional expertise and competence necessary for the provision or intermediation of consumer credit. Three of those examinations were completed in the same year. The inspectors focused on verifying that accredited persons' procedures were compliant with the organisational and examination rules and that applicants were being duly informed about the course of professional examinations and about their options for appealing against the test results. The inspectors also focused on the organisation and monitoring of examinations. Among other things, they checked how accredited entities inform the CNB of changes made to accreditation conditions after being granted accreditation. Accredited entities are required to comply with this duty continuously and without undue delay.

Submissions made by members of the public

In 2017, the CNB dealt with 128 submissions from the public regarding bank consumer credit providers. The submissions pertained not only to conduct of business, but also to consumer protection, especially in relation to possible discrimination in the negotiation of a contract and subsequent rejection of a loan application, for example due to age. Most of the submissions concerned refusal to provide consumer credit. The CNB's investigations subsequently found no systemic errors on the part of credit institutions. It usually turned out that the loan applicants had not met the lending criteria in the creditworthiness assessment (due to low income and/or high indebtedness). Another area was the amount of fees and penalties (especially the fee for early mortgage repayment and the penalty fees for late payment of regular instalments). Several submissions concerned subsequent debt recovery and requests for assistance in resolving the financial hardship of debtors in the position of consumers – these submissions suggest that the problem of overindebtedness, which debtors only address when the situation becomes extreme, persists in part of the population. Several cases of systemic shortcomings were detected on the basis of submissions received in the period under review. However, the supervised entities subsequently eliminated those shortcomings when called on to do so.

The CNB received a total of 150 submissions relating to non-bank consumer providers from the public in 2017. The submissions pertained mainly to disadvantageous credit terms, procedures for the recovery of amounts due, enquiries regarding authorisation to provide consumer credit and unethical conduct by representatives of consumer credit providers. As non-bank providers can provide consumer credit on the basis of a trade licence in a transition period until the CNB decides on their application (although no later than 1 June 2018), most submissions were forwarded to the Czech Trade Inspection Authority for competence reasons.

In 2017, non-bank consumer credit provider licences were granted to five companies that became subject to CNB supervision in November and December 2017. Submissions received by the CNB indicated that non-bank providers had failed to inform consumers sufficiently or to explain information properly. This especially concerned loan repayment and related penalties and the provision of information about the course of repayment and amounts due. This problem was particularly apparent from submissions in which consumers stated that non-bank providers had demanded additional money even though they had duly repaid the loan. Another issue frequently reflected in submissions concerned the interest rate level and the related annual percentage rate of charge. Consumers demanded an examination of the loan contract and an assessment of the interest rate level and the annual percentage rate of charge in their submissions. This issue mainly illustrates that consumers do not understand that the annual percentage rate of charge on micro-loans is in the tens to thousands of per cent due to the short-term nature of such loans.

Enforcement

Five new administrative enforcement proceedings were opened in 2017. Three decisions became final and conclusive in that year, with fines being imposed in all cases. The fines imposed in 2017 totalled CZK 150,000.

4.7.4 Retail distributors

In 2017, the CNB performed supervision of retail distributors, covering insurance intermediaries, independent loss adjusters, investment intermediaries and their tied agents and, due to the entry into effect of the Consumer Credit Act, independent consumer credit intermediaries and their tied agents. The extension of the CNB's supervisory powers into the area of consumer credit intermediation caused the number of supervised retail distributors to increase in 2017.

The CNB supervised this sector in the form of both off-site surveillance and on-site examinations. Numerous submissions made by members of the public served as an important source of information on the activities of the supervised entities.

Retail distributors were supervised not only with regard to the relevant special laws governing distributors' activities in individual financial market segments, but also with respect to fulfilment of the obligations laid down in the Consumer Protection Act, in particular compliance with the prohibition of unfair business practices, compliance with the duties and rules for the provision of information about the prices of services, and compliance with the prohibition of discrimination against consumers. Attention was also paid to compliance with the obligations set out in the Civil Code, which pertain mainly to distance contracts for financial services. Supervision of compliance with the obligations stipulated in the AML Act was also an integral part of the supervision of retail distributors.

Off-site surveillance

Off-site surveillance of retail distributors involved examinations of compliance with the statutory duties imposed on supervised entities and was conducted via examinations of the activities pursued by supervised entities, assessment of information obtained in the course of other supervisory work, and investigations of submissions from the public.

Attention was also paid to proper compliance with the rules of conduct towards clients with the aim of enhancing the quality of services provided by individual distributors, especially in relation to consumer clients.

In the area of supervision of insurance intermediaries, the CNB focused, as in previous years, on proper compliance with their duties to provide complete and undistorted information on the principles and functioning of products offered and to identify and record the requirements and needs of clients prior to agreeing an insurance policy, including the giving of sufficient reasons for recommending a product. This also applies to recommendations for renegotiation, when existing life insurance policies are replaced by new ones regardless of whether or not the client is interested.

In the area of investment intermediation, the CNB examined compliance with the duties arising from the application of the AML Act (money laundering) by investment intermediaries, which are now obliged to prepare a written system of internal policies and submit it to the CNB under this act. The CNB assessed a total of 109 systems of internal policies submitted by investment intermediaries as part of its off-site surveillance work in 2017. The CNB published Supervisory Information No. 1/2017 – On some duties of investment intermediaries under the AML Act notifying investment intermediaries of their statutory duties in this regard.

In the area of consumer credit intermediation, the CNB focused mainly on investigating suspicions of unauthorised consumer credit intermediation, compliance with the rules for admissibility of inducements, proper compliance with information duties to consumers and compliance with the duties related to entry of information in and reporting changes to the register maintained by the CNB.

On-site examinations
A total of 24 examinations were performed and completed in insurance and investment intermediaries in 2017 (including those commenced in 2016). A further nine commenced examinations had not been completed by the last calendar day of 2017. The examinations of investment and insurance intermediaries acting as life insurance intermediaries also included checks of compliance with the duties set forth in the AML Act. Compliance with the duties pertaining to distance contracts for financial services and the duties laid down in the Consumer Protection Act was also examined.

The most serious shortcomings in insurance intermediation were detected in the areas of insufficient recording of the requirements and needs of clients and the reasons for the intermediary recommending a specific insurance product, and discrepancies between records of requirements and needs and the parameters of the insurance product. In addition, there were cases of insufficient compliance with the information duty to clients, failure to announce changes in the data entered in the CNB register, errors in the fulfilment of the reporting duty to the CNB and shortcomings in the governance of a distribution network.

The most frequent shortcomings in the area of investment intermediation concerned compliance with the information duty to clients, the obtaining of information from clients and unauthorised provision of investment services. Other frequent shortcomings included failure to prepare and store records of communication with clients, failure to introduce and apply internal control elements and errors in the registration of contracts and orders maintained by investment intermediaries.

The most frequent findings connected with compliance with duties pursuant to the AML Act were shortcomings in the system of internal policies, shortcomings pertaining to verification of politically exposed persons and verification of persons on sanction lists, and shortcomings in assessment reports.

After the examinations, retail distributors were usually called upon to take appropriate remedial measures. In more serious cases, proceedings to impose a fine and remedial measures were opened against these entities.

Submissions made by members of the public
Submissions made by members of the public were again an important source of information about compliance with the duties of supervised entities in the area of retail distribution in 2017. The CNB received a total of 330 submissions regarding retail distribution, 72% of which concerned insurance intermediation. Submissions pertaining

to investment product intermediation accounted for 19% of all submissions and the remaining 9% concerned consumer credit intermediation.

A total of 236 submissions were filed about the activities of insurance intermediaries. Customers most often (in 27% of the submissions) pointed to shortcomings related to investment life insurance products. They complained most of all about the provision of incomplete or misleading information about the nature, principles of functioning and costs of such products. The submissions often contained complaints of inappropriate recommendations to renegotiate investment products, which in most cases (88% of complaints of this type) concerned life insurance. They also often mentioned the conclusion of insurance not covering the required risks, the conclusion of insurance in direct conflict with the requirements and needs of clients and the forging of signatures on contractual documentation.

A total of 64 submissions from the public pertained to investment intermediation in 2017. In those submissions, customers pointed mainly to possible unauthorised provision of investment services (23% of complaints in this area). Other reasons for submissions included complaints about the non-execution or delayed execution of clients' instructions, the recommendation or negotiation of inappropriate investment products with regard to clients' needs, the renegotiation of existing products and the provision of misleading information about the nature of investment products.

The CNB also received a total of 30 submissions relating to consumer credit intermediation, 30% of which concerned unauthorised intermediation of consumer credit. Consumers also complained about the provision of incorrect information, unauthorised acceptance of inducements and the charging of fees for credit intermediation, and also pointed to the absence of compliance with the statutory prerequisites for pursuing the business of a consumer credit provider.

Enforcement

A total of 28 administrative enforcement proceedings were opened in the insurance intermediation area in 2017. A total of 30 decisions became final and conclusive. Fines were imposed in seven cases (three of which pursuant to the inspection code), fines combined with remedial measures were imposed in eight cases, a fine was imposed and an entry in the register of insurance intermediaries was deleted in one case, a remedial measure was imposed in one case, remedial measures combined with suspension of activities until the measures had been implemented were imposed in five cases, entries in the register of insurance intermediaries were deleted in five cases and the administrative proceedings were terminated in three cases. The fines imposed in 2017 totalled CZK 620,000.

Seven new administrative enforcement proceedings were opened in the investment intermediation area in 2017. In all, 16 decisions became final and conclusive. Fines were imposed in nine cases (in one case pursuant to the inspection code), fines combined with remedial measures were imposed in five cases, a fine was imposed and an entry in the register of investment intermediaries was deleted in one case and the administrative proceedings were terminated in one case. Fines totalling CZK 7,085,000 were imposed in the investment intermediation area.

4.8 SECURITIES ISSUES AND REGULATED MARKETS

A total of 104 companies whose securities had been admitted to trading on a European regulated market were registered at the start of 2017.[32] During 2017, securities of five share issuers (funds for qualified investors in all cases) and 13 other issuers (bonds in all cases) were newly admitted to trading on a regulated market.

Securities of 16 issuers were excluded from trading. Four cases involved bonds excluded owing to redemption and 12 involved shares (at the decision of the issuer). A total of 106 issuers whose securities had been admitted to trading on a European regulated market were registered at the end of 2017.

32 Of these, securities of two issuers had only been admitted to a regulated market outside the Czech Republic.

Table A.21 – Numbers of issuers of listed securities and market infrastructure entities

	As of 31 December 2016	Entries in 2017	Exits in 2017	As of 31 December 2017
Issuers of securities admitted to trading on a European regulated market	104	18	16	106
Regulated market operators	3	0	0	3
Multilateral trading facility operators	3	0	0	3
Operators of settlement systems with settlement finality	3	0	1	2
Central depository	1	0	0	1

The number of licensed regulated market operators remained unchanged from the previous year,[33] as did the number of multilateral trading facility operators (BCPP – Free Market, RM-S – Volný trh and 42 Financial Services, a.s.). The number of operators of settlement systems with settlement finality decreased year on year, as the RM-S transaction settlement system (SVYT) no longer performs this activity. The remaining operators are the CNB's short-term bond market system (SKD) and the Central Securities Depository Prague – CSDP (Centrální depozitář cenných papírů, a.s.).

The CNB conducted 47 administrative proceedings in the area of securities issues, securities registers and regulated markets in 2017. Most of the 45 decisions (39) concerned the approval of documents relating to new securities issues. The CNB issued five decisions concerning the assessment of exemptions under EMIR in 2017.[34] It also issued one decision in the market infrastructure area (prior consent to the discharge of office of director at the CSDP).

Table A.22 – Numbers of administrative proceedings in the area of securities issues and regulated markets

Number of administrative proceedings conducted in 2017	Continuing from 2016	Opened in 2017	Closed in 2017	Continuing into 2018
47	8	39	45	2

In the course of its supervisory work, the CNB reviewed 50 sets of final conditions for offers of securities outside administrative proceedings in 2017. It made standard inspections of regularly published reports (inspections of annual and semi-annual reports of all issuers and detailed checks of the application of IFRS in annual accounts in eight selected issuers). Compliance with the duties of issuers of listed securities and related persons was supervised at the same time (notifications of shares in voting rights and directors' transactions). The CNB communicated the shortcomings and the supervised entities subsequently rectified them.

In the area of regulated markets, the CNB reviewed the PSE rules (the rules for admission of securities of collective investment entities and the rules of the START market) and the CSDP rules (the settlement rules) as part of off-site surveillance. It granted several exemptions from the clearing duty for intra-group transactions (in accordance with EMIR). The CNB conducted several examinations concerning RM-S and the CSDP on the basis of submissions. It completed the transformation of the manner of settlement in RM-S aiming to ensure compliance with CSDR[35] and addressed some minor issues regarding the maintenance of the central securities register and the legal entity identifier.

33 In 2017, licensed regulated market operators were RM-SYSTÉM, česká burza cenných papírů, a.s. (RM-S), Burza cenných papírů Praha, a.s. (BCPP) and Power Exchange Central Europe, a.s. (PXE). However, PXE terminated its activities as a licensed regulated market operator as of 31 December 2017.

34 Regulation (EU) 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.

35 Regulation (EU) 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the EU and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) 236/2012.

Enforcement
A further eight administrative enforcement proceedings were opened against securities issuers in 2017. Seven decisions became final and conclusive. Fines were imposed in all seven cases. Fines imposed in the securities issuance area totalled CZK 3,095,000 in 2017.

4.9 SUPERVISION-RELATED NOTIFICATION, REGISTRATION AND INFORMATION ACTIVITIES

4.9.1 Notifications (under the single licence)

Outbound notifications
Four domestic banks had branches in Slovakia as of 31 December 2017. Three domestic insurance undertakings had branches in Slovakia and one had a branch in Poland. Eleven domestic banks and 20 domestic insurance undertakings were providing services without establishing a branch within the territory of host EU Member States at the end of 2017.

The investment firm Wood & Company Financial Services, a.s., provided notification of expansion of investment services under the freedom to provide services in the EU to Lithuania, Latvia, Estonia and Croatia. The investment firms AKCENTA CZ, a.s., and 42 Financial Services, a.s., expanded their provision of investment services to Hungary and Romania and to Austria, Belgium, Bulgaria, Italy, the Netherlands, Spain and the UK respectively.

The payment institution SAB Finance a.s. provided notification of its intention to operate in Slovakia and Poland under the freedom to provide services, and the payment institution ComGate Payments, a.s., provided notification of its intention to operate in Slovakia under the freedom to provide services. The payment institution MMG Corporation s.r.o. provided notification of its intention to operate across borders in 23 states of the EU and the EEA and the payment institution VIKIPID a.s. provided notification of its intention to operate across borders in 29 states of the EU and the EEA. The payment institution AKCENTA CZ, a.s., broadened the range of payment services it provides via tied agents in Poland, Slovakia, Hungary and Romania across borders to Germany and France and newly expanded its cross-border activities to Austria, Belgium, Bulgaria, Italy, the Netherlands, Spain and the UK.

Outbound notifications (or changes thereto or termination thereof) were dealt with for 2,702 insurance intermediaries residing or having their registered office in the Czech Republic.

Inbound notifications

Table A.23 – Numbers of cross-border service provision notifications

	As of 31 December 2016	Entries in 2017	Exits in 2017	As of 31 December 2017
Credit institutions [i]	410	27	7	430
Electronic money institutions	95	37	0	132
Insurance undertakings [i]	877	34	38	873
UCITS funds	1,267	126	53	1,340
AIFs[ii] excluding EuVECAs[iii] and EuSEFs[iv]	116	47	35	128
EuVECAs	16	15	3	28
Management companies	48	3	3	48
Investment service providers	1,812	152	91	1,873
Payment institutions	346	52	19	379
Institutions for occupational retirement provision	1	0	0	1
Insurance intermediaries	5,997	439	191	6,245
Foreign intermediaries of consumer credit for house purchase	0	2	0	2

i) In the banking and insurance sectors, banks and insurance undertakings and their branches operating in other EU/EEA countries provide notification.
ii) AIFs: alternative investment funds (special funds and funds for qualified investors)
iii) EuVECAs: European venture capital funds
iv) EuSEFs: European social entrepreneurship funds

The CNB received 213 notifications of the approval of securities prospectuses (or amendments thereto) for the purposes of public offers in the Czech Republic or admission to trading on a regulated market from foreign supervisory authorities.

4.9.2 Registrations, representations of banks and financial institutions

Table A.24 – Numbers of registered and listed entities

	As of 31 December 2016	Entries in 2017	Exits in 2017	As of 31 December 2017
Registered representations of foreign banks [i]	14	2	1	15
Investment intermediaries	7,340	32	326	7,046
Tied agents	26,612	8,212	8,376	26,448
Small-scale payment service providers	138	43	15	166
Small-scale electronic money issuers	12	14	1	25
Entities authorised to distribute pension products:				
investment intermediaries	122	5	8	119
non-bank investment firms	1	0	0	1
bank investment firms	6	0	0	6
tied agents	9,658	3,969	3,073	10,554
tied agents of pension management companies	8	0	0	8
Insurance intermediaries and ILAs [ii]	168,095	7,886	1,104	174,877
Tied agents (consumer credit)	3,505	24,334	3,790	24,049
Intermediaries of specific-purpose consumer credit	0	1,911	50	1,861

i) Registration of a representation of a foreign bank pursuant to 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 promote the services of its head office in the Czech Republic.
ii) The figure does not include foreign intermediaries listed in the register due to notifications of insurance intermediation from another EU/EEA Member State.

In 2017, the CNB made entries in the register of persons conducting asset administration comparable to asset management pursuant to the Act on Management Companies and Investment Funds (Act No. 240/2013 Coll.) at the request of those persons. In all, 44 persons were entered in the register as of the end of 2017.

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, 305 candidates took these examinations in 2017 and 273 passed.

4.9.3 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 2017, 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.25 – Numbers of financial market entities in liquidation

	As of 31 December 2016	Entries in 2017	Exits in 2017	As of 31 December 2017
Banks	5	0	1	4
Credit unions	5	0	0	5
Insurance and reinsurance undertakings	0	2	0	2
Management companies	3	0	0	3
Investment funds	11	0	2	9
Mutual funds	9	5	8	6
Pension management companies	0	0	0	0
Investment firms	0	1	0	1
Total	33	8	11	30

The number of financial market entities in liquidation monitored by the CNB was down by three year on year at the end of 2017. Eleven entities – one bank, two investment funds and eight mutual funds in liquidation – ceased to be subject to CNB supervision as a result of the completion of liquidation and the subsequent deletion of the entities from the Companies Register. In 2017, two insurance undertakings – Cestovní pojišťovna ADRIA Way družstvo „v likvidaci“ and ING pojišťovna, a.s., v likvidaci – went into liquidation. Furthermore, five mutual funds went into liquidation (CERTIFIKÁTOVÝ FOND – otevřený podílový fond (Erste Asset Management GmbH, pobočka Česká republika), AXA RON Fund 2, otevřený podílový fond AXA investiční společnost a. s., Conseq státních dluhopisů, otevřený podílový fond, Dluhopisový zajištěný otevřený podílový fond Generali Investments CEE, investiční společnost, a.s., and 7. Zajištěný otevřený podílový fond Generali Investments CEE, investiční společnost, a.s.). Investment firm brokerjet České spořitelny, a.s. also went into liquidation.

4.9.4 Provision of information under Act No. 106/1999 Coll., on Freedom of Information

The CNB is an obliged entity under Act No. 106/1999 Coll., on Freedom of Information, as amended. It provides information pursuant to this Act by way of disclosure of obligatorily provided information on its website and also to applicants on the basis of individual applications lodged under this Act.

Statistics
In 2017, the CNB received a total of 79 applications under Act No. 106/1999 Coll. and issued 15 decisions refusing applications. Eight appeals were filed against decisions to refuse to provide information.

The numbers of applications received in 2011–2017 show the public's continued high interest in information about the CNB's areas of responsibility.

Table A.26 – Numbers of applications under Act No. 106/1999 Coll.

	2011	2012	2013	2014	2015	2016	2017
Number of applications received	19	26	60	59	53	51	79

Focus and content of applications
As in previous years, the applications pertained to a broad and diverse range of information which cannot be narrowed down to typical categories with regard to the numbers of applications given above. The applications and queries received from the public often concern statistics, the balance of payments, international reserves, the Czech currency and circulation of banknotes and coins. Applicants are also interested in licensing and enforcement proceedings conducted by the CNB and specific supervisory investigations.

As regards conduct of business supervision, the nature of the matter is such that an application filed under Act No. 106/199 Coll. may also be perceived as a suggestion from the public for supervision. Although some applications are not directly a suggestion, they may relate to supervision, for example when an applicant uses an application under Act No. 106/1999 Coll. to ascertain how their own suggestion or complaint has been dealt with, or enquires about additional circumstances of specific supervisory actions.

Information provided on the basis of individual applications under Act No. 106/1999 Coll. is available in the relevant section of the CNB website.[36]

4.9.5 Cross-border activities – applications for fit and proper assessments[37]

When performing its duties, the CNB works in cooperation with the central banks of other countries, with foreign financial market supervisory authorities and with international organisations engaged in financial market supervision. In 2017, the CNB dealt with 46 applications for assessments of the trustworthiness, competence and experience of persons working for financial services providers, submitted by 16 foreign authorities.

Table A.27 – Numbers of applications from foreign regulators

	2014	2015	2016	2017
Number of applications received	23	29	35	46

36 http://www.cnb.cz/cs/o_cnb/106/106_poskytnute/index.html (in Czech only).

37 Assessments of the trustworthiness, competence and experience of persons working for financial services providers.

4.9.6 Central Credit Register

The Central Credit Register (CCR) is an information system administered by the Czech National Bank since 2002. This register enables banks and foreign bank branches operating in the Czech Republic (banks) to share information on the credit commitments and payment discipline of businesses. It also provides additional information about the foreign credit commitments of legal entities borrowing in selected EU countries. The individual data are used mainly by users from banks to assess potential and existing clients, while aggregated outputs for the banking sector and the main groups of banks are used to analyse the banking sector and, besides users from banks, are available to selected users from the CNB for the purposes of banking supervision and financial stability.

The correctness of registered data is important not only for CCR users, but also because of the provision of data extracts to clients registered in the CCR. The number of extracts provided continues to rise due to availability via data boxes.

The development of new output modules and reports, which will go live in the first half of 2018 and provide users with greater convenience and additional information, was completed in 2017.

Table A.28 – Main operational characteristics of the Central Credit Register

	31 December 2014	31 December 2015	31 December 2016	31 December 2017
Number of registered borrowers	621,716	628,436	630,549	633,018
of which: natural persons (entrepreneurs)	338,394	336,897	331,540	326,683
legal entities	283,322	291,539	299,009	306,335
Total volume of loans outstanding (CZK billions)	1,568	1,617	1,696	1,722
Number of CCR users	2,151	2,146	2,259	2,258
Ad hoc enquiries about credit commitments (thousands per year)	285	285	299	308
Number of enquiries about client credit commitments in monthly reports (thousands per year)	4,300	4,292	4,215	4,372
Number of extracts made for clients per year	499	423	536	569

4.10 THE CNB'S ACTIVITIES IN THE FINTECH AND INSURTECH AREAS

4.10.1 FinTech and InsurTech definitions

The definition of FinTech is inherently quite broad. In general, it involves innovative solutions in the provision of financial services based on modern technologies. FinTech companies thus include not only traditional financial service providers (such as banks and insurance undertakings), but also new companies (startups) offering innovative products (such as mobile applications) and services (such as crowdfunding) on the financial market. InsurTech can be classified as a sub-category of FinTech, as it is limited to the insurance market. If an entity carries on innovative activities on the financial or insurance market, the CNB as supervisory authority examines those activities solely from the perspective of whether they meet the criteria of regulated activities requiring authorisation or registration pursuant to the laws governing business in the financial market.

4.10.2 The CNB's areas of responsibility

Pursuant to Act No. 6/1993 Coll., on the CNB, the CNB is the supervisory authority for entities operating on the financial market. The entities defined in the act are supervised because they undertake regulated activities (such as accepting deposits, concluding insurance policies and providing investment and payment services), regardless of the technologies which they use in so doing. If a FinTech company does not perform a regulated activity, it is not subject to supervision by the CNB. As neither the act nor any other legal regulation sets forth supervisory powers of the CNB for the activities of entities in the FinTech area, the CNB cannot be the national authority responsible for supervising such entities in this area.

The CNB assesses supervised entities with regard to their compliance with the prudential rules and the conduct of business rules for the provision of services defined by the relevant legal regulations. The pursuit of business in the financial market is governed by sector-specific acts (Act No. 21/1992 Coll., on Banks, Act No. 277/2009 Coll., on Insurance, Act No. 256/2004 Coll., on Capital Market Undertakings, Act No. 370/2017 Coll., on the Payment System and Act No. 257/2016 Coll., on Consumer Credit, for example), which also lay down conditions for the performance of individual activities, including the authorisation and registration requirements for them. All providers of relevant products and services must comply with those conditions regardless of the innovative aspects of those activities.

If an innovative activity or service does not meet the criteria of a regulated activity, the entity offering it is subject to neither supervision nor registration by the CNB. The CNB therefore keeps a register not of FinTech and InsurTech companies, but of entities performing a regulated activity.

5. INTERNATIONAL COOPERATION

In 2017, the CNB continued to be actively involved in the activities of European and international institutions engaged in financial market regulation and supervision. It drafted opinions on proposals of new rules and its representatives promoted its position in negotiations of the strategic bodies, expert committees and working groups of these institutions. Of particular importance was cooperation within the European Supervisory Authorities (ESAs), in which the CNB was involved in the preparation of numerous other technical standards and guidelines for directives and regulations, including CRD IV,[38] CRR,[39] MiFID II[40] and MiFIR.[41] Ongoing cooperation with other national supervisory authorities of EU Member States within supervisory colleges for banking and insurance groups is also becoming increasingly important.

5.1 COOPERATION WITHIN THE EUROPEAN SUPERVISORY AUTHORITIES

European Banking Authority (EBA)

In 2017, the CNB was actively involved through its representatives in the activities of the EBA at the level of the Board of Supervisors, all five standing committees and most expert working groups.

In 2017, the EBA continued to create the European Single Rulebook. The regulatory area saw ongoing preparation of level-three regulations in accordance with CRD IV/CRR, BRRD[42] and other EU legal acts, including the directives on deposit guarantee schemes (DGSD[43]), payment services in the internal market (PSD[44] and PAD[45]) and credit agreements for consumers relating to residential immovable property (MCD[46]).

In 2017, the EBA completed and submitted to the Commission a total of twelve draft regulatory and implementing technical standards on the calculation of CVA[47] risk, the rules and methodology for COREP and FINREP supervisory reporting and the comparison of banks' internal models for the calculation of capital requirements for credit and market risk. In the payment system area, the standards concerned, for example, the provision of information on fees to consumers, the authorisation of credit institutions by supervisory authorities and strong customer authentication and secure communication.

The CNB also actively participated in the preparation and subsequent translation of 19 guidelines and recommendations. These regulations mainly concerned the disclosure of liquidity risk management by credit institutions, the application of the bail-in tool, operational and security risk management in the provision of payment services and the rules for information and communication technology risk assessment under the Supervisory Review and Evaluation Process (SREP). The guidelines also focused on credit institutions' credit risk management practices and accounting for expected credit losses. In the payment system area, the guidelines concerned major incident reporting by payment institutions and the assessment of the significance of the incidents, the submitting and handling of complaints against payment service providers by payment service users and the security measures for operational and security risks implemented by payment service providers, among other topics.

38 Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

39 Regulation (EU) 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

40 Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments.

41 Regulation (EU) 2014/600 of the European Parliament and of the Council on markets in financial instruments.

42 Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms.

43 Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes.

44 Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market.

45 Directive 2014/92/EU of the European Parliament and of the Council on payment accounts.

46 Directive 2014/17/EU of the European Parliament and of the Council on credit agreements for consumers relating to residential immovable property.

47 CVA: credit valuation adjustment. This involves an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty for counterparty risk and the simultaneous creation of an own funds requirement for that risk covering the risk of loss arising from change in the CVA value.

As part of the preparation of the Single Rulebook, CNB representatives contributed to the preparation of draft replies to a high number of enquiries from the public in a Q&A system. This system enables national supervisory authorities in the EU to clarify the application of CRD/CRR and BRRD.

CNB representatives also helped prepare EBA reports, opinions and replies for consultations for the Commission, the Council, the European Parliament and other EU bodies regarding the IFRS accounting standards, the FinTech area, the creation of a new prudential regime for investment firms, the disclosure of information by financial institutions, the coverage of expected credit losses for new non-performing loans and the review of the operations of the ESAs.

In 2017, the EBA conducted a peer review of the implementation of EBA guidelines relating to the criteria for identifying other systemically important institutions. The CNB received a very good assessment.

The EBA also enabled national supervisory authorities to share information and align positions at meetings of the Basel Committee on Banking Supervision (BCBS) regarding the finalisation of the Basel III reform package for recalibrating banks' capital requirements.

European Securities and Markets Authority (ESMA)
The CNB was involved in ESMA's activities at the level of the Board of Supervisors and most standing committees and working groups. In 2017, ESMA focused more on supervisory convergence, now also in connection with the UK's decision to leave the EUR, and in the regulatory area mainly on the implementation of MiFID II and MiFIR.

In the area of investment service provision, the CNB contributed above all to documents on the implementation of MiFID II/MiFIR. These included guidelines on product governance requirements and a proposal to review the guidelines on the assessment of the suitability of investment products for customers. The CNB also contributed to an ESMA statement on the provision of investment services relating to speculative investment instruments to retail customers, which stated that ESMA was discussing the possible use of its product intervention powers under MiFIR (a prohibition of binary options and restrictions on contracts for differences). The CNB was also involved in the preparation of ESMA Q&As on the application of MiFID II/MiFIR.

In the area of creation and harmonisation of trading rules on the secondary securities market, the CNB also helped prepare documents on the implementation of MiFID II/MiFIR. These included draft regulatory technical standards to clarify the obligation to trade selected classes of derivatives on organised trading venues and the finalising of guidelines on temporary trading halts due to a significant change in the price of an investment instrument. The CNB also participated in the preparation of Q&As on the application of MiFID II/MiFIR, the preparation of opinions pre-trade transparency waivers and in calculations for setting the rules for transparent trading in investment instruments.

In the financial innovation area, the CNB contributed to a statement alerting investors to the high risks of ICOs[48] and a statement alerting firms involved in ICOs to the need to meet relevant regulatory requirements.

The CNB contributed to documents on market infrastructure. With regard to EMIR,[49] revised technical regulatory standards on risk mitigation techniques for non-centrally cleared OTC derivative contracts and guidelines on portability of data between trade repositories were prepared. As regards CSDR,[50] guidelines on substantial importance of central securities depositories and on central securities depository participant default, for example, were drafted. In respect of SFTR,[51] draft regulatory technical standards on the registration of trade repositories and reporting to trade repositories, for example, were drawn up.

48 Initial Coin Offerings.

49 Regulation (EU) 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories.

50 Regulation (EU) 909/2014 of the European Parliament and of the Council on improving securities settlement in the EU and on central securities depositories.

51 Regulation (EU) 2015/2365 of the European Parliament and of the Council on transparency of securities financing transactions and of reuse.

The CNB also contributed to documents in the fund investment area. With regard to MMFR,[52] draft implementing technical standards on a single reporting template for money market fund managers' reporting duty to the competent supervisory authority and guidelines on stress test scenarios, for example, were prepared. The CNB was involved in the preparation of documents on the quality of data reported to ESMA under AIFMD[53] and Q&As on the application of AIFMD.

The CNB contributed to documents in the prospectus area. They included draft regulatory technical standards under the Prospectus Regulation[54] regarding the content of the prospectus summary, the list of approved prospectuses and the format for data on approved prospectuses which competent national authorities are to enter in the ESMA system.

The CNB prepared comments on documents in the area of creating and harmonising rules to protect against market abuse, rules for benchmarks in financial instruments and financial contracts and rules for short selling. Q&As on the application of MAR were prepared.[55] As regards the Benchmarks Regulation,[56] draft regulatory technical standards on the content of cooperation arrangements with third country supervisory authorities and Q&As on the application of the regulation were drawn up. Technical advice on the review of SSR[57] was also drafted.

With regard to accounting, auditing and financial reporting, the CNB contributed to regulatory technical standards on the application of the Transparency Directive[58] in the area of the European Single Electronic Format and a draft public statement on supervisory priorities in financial data supervision for 2017.

In the area of reporting under MiFIR, the CNB was involved in the preparation of ESMA guidelines and Q&As on transaction reporting, order record keeping and clock synchronisation and the preparation of Q&As on the application of the regulation. In the area of reporting under EMIR, the CNB contributed to the preparation of Q&As on the reporting method and took part in a review of the quality of trade repository data. As regards reporting under SFTR, the CNB contributed to regulatory technical standards on the registration of trade repositories, the reporting of trades to trade repositories and the organisational framework for data collection, among other things.

The CNB helped to prepare documents on the implementation of the regulation on credit rating agencies (CRA).[59] Specifically, these included a review of the guidelines on the use of ratings and technical advice on the assessment of the CRA equivalence of third country regulatory regimes, for example.

The CNB took part in a peer review of the application of the ESMA guidelines on certain aspects of the requirements set out in MiFID[60] for the compliance function[61] and a peer review of the application of the ESMA guidelines on enforcement of financial information of issuers of listed securities submitted under the Transparency Directive.[62]

52 Regulation (EU) 2017/1131 of the European Parliament and of the Council on money market funds.

53 Directive 2011/61/EU of the European Parliament and of the Council on Alternative Investment Fund Managers.

54 Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market.

55 Regulation (EU) 596/2014 of the European Parliament and of the Council on market abuse.

56 Regulation (EU) 2016/1011 of the European Parliament and of the Council on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds.

57 Regulation (EU) 236/2012 of the European Parliament and of the Council on short selling and certain aspects of credit default swaps.

58 Directive 2004/109/EC of the European Parliament and of the Council on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

59 Regulation (EC) 1060/2009 on credit rating agencies.

60 Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

61 The CNB only participated in the first stage of the review (the self-assessment). The CNB's procedures have been assessed as compliant with the requirements of ESMA guidelines that were subject to the review.

62 The CNB only participated in the first stage of the review (the self-assessment). The final report does not contain a negative assessment of the CNB's procedures.

The CNB also prepared comments on the ESMA responses to the European Commission's public consultations, especially on the review of the operations of ESMA (part of the review of the operations of all the ESAs) and the review of activities regarding the Capital Markets Union and financial technology.

In addition, the CNB commented on ESMA documents concerning the impact of Brexit on financial markets. This mainly included the preparation of an ESMA opinion on the principles aimed at competent supervisory authorities on the approach to the application of licensing requirements in the event of notifications from capital market entities seeking to relocate from the UK to the EU. The CNB subsequently prepared comments during the preparation of three sector-specific ESMA opinions on the requirements applying to competent national supervisory authorities and investment firms, investment funds and secondary markets in connection with the UK's decision to leave the EU.

European Insurance and Occupational Pensions Authority (EIOPA)

In 2017, the CNB was actively involved in EIOPA's activities, both at the level of the Board of Supervisors and at the expert level in committees and working groups. It prepared opinions and analyses for individual meetings and for decisions in written procedures.

During the year, the CNB helped to prepare additional sections of the supervisory manual concerning a common European culture in the area of supervision of insurance undertakings, the approval of changes to and the extension of the scope of internal models, own risk and solvency assessment and supervision of insurance undertakings' technical provisions.

The CNB commented on a draft EIOPA response to the European Commission's public consultation on the review of the current operations of the European supervisory authorities, in which it disagreed with the proposal for new EIOPA powers at the expense of national supervisory authorities in the process of approval and monitoring internal models.

The CNB pointed to several shortcomings in the revised methodology for the disclosure of aggregate statistical data on the insurance sector to the public, which responds to the introduction of the Solvency II regime and fundamentally changes the previous reporting method.

The CNB contributed to the peer reviews through which the national supervisory authorities and EIOPA exchange experience with supervisory approaches to various areas of insurance and occupational pension funds. It was actively involved in a peer review on supervisory practices in the area of key functions in insurance undertakings and a peer review on supervisory practices with respect to propriety requirements for members of insurance undertakings' administrative, management and supervisory bodies and qualifying shareholders.

The CNB also helped to prepare the annual Consumer Trends Report describing the current situation on the insurance and pension markets in the individual EU Member States. In addition, it contributed to EIOPA's half-yearly Financial Stability Reports presenting the latest analyses of EU financial markets with an emphasis on the insurance market and the occupational pensions sector.

The CNB also contributed to the EIOPA guidelines on facilitating an effective dialogue between insurance supervisors and statutory auditors.

In 2017, EIOPA sent the European Commission its advice on the first set of topics relating to the review of the standard formula for the calculation of solvency capital requirements. The advice concerned simplified calculations, reducing reliance on external credit ratings, exposures guaranteed by a third party and exposures to regional governments and local authorities, risk-mitigation techniques and the loss-absorbing capacity of deferred taxes, among other topics.

Joint Committee of the European Supervisory Authorities

The Joint Committee is a forum for cooperation between the EBA, ESMA and EIOPA to ensure consistency of activities across financial market sectors. The CNB contributed to the activities of its sub-committees.

In 2017, draft regulatory and implementing technical standards on risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty, the mapping between agency rating scales and regulatory credit quality steps and the strengthening of group-wide management of money laundering and terrorist financing risks were finalised and sent to the European Commission.

In 2017, the Joint Committee prepared and published joint ESA guidelines mainly in the area of combating money laundering and terrorism financing, including guidelines on the identification of the risk factors financial institutions should consider when applying simplified and enhanced customer due diligence, on the introduction of a risk-based approach to supervision and on the measures payment service providers should take to detect missing or incomplete information on the payer or the payee. Other guidelines published by the Joint Committee concerned the assessment of acquisitions and increases of qualifying holdings by supervisory authorities, the assessment of the suitability of management body members and key function holders under CRD IV and MiFID II and the introduction and application of the key elements of financial institutions' governance systems.

5.2 COOPERATION WITHIN EUROPEAN SYSTEMIC RISK BOARD (ESRB) STRUCTURES

The CNB was 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). A CNB representative also led an expert team focusing on the individual Member States' approach to the setting of the countercyclical capital buffer.

The ESRB published a report on the use of macroprudential instruments. Most of the macroprudential measures adopted had been targeted at risks associated with rapid credit growth. In addition to the countercyclical buffer, announced at a higher-than-zero rate in six Member States at the end of 2017, 16 countries had announced the setting of upper limits on indicators of risks associated with housing loans.

From the CNB's perspective, the key topic last year was the preparation of an ESRB position on future legislative changes regarding banks' structural capital buffers governed by CRD, which was submitted to the European Commission for incorporation into its legislative proposals. The most controversial point was the issue of the subsidiary cap for other systemically important institutions (the O-SII cap) in the case of banks whose parent companies are classed as global (G-SIIs) or other systemically important institutions (O-SIIs). The CNB supported the complete removal of this cap in the debate. Setting the cap at a very low level, as promoted mainly by the countries on the southern periphery of the euro area, would pose a significant risk to financial stability in the Czech Republic if the use of the systemic risk buffer were to be prevented.

During 2017, the CNB notified the ESRB of the setting of the countercyclical capital buffer rate.[63] It also confirmed the list of seven other systemically important institutions located in the Czech Republic. It additionally informed the ESRB about modifications to its recommendations on prudent mortgage lending. The CNB also fulfilled the reporting duty to the ESRB arising from the recommendation on funding of credit institutions, the recommendation on guidance for setting countercyclical buffer rates, and the recommendation on the assessment of cross-border effects of national macroprudential policy and voluntary reciprocity of measures adopted by macroprudential authorities of other EU countries.

63 In June 2017, the countercyclical capital buffer rate was set at 1% of the total risk exposure with effect from 1 July 2018. In December 2017, it was set at 1.25% with effect from 1 January 2019.

The CNB was also actively involved in the debate on the review of macroprudential policy in the EU, within which it put forward proposals at EU Council level for strengthening the ESRB's analytical and organisational autonomy. In 2017, the ESRB extended the scope of application of macroprudential instruments to insurance undertakings and investment funds. The CNB supports this long-term plan.

The ESRB examined the issue of safe assets in the form of sovereign bond-backed securities (SBBSs) via its Advisory Scientific Committee. The CNB expressed strong objections to this plan via its representative in the relevant expert team.

The ESRB was again involved in the preparation of a draft adverse scenario for the EU-wide stress tests of banks. In view of the increased strictness its own stress test scenarios, the CNB supported the relevant proposals.

5.3 COOPERATION WITHIN EUROPEAN CENTRAL BANK (ECB) STRUCTURES

Financial Stability Committee (FSC)

The FSC, whose primary aim is to help ECB bodies fulfil their mandate in the field of supervision of financial institutions and the stability of the EU financial sector, usually meets only in its narrow euro area composition without the participation of CNB representatives. However, the CNB is always involved in the preparation of instructions for the Czech Republic's representatives at the FSC's meetings. Meetings in the full composition are usually organised as joint meetings with the ESRB Advisory Technical Committee (ESRB ATC). At the joint August meeting, the macroprudential policies evaluation database for EU Member States was discussed. In 2017, the FSC also held a workshop on the supervisory stress test methodology for banks.

Market Infrastructure and Payments Committee (MIPC)

The CNB was actively involved in the activities of the MIPC and its two standing working groups on Payment Systems Policy and Oversight, in which the CNB has its representatives. Most of the issues discussed in the committee concern the euro area and the non-euro area countries participating in T2 (TARGET2) and T2S (TARGET2-Securities).

The large and long-developed Secured Financing Transaction Data Store (SF-TDS) project, the aim of which was to introduce central collection of data from trade repositories for the needs of supervisory and other central bank bodies, was discontinued at the decision of the Governing Council.

The MIPC repeatedly discussed cyber security, with an emphasis on Eurosystem market infrastructure. An examination of ESCB payment systems was conducted in this regard. Furthermore, a Euro Cyber Resilience Board was established. In 2017, the MIPC also monitored developments in the area of distributed ledger technology (DLT). In cooperation with central banks, the ECB organised the creation of a DLT-based payment application with the aim of learning more about the operation of this technology in practice and testing whether it might be a suitable alternative for wider use on financial markets.

Fast euro interbank payments (instant payments) in the euro area remained an important topic. This issue is of interest to the CNB due to the ongoing project for instant koruna payments in the Czech Republic. Instant euro payments went live in November 2017, although for the time being only for a limited set of banks. Major progress is expected after the ECB puts its new Target Instant Payment System (TIPS) into operation in November 2018.

5.4 COOPERATION WITH THE EU COUNCIL AND ITS STRUCTURES

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

The CNB was involved in the preparation of the Czech Republic's positions for ECOFIN meetings, mainly in the form of proposals for modifications to the mandates of Ministry of Finance representatives at individual meetings. The CNB drafted its own opinions and also made comments on the Ministry of Finance's relevant instructions for EFC meetings (which CNB representatives regularly attend) and for FSC meetings.

In CNB's areas of competence, the main topics discussed were the future course of European integration and the deepening of the Economic and Monetary Union (EMU), including the completion of the Banking Union. Talks on deepening EMU continued following the publication of the European Commission's White Paper on the future of Europe in March 2017 and its December package of legislative and non-legislative proposals for deepening EMU, which include, among others, a proposal to convert the European Stabilisation Mechanism into a European Monetary Fund.

In 2017, the CNB closely monitored developments in the Banking Union area, especially as regards the potential impacts of possible institutional and legislative changes on the CNB's activities and financial stability mandate. In line with the EU Council's June 2016 conclusions on a roadmap to complete the Banking Union, negotiations of the package of legislative proposals to reduce risks continued in 2017. Work on the common backstop for the Single Resolution Fund and technical discussions of the European Commission's proposal to create a European Deposit Insurance Scheme (EDIS) also continued. The EDIS and related measures to reduce risks in euro area banking sectors were debated in an Ad Hoc EU Council Working Party on the Strengthening of the Banking Union, the meetings of which were also attended by CNB representatives.

The CNB has consistently emphasised the need to follow a clear sequence of steps to complete the Banking Union. It is first necessary to reduce risks sufficiently and satisfy the necessary systemic preconditions; only then can a political debate be held on potential further risk sharing. The CNB has also long promoted the principles of not increasing the risk of moral hazard, giving countries outside the Banking Union equal treatment on the internal market and preserving the integrity of the internal market. The CNB therefore supported the plan to complete the Banking Union in the form approved by the EU Council in June 2016 and expressed a negative position on any restrictions or limitations of the scope of the necessary risk mitigation measures in comparison with this plan.

Within the framework of its relations with the EU Council and its working bodies, the CNB participated in discussions of other issues during the period under review. These included ways of reducing the high NPL levels in EU banking sectors, the preparation of common EU positions for negotiations in the IMF (such as the common EU position on draft IMF programmes for members of currency unions), proposals in the sustainable finance area and the resolution of credit unions in relation to specific bank crises in Spain and Italy. It also paid attention to the concept of sovereign bond-backed securities (SBBSs), on which an ESRB working group drafted a major report, and to a review of the legislative framework for the European System of Financial Supervision, which is proposing substantial changes in the ESAs' powers, governance and funding. Proposals concerning the capital markets union and issues related to Brexit and its expected impacts were also debated.

MONEYVAL Committee

Three plenary meetings of the Council of Europe's MONEYVAL Committee were held in 2017. A training event on the process of the 5th round of the evaluation of the Czech Republic in the area of anti-money laundering and combating the financing of terrorism (AML/CFT),[64] led by MONEYVAL staff, was held at the CNB on 16 and 17 March 2017. As part of this process, the CNB worked intensively during 2017 on the preparation of the required documents (the completion of a questionnaire to ensure technical alignment with FATF[65] recommendations and effectiveness of the measures adopted) and also prepared for the on-site MONEYVAL evaluation visit in the Czech Republic scheduled for 2018.

64 Anti-Money Laundering/Combating the Financing of Terrorism.

65 Financial Action Task Force.

5.5 COOPERATION WITHIN OTHER INTERNATIONAL ORGANISATIONS AND ASSOCIATIONS

Basel Committee on Banking Supervision (BCBS) – BCG

The CNB was active in the Basel Consultative Group (BCG), through which information on the activities of the Basel Committee on Banking Supervision (BCBS) is exchanged with BCBS non-member countries. Three BCG meetings were held in 2017. The topics discussed at those meetings included the proportionality of the Basel framework, FinTech, financial inclusion and provisioning for expected losses (IFRS 9). The CNB took part in a survey on relations between home and host countries, their authorities and legal frameworks and related college group activities, in which it emphasised, among other things, some aspects of regulation and supervision from the host country perspective (taking into account the specific conditions of a regulated market, the publication of the list of countries compliant with the minimum Basel requirements, the rules for smaller institutions and cooperation between supervisory authorities).

International Organisation of Pension Supervisors (IOPS)

The CNB participated in the annual general meeting of the IOPS in the form of remote voting. The voting concerned the election of the management and members of the IOPS Executive Committee and the approval of the annual report for 2017 and the programme of work for 2018. During 2017, the CNB evaluated draft documents submitted to the February and June 2017 meetings of the IOPS Technical Committee. It made comments on the draft good practices for pension supervisory authorities. The CNB also informed the IOPS about measures introduced in the Czech Republic for the examination of pension funds' costs.

International Association of Insurance Supervisors (IAIS)

The CNB was involved in the work of the International Association of Insurance Supervisors (IAIS) in 2017. Specifically, it was represented in the Capital, Solvency and Field Testing Working Group, the main task of which is to develop the first international insurance capital standard and test it in internationally active insurance groups. In 2017, the working group discussed the finalisation of the insurance capital standard as a whole for its first public testing in summer 2017. More tests are to be conducted in 2018 and 2019. Further to the results of the initial tests, all parts of the new standard were repeatedly discussed at the group's meetings. The debate focused on the calculation of technical provisions (which yield curves to use, the risk margin), investment in infrastructure corporates and projects and the calculation of capital requirements for operational, exchange rate and spread risks. As well as working on the insurance capital standard, the group proposed changes to Insurance Core Principles 15 (Investment) and 16 (Enterprise Risk Management for Solvency Purposes).

International Organization of Securities Commissions (IOSCO)

In 2017, the CNB was actively involved in IOSCO's activities mainly in the European Regional Committee. During the annual conference, a CNB representative also attended the meetings of the Growth and Emerging Markets Committee and the Presidents Committee, both of which the CNB is also a member of. In April 2017, IOSCO began the process of implementing the Enhanced Multilateral Memorandum of Understanding (EMMoU), a key document governing cross-border cooperation between IOSCO members for preventing unlawful conduct. As of the end of 2017, twelve jurisdictions had applied to become signatories to the EMMoU. In connection with the EMMoU, the IOSCO Board worked with ESMA on resolving the issue of personal data protection under the new EU regulation in this area that will take effect in May 2018.[66] Last year, the IOSCO members mainly discussed technological innovation in the financial sector (FinTech, RegTech and SupTech[67]), cyber risk and recommendations in the area of liquidity risk management by collective investment funds.

66 Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation, GDPR).

67 Supervisory technologies – the use of modern technologies for financial market supervision by supervisory authorities.

5.6 COOPERATION WITHIN SUPERVISORY COLLEGES AND OTHER ACTIVITIES

Supervisory colleges are established to ensure effective supervision of international groups. They aim to deepen and intensify cooperation between national supervisory authorities at the level of supervision of groups and individual entities. By actively participating in these meetings, the CNB strives for open communication primarily on the significant risks of the group and on the risks of the supervised institutions.

In 2017, the CNB was involved in nine supervisory colleges for the following European banking groups: Erste, ING, J&T Finance Group, KBC, Raiffeisenbank, Sberbank Europe, Société Générale, UniCredit and Wüstenrot. In the case of J&T Finance Group, the CNB was the consolidating supervisory authority. The main task of the colleges is to safeguard and coordinate the process leading to the approval of joint decisions on capital, liquidity and group recovery plans. The colleges also serve as a platform for harmonising the approaches of supervisory authorities in individual areas and for clarifying a number of methodological issues. The discussions in the colleges also focused on, among other topics, the approach to the remuneration of bank staff in connection with the performance of their financial groups.

Based on an analysis drawn up in the Supervisory Review and Evaluation Process (SREP), the CNB provided the supervisory colleges with risk profile assessments and draft requirements for the minimum capital adequacy and liquidity of domestic subsidiaries. Supervisory colleges also assess recovery plans at the level of individual banking groups. The CNB pushes for a group recovery plan structure that takes sufficient account of recovery planning at the level of individual domestic institutions and sees to it that group recovery measures do not adversely affect the stability of domestic banks.

In 2017, the CNB was also involved in 12 supervisory colleges for the following European insurance groups: Aegon, Allianz, AXA, BNP Paribas Cardif, Generali, KBC Insurance, MetLife Inc., Munich Re, NN, UNIQA, Sogecap and VIG. The meetings focused, for example, on group internal models, the implementation of the Solvency II requirements by individual entities, risk assessments of insurance undertakings and insurance groups and the evaluation of risk and solvency self-assessment reports.

The CNB was also involved in a supervisory college for the Germany-based central counterparty European Commodity Clearing AG, which was providing services to a Czech trading facility (POWER EXCHANGE CENTRAL EUROPE, a.s.). Among the topics discussed at the college meetings were the results of a regular annual review of compliance with the requirements applying to central counterparties and an assessment of the risks central counterparties are or may be exposed to. 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.

PART B
THE FINANCIAL MARKET IN 2017

1. THE ECONOMIC ENVIRONMENT IN 2017[68]

The Czech Republic was in an expansion phase of the business cycle in 2017. The rate of growth of the domestic economy increased and annual real GDP growth was estimated at 4.6%. This growth represented an economic acceleration of 2.1 percentage points compared with 2016, when annual growth of 2.5% had been recorded.

The GDP growth in 2017 was due mainly to household consumption, which increased by 4.0% in annual terms. This was the biggest year-on-year positive change recorded since 2007. The growth in household consumption was driven mainly by fairly high real wage growth. Government final consumption expenditure also edged higher, although the growth was lower (1.5%) than in previous years. Investment activity also picked up in 2017. Gross capital formation rose by 5.9% year on year, with investment growth driven by the investment activity of non-financial corporations. Net exports on an annual basis have been contributing positively to GDP formation since 2004, and 2017 was no exception. Exports of goods and services grew by 6.9%, while goods and services imports rose at a lower rate of 6.2%.

The average annual inflation rate as expressed by the consumer price index was 2.5% in 2017. It fluctuated in the upper half of the tolerance band around the 2% target during the year. This represented a change in the nature of the inflation trend, as the inflation rate had previously been below the lower boundary of the tolerance band around the inflation target since 2003. The biggest inflationary factors in 2017 were growth in food prices, growth in housing-related costs including imputed rent, and growth in fuel and transport costs.

In April 2017, the CNB changed the monetary conditions of the domestic economy by discontinuing the exchange rate commitment maintained at the level of CZK 27 to the euro since November 2013. In August, moreover, it raised the two-week repo rate and the Lombard rate for the first time in almost nine years. These two rates were increased further in November 2017. The two-week repo rate went up by 45 basis points to 0.50% and the Lombard rate by 95 basis points to 1.00% in 2017 as a whole.

The tightening of the monetary conditions in 2017 affected the exchange rate, which appreciated on average in year-on-year terms against both the euro (by 2.6%) and the US dollar (by 4.3%). The average nominal exchange rate of the Czech koruna was CZK 26.3 to the euro and the average rate reached CZK 23.4 to the dollar in 2017.

The Czech economy recorded a current account surplus of CZK 54.2 billion in 2017. This represented a year-on-year decrease of CZK 20 billion. The surplus mainly reflected the result on the goods and services account, which ended 2017 in a surplus of CZK 362.9 billion.

68 The data in this section are based on CZSO data available as of 20 April 2018.

On the labour market, the downward trend in unemployment observed since 2013 continued. The average annual general unemployment rate for 2017 was 2.9%. As in the previous year, this was the lowest level registered among all the EU Member States. In year-on-year terms, the average unemployment rate dropped by 1.1 percentage points, the fall being evenly spread throughout the year. The record-low unemployment rate, characterised by excess demand for labour, created conditions for high growth in nominal wages, which increased by 7% year on year. Real wages grew at a slower rate due to the moderate increase in inflation. Despite that, the annual growth of 4.4% was the highest increase in real wages registered since 2003.

2. CREDIT INSTITUTION SECTORS[69]

2.1 STRUCTURE OF THE BANKING SECTOR

At the end of 2017, the Czech banking sector consisted of 47 banks,[70] i.e. two more than the CNB had registered a year earlier. The banking licence for Banka CREDITAS, a.s. took effect on 1 January 2017. A branch of Chinese bank Industrial and Commercial Bank of China Limited, Prague Branch, entered the domestic market in May of the same year. Two branches of foreign EU-domiciled banks were also opened in the Czech Republic, while two branches closed down. (See Table B.II.1)

At the end of 2017, the banking sector consisted of four large, five medium-sized and nine small banks, along with five building societies and 24 foreign bank branches, including one branch of a foreign bank from a third country.[71] The group of four large banks[72] was still the largest component of the banking sector, with a share in total banking sector assets of 59.3%, the same as a year earlier. The shares of medium-sized banks and foreign bank branches in the sector's assets grew slightly year on year to 17.0% and 10.5% respectively. By contrast, decreases were recorded by small banks,[73] which managed 7.3% of the sector's total assets, and by building societies, accounting for the remaining 5.9%. (See Table B.II.2)

A total of 420 foreign banks (including branches thereof) had provided notification under the single licence regime in the Czech Republic as of 31 December 2017. Eleven domestic banks were offering their services and products in EU Member States without establishing a branch. Four domestic banks were operating branches in Slovakia.

69 Data from reports submitted under the reporting duty by economic agents subject to CNB supervision were used as the primary source of data for the second part of the Financial Market Supervision Report, i.e. Part B. In some cases, data from reports used for the purposes of the CNB's monetary statistics are used to a limited extent. In these cases, an explicit reference to the source of the data is always provided.

70 For the purposes of this sub-section, the term "banks" covers banks, foreign bank branches and building societies. Unlike credit institutions, banks thus do not include credit unions. The credit union sector is the subject of a separate sub-section.

71 The methodology for classifying banks into groups by size changed in 2016. As from 2016, the group of large banks includes banks whose total assets exceed 10% of the total aggregate assets of the banking sector. The group of medium-sized banks comprises banks with total assets between 2% and 10% of total banking sector assets. This fact is reflected in changes in the shares of the individual banking sector groups in the sector's total assets in 2015 and 2016, as Česká exportní banka, Českomoravská záruční a rozvojová banka and Sberbank were ranked among small banks in 2016. These banks had been classified as medium-sized banks in 2015. The composition of the categories of large and medium-sized banks was unchanged in 2017. Banka CREDITAS, a.s., which was granted a banking licence with effect from 2017, was newly included in the group of small banks.

72 The group of four large banks consists of Česká spořitelna, ČSOB, Komerční banka and UniCredit Bank.

73 As the supervisory regime for branches of foreign banks from third countries differs significantly from that for branches of foreign banks from the EU and the supervision of these banks follows a similar regime as that of small banks, the group of small banks also includes the branch of Chinese bank Industrial and Commercial Bank of China Limited, Prague Branch. In this section, the group of small banks consists of nine small banks and one branch of a foreign bank from a third country unless explicitly stated otherwise.

TABLE B.II.1

NUMBER OF BANKS
(as of end of period)

	2015	2016	2017
BANKING SECTOR, TOTAL	46	45	47
of which:			
banks	18	17	18
foreign bank branches	23	23	24
building societies	5	5	5

TABLE B.II.2

SHARES OF BANK GROUPS IN TOTAL ASSETS
(as of end of period; in %)

	2015	2016	2017
BANKS, TOTAL	100.0	100.0	100.0
of which:			
Large banks	58.8	59.3	59.3
Medium-sized banks	19.6	16.6	17.0
Small banks	4.2	7.5	7.3
Foreign bank branches	9.6	9.5	10.5
Building societies	7.9	7.1	5.9

CHART B.II.1

BANKING SECTOR CONCENTRATION
(in %; banks as of 31 December 2017)

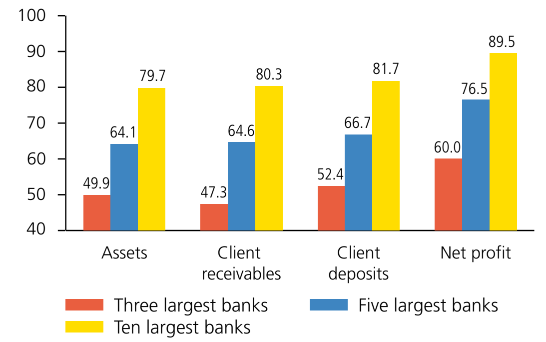


CHART B.II.2

BANKING MARKET CONCENTRATION – ASSETS
(shares of the three, five and ten largest banks in %)

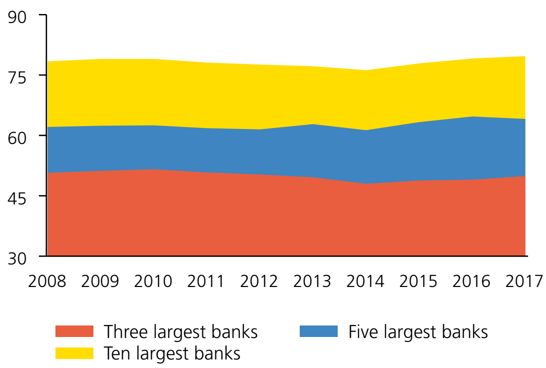


Chart B.II.3

BANKING MARKET CONCENTRATION – CLIENT RECEIVABLES
(shares of the three, five and ten largest banks in %)

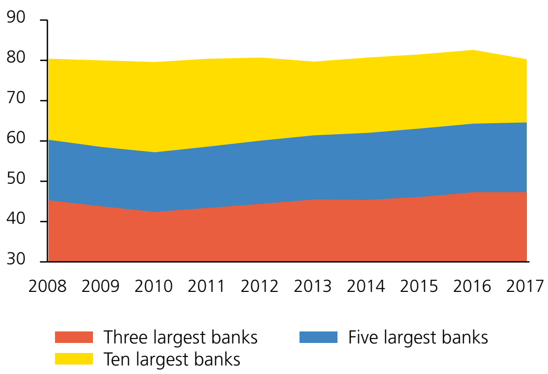


Chart B.II.4

BANKING MARKET CONCENTRATION – CLIENT DEPOSITS
(shares of the three, five and ten largest banks in %)

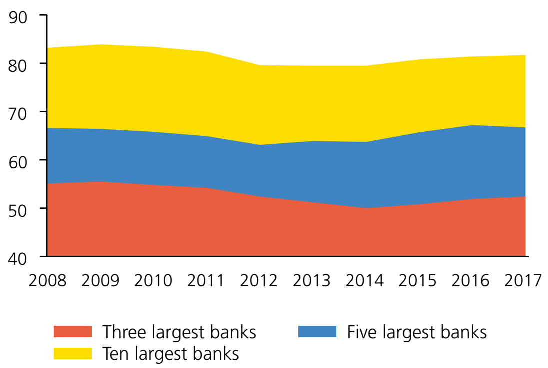
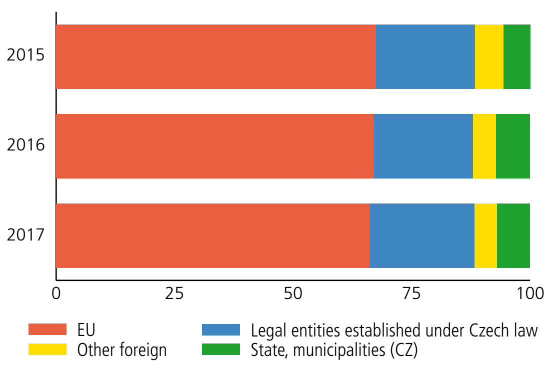


Chart B.II.5

OWNERSHIP STRUCTURE
(in %; banks as of end of given year)



Note: Share in registered capital.

Despite having increased slightly over the last four years, the degree of concentration of the banking sector, as expressed by the shares of the three largest banks in the sector's total assets, can be considered relative stable. In the last ten years, these shares have fluctuated around 50%. The more broadly defined level of concentration of the sector according to the share of the sum of the five/ten largest banks' assets in the sector's total assets can also be viewed as more or less stable over the past ten years. The year-on-year changes are comparable with those in the level of concentration expressed by the share of the three largest banks' assets in the sector's assets. (See Charts B.II.1 and B.II.2)

Concentration in the client loan market, as expressed by the share of the three banks with the largest amount of client loans, has been increasing steadily since 2010, although at the end of 2017 it was at the same level as a year earlier, i.e. 47.3%. Over the last seven years, the share of the three largest client loan providers in the sector's total client loans has risen by 4.9 percentage points to 47.5%, while that of the five largest bank lenders has grown by 7.4 percentage points to 64.6%. The share of client loans provided by the ten largest bank creditors has increased more moderately since 2010 – by 0.7 percentage point to 80.3%. In 2017, the level of concentration expressed in this way fell by 2.3 percentage points year on year. (See Chart B.II.3)

The three banks with the largest amounts of client deposits accounted for 52.4% of the sector's client deposits. In no case has this share dropped below 50% in the last ten years. As regards the concentration of client deposits according to the share of the aggregate deposits of the five banks with the largest client deposits, these banks accounted for two-thirds of the sector's total client deposits as of 31 December 2017, having recorded insignificant year-on-year changes over the last ten years. The more broadly defined degree of concentration encompassing the ten banks with the highest client deposits has shown no major changes in the past ten years. (See Chart B.II.4)

2.1.1 Ownership structure

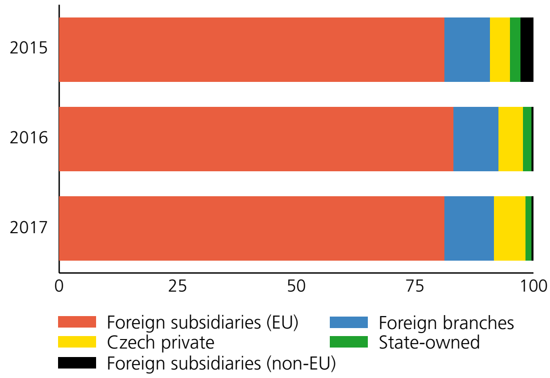
The registered capital of banks from EU Member States accounts for almost two-thirds of the aggregate registered capital of the banking sector as a whole (66.3%). A total of 71.1% of the registered capital was foreign owned in 2017, representing a modest drop of 1.0 percentage point compared with the previous year. The share of foreign owners domiciled outside the EU in the sector's registered capital was stable in year-on-year terms at 4.8%. (See Chart B.II.5)

As of 31 December 2017, foreign owners were managing 92.1% of the banking sector's assets.[74] A majority of the assets (81.2%) were owned by subsidiaries of parent companies from EU Member States. The share of foreign bank subsidiaries in total assets dropped by 2.0 percentage points year on year, while the share of foreign branches in total assets controlled by owners from EU Member States rose by 1.0 percentage point to 10.5%. Czech-controlled banks had 6.7% of the assets of the sector as a whole at the end of 2017, a year-on-year rise of 1.6 percentage points. State-owned banks were managing 1.2% of the assets. (See Chart B.II.6)

CHART B.II.6

OWNERSHIP OF BANKING SECTOR ASSETS

(in %; banks as of end of given year)



74 This refers to the share of the banking sector's total assets controlled by foreign entities (i.e. foreign bank subsidiaries or foreign bank branches). A foreign bank entity is one in which foreign owners hold directly or indirectly at least 50% of shares.

CHART B.II.7

NUMBER OF EMPLOYEES AND BUSINESS UNITS
(inside and outside CZ; as of end of period)

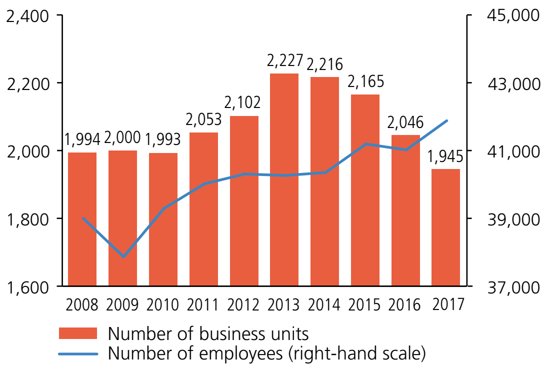


TABLE B.II.3

BANKING SECTOR EMPLOYEES AND BUSINESS UNITS
(as of end of period)

	2015	2016	2017
NUMBER OF EMPLOYEES	41,192	41,020	41,880
Number of business units	2,165	2,046	1,945
Number of employees			
per bank	895.5	911.6	891.1
per business unit	19.0	20.0	21.5
Number of citizens			
per bank (thous.)	229.4	235.1	225.7
per business unit (thous.)	4.9	5.2	5.5
per employee	256.2	257.9	253.3

2.2 EMPLOYEES AND BANKING UNITS

A total of 41,880 persons were employed in the banking sector at the end of 2017, a year-on-year increase of 860.[75] Compared with the end of 2016, when there had been a year-on-year decrease of 172 registered employees, this represented a year-on-year rise in the number of banking sector staff of 2.1%. (See Chart B.II.7)

As in the previous year, the largest employers in the banking sector at the end of 2017 were the four largest banks, cumulatively accounting for almost two-thirds (66.2%) of the total number of registered employees. The group of medium-sized banks accounted for 17.7% and the group of small banks for 7.3% of total employment in the sector. Foreign bank branches employed 5.1% of the total number of registered employees, while 3.7% of banking sector employees were employed at building societies.

While the number of registered employees has long been showing a rising tendency, the number of business units has been falling in recent years. Banks had 1,945 business units at the end of 2017, 101 fewer than at the end of 2016. (See Table B.II.3)

The efficiency of the banking sector, as expressed by the banking sector's aggregate net profit per registered employee, was CZK 1.8 million, almost the same level as in 2016. Using level indicators recorded as of the end of 2017, there were assets of CZK 167.4 million per registered employee.

75 The total number of banking sector employees encompasses employees in the Czech Republic and employees in all countries where the banks operate. It refers to the registered number of employees, full-time and part-time.

2.3 DISTRIBUTION CHANNELS AND PAYMENT CARDS

Distribution channels using remote access to connect clients' requirements with banks' products and services (i.e. with no need for clients to visit a branch) are becoming increasingly important as information and communication technology advances. In parallel with the greater intensity of use of these remote channels, particularly e-banking, bank branches' business units have undergone a reduction in recent years. However, this is linked to streamlining of the operations and structure of the branch network rather than to growth in the importance of remote distribution.

The ATM network is a core e-banking distribution channel. At the end of 2017, banks in the Czech Republic were operating almost 5,000 ATMs, which equates to a year-on-year increase in number of 6%. Most of them (95.3%) were equipped with a cash withdrawal function. ATMs enabling clients to transfer money also accounted for a significant share of the total number of ATMs operated (84.1%). (See Table B.II.4)

Cards with a payment function commonly allow remote access to money managed by banks. Due to the conservative attitude of domestic banks' clients, the most frequently used type of payment card is debit cards, which accounted for 86% of the total of more than 12 million registered payment cards. There were more than 10.3 million cards of this type in circulation at the end of 2017, a year-on-year increase of 317,100. The number of credit cards fell by almost 15% year on year. (See Table B.II.5)

The number of point-of-sale terminals has also been rising in recent years in parallel with the growth in the total number of payment cards. They increased in number by almost 8,000 year on year to 157,500 in 2017. Electronic terminals accounted for 89.5% of all terminals at sales outlets. (See Table B.II.4)

Table B.II.4

ACCEPTANCE DEVICES
(absolute numbers; as of end of period)

	2015	2016	2017
ATMs, total	4,539	4,704	4,987
of which:			
ATMs with cash withdrawal function	4,343	4,492	4,751
ATMs with money transfer function	4,024	4,075	4,194
Terminals – acceptance devices at sales outlets	142,164	147,492	157,501
of which:			
Electronic terminals at sales outlets	96,364	133,007	141,004

Table B.II.5

PAYMENT CARDS
(number of cards issued in thousands)

	2015	2016	2017
Debit cards	9,779.4	10,034.0	10,351.1
Credit cards	1,957.7	1,877.1	1,764.4
Charge cards	4.5	3.8	3.7

2.4 ACTIVITIES OF THE BANKING SECTOR

2.4.1 Banking sector assets

The banking sector had total assets of CZK 7,008.7 billion at the end of 2017, up by CZK 1,048.3 billion on a year earlier. In percentage terms, this represented a year-on-year increase of 17.6%. (See Table B.II.6)

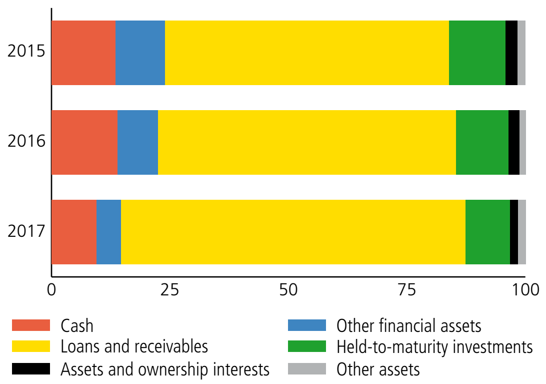
Table B.II.6

BANKING SECTOR ASSETS
(in CZK billions)

	2015	2016	2017	Change 2017/2016 (in %)
NET ASSETS, TOTAL	5,468.5	5,960.4	7,008.7	+17.6
Cash	57.5	55.5	60.1	+8.1
Cash balances with central banks	631.4	743.0	579.7	-22.0
Demand deposits of credit institutions	47.4	34.5	25.0	-27.4
Financial assets held for trading	119.9	107.1	81.6	-23.8
Financial assets designated at fair value through profit or loss	11.1	9.8	5.2	-47.6
Financial assets at fair value through OCI	443.6	388.5	275.5	-29.1
Financial assets at amortised cost	3,927.7	4,406.4	5,749.7	+30.5
Loans and advances	3,277.9	3,746.5	5,092.3	+35.9
Debt securities	649.8	659.9	657.5	-0.4
Derivatives – hedge accounting	44.6	43.1	32.0	-25.8
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1.3	1.4	-6.9	-592.2
Investments in subsidaries, joint ventures and associates	95.5	92.5	95.3	+3.0
Tangible assets	25.9	23.1	24.9	+7.7
Intangible assets	18.8	21.6	24.8	+14.9
Other assets	43.7	33.9	62.0	+83.1

Chart B.II.8

STRUCTURE OF BANKING SECTOR ASSETS
(in %; as of end of period)



Domestic banks usually follow a traditional lending-based business model where client deposits are used as the primary source to cover the loans provided by banks to their clients. This dominant business model is reflected, among other things, in the structure of their assets, where the biggest asset category has long been loans and receivables. Loans and receivables accounted for 72.7% of the sector's total assets at the end of 2017, a year-on-year rise of 9.8 percentage points.

The share of cash and other demand deposits in total assets was 9.5%, i.e. 4.5 percentage points less than at the end of 2016. The share of other financial assets,[76] whose book value is sensitive to financial market developments, was also lower at the end of 2017. These assets accounted for 5.2% of total assets (a year-on-year drop of 3.3 percentage points). The share of debt securities held to maturity in total assets fell by 1.7 percentage points year on year to 9.4%. The asset class comprising tangible and intangible assets and

76 Other financial assets comprise financial assets held for trading, financial assets other than for trading designated at fair value through profit/loss, financial assets designated at fair value through profit and loss and financial assets at fair value through OCI.

ownership interests recorded a slight year-on-year drop of 1.7% in its share in the sector's total assets. The remaining share of other assets not mentioned above was 1.6%. This residual value has been stable in recent years. (See Chart B.II.8)

Turning to the shares of bank groups in total assets, large banks recorded the largest asset volume. Their assets stood at CZK 4,156 billion at the end of 2017, a year-on-year rise of 17.5%. The assets of small and medium-sized banks also increased significantly. The assets of medium-sized bank rose by 20.2% year on year to CZK 1,191.5 billion, while those of small banks grew by 15.7% to CZK 515.0 billion. A different trend was recorded by building societies, whose assets declined by 1.8% to CZK 413.3 billion. (See Table B.II.7)

TABLE B.II.7

BALANCE SHEET TOTALS OF BANK GROUPS
(in CZK billions)

	2015	2016	2017	Change 2017/2016 (in %)
BANKS, TOTAL	5,468.5	5,960.4	7,008.7	+17.6
of which:				
Large banks	3,214.8	3,536.3	4,156.0	+17.5
Medium-sized banks	1,069.4	991.2	1,191.5	+20.2
Small banks	227.3	445.0	515.0	+15.7
Foreign bank branches	522.5	567.2	732.9	+29.2
Building societies	434.5	420.7	413.3	-1.8

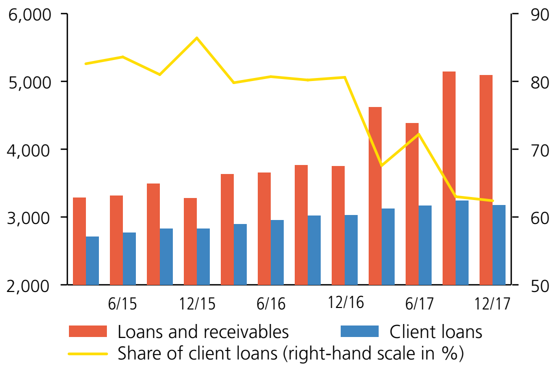
2.4.2 Loans and receivables of the banking sector[77]

The total loans and receivables of the banking sector (net of provisions) amounted to CZK 5,092.4 billion at the end of 2017. This aggregate increased by CZK 1,338.6 billion, or 35.7%, year on year. (See Chart B.II.9)

From the sector perspective, the growth in loans and receivables was driven by loans to and receivables from central banks, which rose by CZK 1,157.2 billion year on year to more than double the end-2016 figure.[78] A significant increase was also recorded by loans to and receivables from financial institutions, which were CZK 32.9 billion higher year on year at CZK 222.7 billion at the end of 2017. By contrast, loans to and receivables from general government fell by 11.6% to CZK 60.3 billion. (See Table B.II.8)

CHART B.II.9

LOANS AND RECEIVABLES OF BANKING SECTOR
(in CZK billions; as of end of period)



77 In addition to loans and receivables measured at amortised cost, the figures for the category of loans and receivables presented in this sub-section include financial assets recorded as financial assets held for trading, financial assets other than for trading designated at fair value through profit/loss, financial assets designated at fair value through profit and loss and financial assets designated at fair value through OCI. These categories together account for a marginal share (less than one thousandth) of aggregate loans.

78 The large increase in the banking sector's loans to and receivables from central banks in both absolute and relative terms corresponded to the significant growth in the CNB's foreign exchange reserves before the exit from the its exchange rate commitment. In early 2017, expectations of an exit from the exchange rate commitment led to high inflows of deposits from non-resident credit institutions and growth in receivables from the CNB in domestic banks' assets.

Table B.II.8

LOANS AND RECEIVABLES BY SECTOR
(in CZK billions)

	2015	2016	2017	Change 2017/2016 (in %)
LOANS AND RECEIVABLES, TOTAL	3,278.0	3,753.8	5,092.3	+35.7
Central banks	243.5	537.0	1,694.2	+215.5
General government	82.8	68.2	60.3	-11.6
Credit institutions	202.7	189.8	222.7	+17.3
Other	2,749.0	2,958.7	3,115.2	+5.3
Other financial institutions	227.1	261.7	270.7	+3.4
Non-financial corporations	1,175.3	1,232.6	1,261.2	+2.3
of which:				
Project financing	160.6	208.1	233.2	+12.0
Households	1,346.7	1,464.4	1,583.2	+8.1
of which:				
Consumer credit	174.7	196.8	216.1	+9.8
Loans secured by property	968.3	1,069.3	1,152.8	+7.8
CLIENT LOANS	2,831.8	3,027.0	3,175.5	+4.9

Chart B.II.10

ANNUAL RATES OF GROWTH OF CLIENT LOANS
(year-on-year change in %)

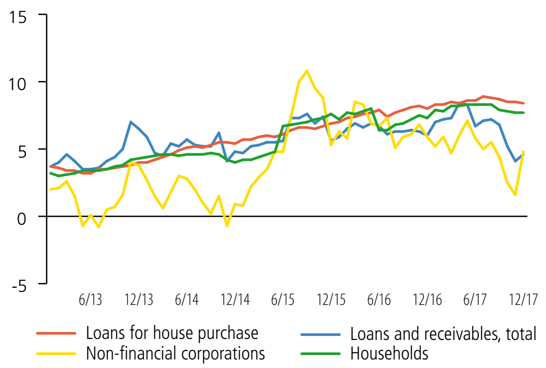
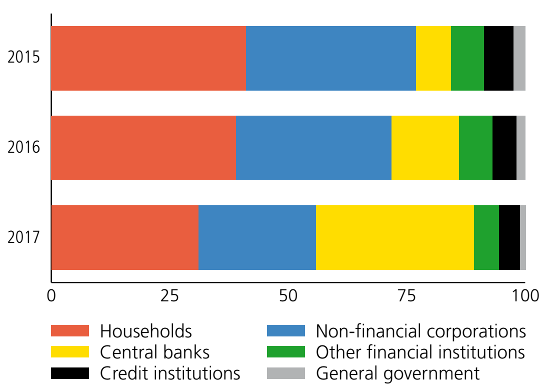


Chart B.II.11

LOANS BY ECONOMIC SECTOR
(in %; as of end of period)



Client loans and receivables ("client loans"[79]) amounted to CZK 3,175.5 billion at the end of 2017, up by 4.9% year on year. Their growth declined by 2 percentage points compared with the end of 2016. Client loans with a 61.2% share formed a majority of total loans and receivables provided in the domestic banking sector, despite a considerable year-on-year drop in this share (of 18.3 percentage points). The lower ratio of client loans in banks' asset portfolio reflects the exit from the exchange rate commitment in April 2017 and related growth in receivables from the CNB.[80] (See Chart B.II.9 and Table B.II.8)

Loans to households, which totalled CZK 1,583.2 billion at the end of 2017, formed the largest component of client loans, accounting for almost one-third of the aggregate loans and receivables of the banking sector as a whole (31.2%). Loans to households increased by CZK 118.8 billion year on year, i.e. by almost the same amount as at the end of 2016, when they had recorded year-on-year growth of CZK 117.8 billion. Loans secured by property have long been the most significant type of credit provided to households, accounting for 72.8% of household loans. Consumer credit represented 13.6% of total loans in the household sector. (See Chart B.II.11 and Table B.II.8)

Loans provided to non-financial corporations were the second-largest segment of client loans, with a 24.8% share of total loans. Loans provided by the domestic banking sector to non-financial corporations amounted to CZK 1,261.2 billion at the end of 2017, i.e. CZK 28.7 billion more than at the end of 2016. The share of project financing in lending to non-financial corporations increased slightly year on year, by 1.6 percentage point to 18.5%.

79 Client loans represent the aggregate of loans to and receivables from general government, other financial institutions, non-financial corporations and households. Loans to and receivables from central banks and other credit institutions are not included in this category.

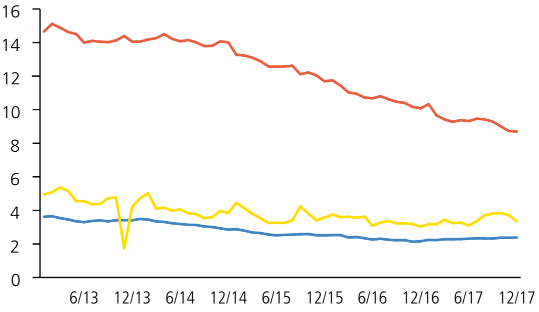
80 For more detailed information see footnote 78 (sub-section 2.4.2).

The banking sector recorded the smallest share of client loans in the segment of loans to general government. At the end of 2017, banks' lending to general government amounted to CZK 60.3 billion, which represented a share of 1.2% in total loans and receivables. Loans to other financial institutions totalled CZK 270.7 billion at the end of 2017, up by 3.4% year on year. These loans accounted for 5.3% of the total loans and receivables provided by the banking sector.

The long-running downward trend in interest rates on loans for house purchase was interrupted at the start of 2017, with the average interest rate on new contracts for this type of loans rising by 0.22 percentage point year on year to 2.38% at the end of 2017.[81] The average rate on new consumer credit continued to fall. Clients were charged an average interest rate of 8.70% in new contracts, down by 1.38 percentage points from the end of 2016. (See Chart B.II.12)

CHART B.II.12

INTEREST RATES ON NEW LOANS
(individuals; in %)



2.4.3 Structure and growth of securities and equity portfolios

At the end of 2017, the total book value of the securities and equity ("total investments") in banks' portfolios was CZK 1,044.5 billion, down by CZK 137.7 billion, or 11.6%, from the end of 2016. (See Table B.II.9)

Debt securities were still the dominant component of total investments in terms of volume, although their share in the total portfolio structure fell by 1.1 percentage points year on year to 90.8%. The most significant category of debt securities by type were debt securities issued by general government, totalling CZK 552.5 billion. The year-on-year decline in the amount of government bonds held by the banking sector was 18.8%, or CZK 127.6 billion. Although their share in total investments dropped by 4.6 percentage points year on year, they still accounted for more than one-half of the book value of the banking sector's total investments (52.9%).

The book value of securities issued by credit institutions and reported by the banking sector in its assets at the end of 2017 was CZK 331.2 billion. This corresponded to a significant share of 31.7% of the total investments in banks' portfolios. Although the volume of this asset category fell by 4.3% year on year, its significance as measured by its share in total securities and equity rose by 2.4 percentage points.

TABLE B.II.9

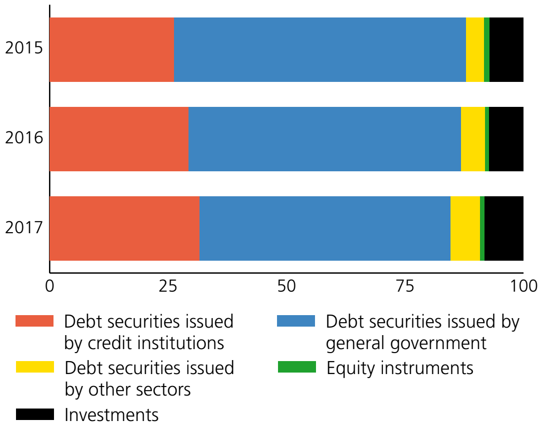
SECURITIES BY ISSUER'S SECTOR, PORTFOLIO AND TYPE
(in CZK billions)

	2015	2016	2017	Change 2017/2016 (in %)
SECURITIES AND INVESTMENTS, TOTAL	1,252.5	1,182.3	1,044.5	-11.6
Debt securities, total	1,148.5	1,086.3	948.3	-12.7
Debt securities issued by credit institutions	329.6	345.9	331.2	-4.3
Debt securities issued by general government	771.2	680.1	552.5	-18.8
Debt securities issued by other clients	47.7	60.3	64.6	+7.1
Equity instruments	14.7	10.4	10.5	+0.6
Shares	9.1	4.9	5.2	+6.2
Units	5.3	5.1	5.0	-1.8
Other equity instruments	0.3	0.4	0.3	-37.7
Investments in subsidiaries, associates and joint ventures	89.3	85.6	85.7	+0.2
Investments with substantial influence	2.5	1.8	1.6	-14.5
Investments with substantial influence in credit institutions	0.0	0.0	0.0	+0.0
Other investments with substantial influence	2.5	1.8	1.6	-14.5
Investments with controlling influence	86.8	83.7	84.2	+0.5
Investments with controlling influence in credit institutions	42.0	43.0	46.7	+8.6
Other investments with controlling influence	44.9	40.7	37.4	-8.1

81 Data from the monetary statistics reporting statements submitted by banks were used as the source for processing data on interest rates on new loans.

CHART B.II.13

SECURITIES AND INVESTMENTS OF BANKING SECTOR
(in %; as of end of period)



At the end of 2017, the debt securities issued by other clients totalled CZK 64.6 billion, a year-on-year increase of CZK 4.3 billion. These securities accounted for 6.2% of the securities and equity recorded in accounts. (See Chart B.II.13)

The Czech banking sector is focused primarily on client lending. This is reflected, among other things, in limited investment activity by the sector in the form of collective investment and stock market trading. At the end of 2017, banks together recorded capital instruments totalling CZK 10.5 billion, almost equivalent to the level recorded at the end of 2016, when the volume of capital instruments had been CZK 59.4 million lower. In terms of their share in total investments, capital instruments accounted for a negligible 1%.

Investments in subsidiaries, associates and joint ventures made up the remaining 8.2% share of total investments. At the end of 2017, a total of CZK 85.7 billion was reported for this category. Investments with controlling influence accounted for the overwhelming majority (98.2%) of ownership interests.

The investments of domestic banks were concentrated mainly in the portfolios of large banks, whose ownership interests accounted for 86.8% of the aggregate holdings of the sector as a whole. These assets consisted mainly of ownership interests in bank subsidiaries, building societies, mortgage banks and the like.

2.4.4 Structure and growth of banking sector liabilities

Banking sector liabilities consist of banks' liabilities to other entities[82] and equity. At the end of 2017, banks' liabilities of CZK 6,452.2 billion accounted for 92.1% of the balance sheet total, while the remaining 7.9% (or CZK 556.5 billion) fell to equity. The liabilities of the banking sector were up by CZK 1,032.6 billion, or 19.1%, year on year at the end of 2017. Equity increased by CZK 15.7 billion (2.9%) year on year. (See Table B.II.10)

82 In this context, other entities consist of the central bank, credit institutions and clients, i.e. general government, households, non-financial corporations and other financial institutions.

TABLE B.II.10

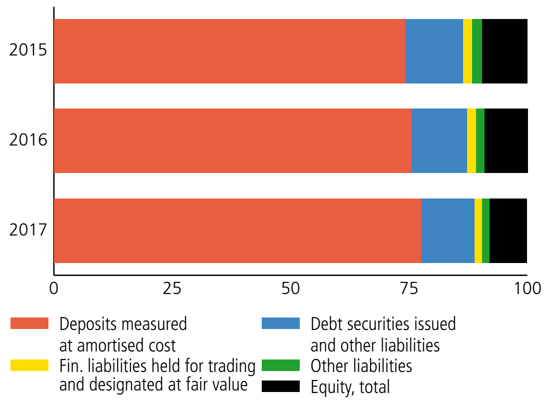
BANKING SECTOR LIABILITIES
(in CZK billions)

	2015	2016	2017	Change 2017/2016 (in %)
LIABILITIES AND EQUITY, TOTAL	5,468.5	5,960.4	7,008.7	+17.6
Liabilities, total	4,941.4	5,419.6	6,452.2	+19.1
Financial liabilities held for trading	93.1	107.0	100.0	-6.5
Derivatives	63.7	60.5	63.7	+5.2
Short positions	17.2	27.7	28.5	+2.9
Deposits	1.6	7.3	2.5	-66.2
Debt securities issued	10.1	11.4	5.3	-53.4
Other financial liabilities	0.6	0.0	0.0	-85.4
Financial liabilities designated at fair value through profit or loss	4.0	3.6	10.7	+196.8
Deposits	4.0	2.0	1.2	-37.9
Debt securities issued	0.0	1.6	9.5	+486.2
Financial liabilities measured at amortised cost	4,728.2	5,200.3	6,234.8	+19.9
Deposits measured at amortised cost	4,057.9	4,504.2	5,439.6	+20.8
Debt securities issued and other liabilities	670.3	696.1	795.1	+14.2
Derivatives – hedge accounting	27.4	26.8	32.3	+20.7
Fair value changes	6.3	7.2	-7.8	-209.7
Provisions	11.8	12.3	12.8	+3.8
Tax liabilities	8.9	7.0	2.9	-58.2
Other liabilities	44.5	55.5	66.5	+20.0
Liabilities included in disposal groups classified as held for sale	17.2	0.0	0.0	N/A
Equity, total	527.1	540.8	556.5	+2.9
Capital	97.7	98.2	99.8	+1.6
Share premium	62.6	62.6	63.4	+1.2
Other equity instruments issued	11.8	12.6	13.3	+5.4
Accumulated other comprehensive income (OCI)	35.8	28.9	7.3	-74.8
Retained earnings	199.2	213.1	239.3	+12.3
Other reserves	53.1	50.7	55.4	+9.4
Profit or loss attributable to owners of the parent	66.4	73.9	75.5	+2.2
Other equity	0.5	0.8	2.4	+222.1

The domestic banking sector has long been characterised by a high share of deposits at amortised cost, which accounted for 77.6%, up by 2 percentage points on the end of 2016. As of the last calendar day of 2017, this category of liabilities stood at CZK 5,439.6 billion, a year-on-year increase of CZK 935.4 billion. The banking sector reported CZK 795.1 billion of other financial liabilities measured at amortised cost, mainly comprising debt securities issued by banks. This liability item made up 11.3% of the sector's balance sheet total. In year-on-year terms, other financial liabilities rose by CZK 99.0 billion, or 14.2%. The residual component of liabilities[83] of CZK 217.4 billion accounted for the remaining 3.1% of the sector's balance sheet total. (See Chart B.II.14)

CHART B.II.14

STRUCTURE OF BANKING SECTOR LIABILITIES
(in %; as of end of period)



83 In this context, residual liabilities consist of financial liabilities held for trading, financial liabilities designated at fair value through profit or loss, provisions, tax liabilities, liabilities arising from derivatives transactions and short selling, and other liabilities not mentioned above.

Chart B.II.15

DEPOSITS OF BANKING SECTOR
(in CZK billions; as of end of period)

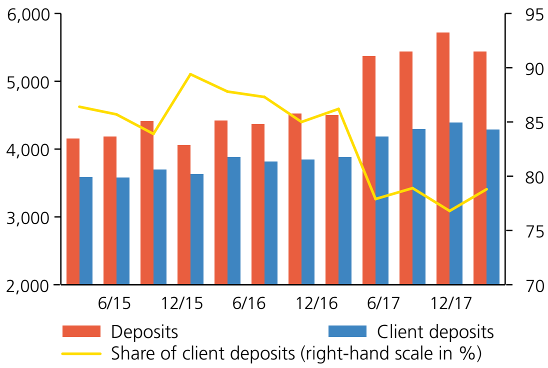


Chart B.II.16

DEPOSITS BY ECONOMIC SECTOR
(in %; as of end of period)

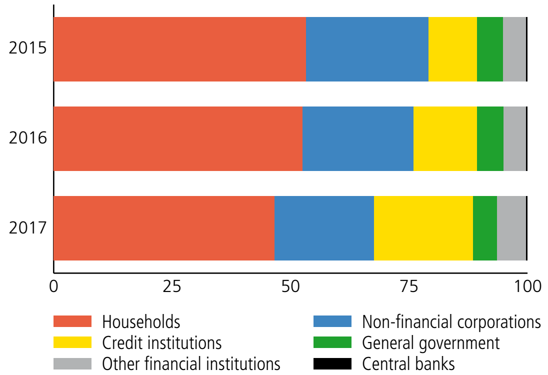


Table B.II.11

CLIENT DEPOSITS OF BANKING SECTOR
(in CZK billions)

	2015	2016	2017	Change 2017/2016 (in %)
CLIENT DEPOSITS, TOTAL	3,634.0	3,892.9	4,288.5	+10.2
General government	218.9	246.5	278.3	+12.9
Deposits of other entities and not broken down by sector	3,415.1	3,646.4	4,010.2	+10.0
Deposits of other financial institutions	199.7	224.1	330.5	+47.5
Deposits of non-financial corporations	1,047.3	1,055.4	1,141.1	+8.1
Deposits of households	2,168.1	2,367.0	2,538.6	+7.3
Current accounts	1,293.1	1,588.6	1,772.7	+11.6
Time deposits	296.3	285.9	282.2	-1.3
Deposits redeemable at notice	578.8	492.5	483.7	-1.8

Client deposits, i.e. the bank deposits of general government, households, non-financial corporations and other financial institutions, have long made up the majority of the sector's total deposits. At the end of 2017, client deposits totalled CZK 4,287 billion, i.e. CZK 395.7 billion more than a year earlier. At the end of 2017, they accounted for 78.8% of total deposits, down by 7.5 percentage points from the same period a year earlier. The drop in this share went hand in hand with an increase in the deposits of credit institutions, which stood at CZK 1,136.9 billion, i.e. CZK 528.6 billion higher than at the end of the previous year. Their share in aggregate deposits rose by 7.4 percentage points to 20.9%. Deposits of central banks accounted for a marginal share of total deposits as of the same date (0.3%). (See Charts B.II.15 and B.II.16)

Banks' equity is a source of own funds for their business activities. As of the last day of 2017, its largest component was retained earnings of CZK 239.3 billion, accounting for 43.0% of equity. The sector's aggregate registered capital amounted to CZK 99.8 billion, i.e. 17.9% of total equity, at the end of 2017. Share premium of CZK 63.4 billion, representing 11.4% of equity, was recorded as of the same date. Profit for the current accounting period stood at CZK 75.5 billion, or 13.6% of equity, as of 31 December 2017. The structure of equity saw no major changes compared with the end of 2016. (See Table B.II.10)

2.4.5 Deposits of bank clients and their structure

Year-on-year growth in client deposits surged compared with the previous year to 10.2% in 2017. At the end of 2016, the figure had been 7.1%. (See Table B.II.11)

The largest item of total client deposits was household deposits (CZK 2,538.6 billion) with a 59.2% share in total client deposits. At the end of 2017, household deposits were up by 7.3%, driven primarily by a year-on-year increase in current account deposits of 11.6% to CZK 1,772.7 billion. By contrast, 2017 saw a continued downward trend in time deposits and deposits redeemable at notice, which fell by 1.3% and 1.8% year on year respectively. (See Table B.II.11)

The growth in household deposits was accompanied by a break in the downward trend in interest rates on new deposit products.[84] On 31 December 2017, the average interest rates on deposits on current and savings accounts stood at 0.11%, having been stable throughout the year. The average interest rate on deposits redeemable at notice at the end of the year was 1.10%, virtually the same as a year earlier. New household time deposit agreements were concluded at an average rate of 0.67%, down by 0.28 percentage point compared

84 Data from the monetary statistics reporting statements submitted by banks were used as the source for processing data on interest rates on new deposits.

with the last day of 2016. The average interest rate on time deposits followed no clear trend during 2017. (See Chart B.II.17)

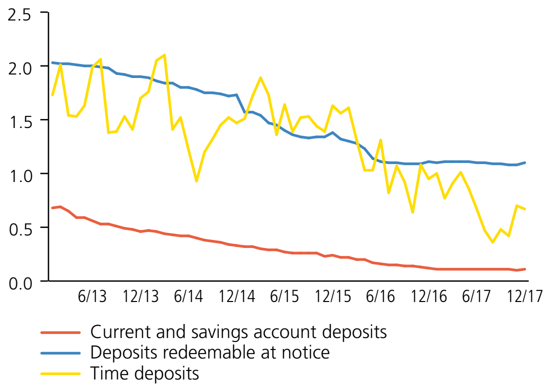
An additional sizeable part of client deposits consisted of deposits of non-financial corporations, which totalled CZK 1,141.1 billion at the end of 2017, a year-on-year increase of 8.1%. Deposits of other financial institutions recorded the largest year-on-year increase within client deposits, rising by a substantial 47.5%. They totalled CZK 330.5 billion and accounted for 7.7% of client deposits. The final segment of client deposits was deposits of general government, which stood at CZK 278.3 billion as of the last day of 2017 and had a relatively stable share of client deposits of 6.5%, i.e. 0.2 percentage higher than at the end of 2016. (See Table B.II.11)

At the end of 2017, the biggest share in the banking sector's total client deposits was concentrated in the group of large banks, which were administering 60.8% of client deposits. Medium-sized banks accounted for 16.8% and small banks for 8.7% of the sector's client deposits. Building societies recorded a similar share (8.5%). The remaining 7.2% of client deposits were at foreign bank branches.

Turning to the changes in the concentration of client deposits in the individual groups of banks, the fastest year-on-year growth was recorded as in 2016 by small banks, whose client deposits increased by 24.2%. Lower relative growth was recorded for the other groups: year-on-year growth of 9.1% for large banks, 17.3% for medium-sized banks and 6.1% for foreign bank branches. Only in the building societies segment did deposits decline (by 1.9%).

CHART B.II.17

INTEREST RATES ON NEW DEPOSITS
(individuals; in %)



2.4.6 Liquidity situation of the banking sector

The banking sector has long recorded an excess of client deposits over client loans, creating a favourable liquidity environment in the domestic banking sector. The ratio of client deposits to loans increased by 6.4 percentage points year on year to 135.1%, mainly as a result of growth in the first quarter of 2017. In the subsequent three quarters of 2017, the ratio was broadly stable. The year-on-year increase was consistent with the evolution of client deposits (year-on-year growth of 10.2%), whose growth in 2017 was roughly twice that of client loans (4.9%). (See Chart B.II.18)

Quick assets went up by 42.0% year on year. The growth was concentrated mainly in the first quarter of 2017, as quick assets were relatively stable in the months that followed. As of 31 December 2017, banks recorded aggregate quick assets of CZK 2,911.6 billion, representing a year-on-year increase of CZK 861.5 billion. At CZK 1,694.2 billion, loans to and receivables from central banks were the largest component, accounting for 58.2% of quick assets. Cash including cash balances at central banks and other short-term deposits totalled CZK 664.8 billion, representing 22.8% of quick assets. Debt securities of general government in banks' portfolios amounted to

CHART B.II.18

LIQUIDITY RATIOS OF BANKING SECTOR
(in %)

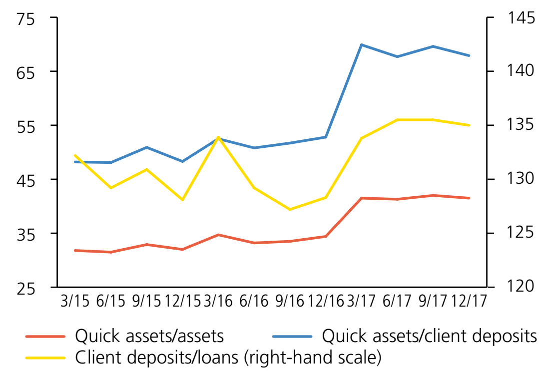


CHART B.II.19

QUICK ASSETS IN 2017
(in CZK billions; in %)

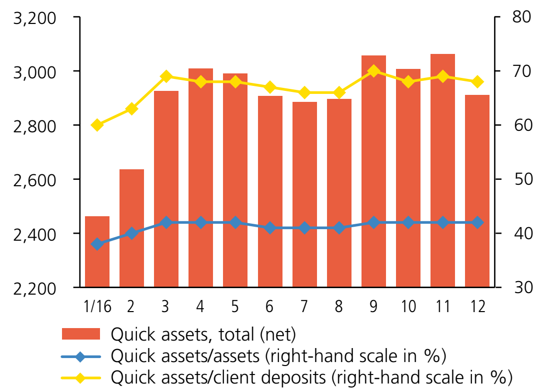


CHART B.II.20

LIQUIDITY RATIOS OF BANK GROUPS
(in %; as of 31 December 2017)

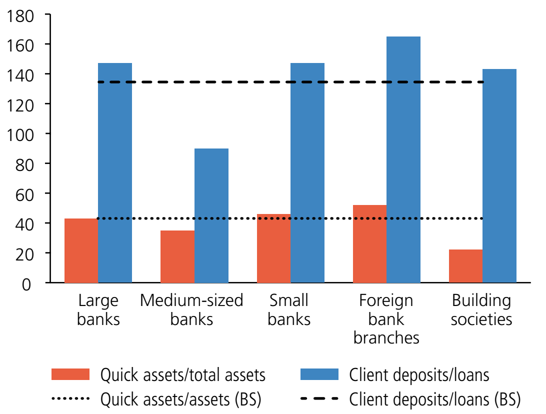


TABLE B.II.12

LIQUIDITY OF BANKING SECTOR
(in %/CZK billions; as of end of period)

	2015	2016	2017
QUICK ASSETS, TOTAL (CZK billions)	1,750.9	2,050.1	2,911.5
POSITION			
Position on interbank market (CZK billions)	-214.9	-418.5	-914.1
Ratio of position on interbank market to balance sheet total of BS (%)	-3.9	-7.0	-13.0
OTHER LIQUIDITY RATIOS			
Loan coverage by primary funds (%)	128.3	128.6	135.1
Quick assets/assets (%)	32.0	34.4	41.5

CZK 552.6 billion and accounted for the remaining 19.0% of quick assets. (See Chart B.II.19)

In an environment of a rising excess of deposits over loans in 2017, the share of quick assets in total banking sector assets increased from 34.4% at the end of 2016 to 41.5% a year later. This increase occurred in 2017 Q1 and was followed by three quarters of stability. The share of quick assets in client deposits followed a similar pattern, rising by 15.2 percentage points year on year to 67.9%.

As regards the liquidity characteristics of the different groups of banks, foreign bank branches recorded the highest share of quick assets in assets (52.4%, i.e. 10.8 percentage points above the sector average). Above-average shares were also recorded by large banks (43.0%, i.e. 1.4 percentage points above the average) and small banks (45.8%, i.e. 4.3 percentage points above the average). By contrast, medium-sized banks recorded a below-average share of quick assets in assets (34.8%, i.e. 6.8 percentage points below the average). Due to their business model, building societies recorded the lowest liquidity ratio of quick assets to assets (22.3%, i.e. 19.2 percentage points below the sector average). (See Chart B.II.20)

The position on the interbank market[85] was minus CZK 914.1 billion. This represented a year-on-year increase in deficit of CZK 495.6 billion. The "internal" exposure to the banking sector thus saw a relatively substantial increase. Despite this, the domestic banking market continued to be characterised by a good liquidity position and sufficient sources for lending to clients. (See Table B.II.12)

85 The position on the interbank market is defined as the difference between the receivables of the banking sector from credit institutions and the deposits of credit institutions recorded under banking sector liabilities.

2.4.7 The share of foreign currencies in the banking sector's activities[86]

Assets denominated in foreign currencies ("foreign currency assets") in the domestic banking sector exceeded CZK 1,000 billion (CZK 1,055.0 billion) at the end of 2017. They increased by CZK 23.6 billion, or 2.3%, year on year. Compared with the previous year, the rate of growth of foreign currency assets fell by 4.1 percentage points. (See Table B.II.13)

Table B.II.13

ASSETS AND LIABILITIES – FOREIGN CURRENCIES
(in CZK billions)

	2015	2016	2017	Change 2017/2016 (in %)
ASSETS. TOTAL	969.2	1,031.4	1,055.0	+2.3
Cash	8.9	8.9	8.6	-2.7
Deposits and loans with other credit institutions	207.3	205.8	243.2	+18.2
Loans and other client receivables. total	519.7	578.5	582.1	+0.6
Debt securities held by bank	168.9	173.3	155.6	-10.2
Equity instruments held by bank	25.4	21.0	19.7	-6.2
Other assets	39.0	43.4	44.1	+1.7
LIABILITIES. TOTAL	948.2	1,041.0	1,329.6	+27.7
Deposits and loans from other credit institutions	238.5	342.5	569.3	+66.2
Deposits and loans from clients	426.4	427.6	403.0	-5.8
Debt securities issued	197.1	176.9	261.6	+47.9
Equity and provisions	38.9	39.1	36.7	-6.0
Other liabilities	47.2	54.9	59.0	+7.3

This increase was due mainly to bank deposits with, and loans to, other credit institutions, which reached CZK 243.2 billion at the end of 2017, up by CZK 37.4 billion, or 18.2%, year on year. By contrast, the banking sector registered a decrease in debt securities, which totalled CZK 155.6 billion, i.e. CZK 17.7 billion less than at the end of 2016. The domestic banking sector also recorded a CZK 1.3 billion year-on-year decline in foreign currency capital instruments.

Foreign currency loans to and receivables from clients, which, with a share of 55.2%, have long been the largest foreign currency asset item in terms of volume, rose by CZK 3.6 billion to CZK 582.1 billion. Other large items of foreign currency assets included deposits with, and loans to, other credit institutions with a share of 23.1% and debt securities in banks' portfolios with a share of almost 15%.

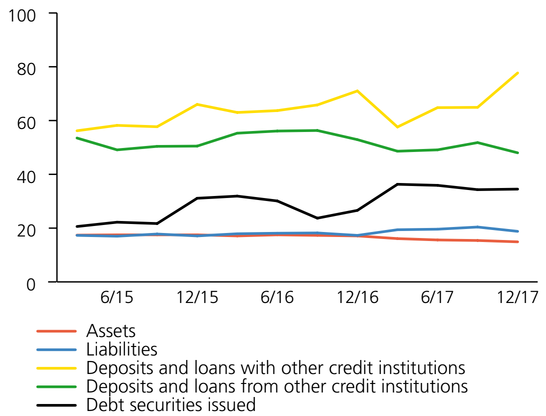
The remaining asset items, i.e. cash, capital instruments and other foreign currency assets, together made up the residual share of 6.9%. Compared with the previous year, the structure of foreign currency assets can regarded as relatively stable.

86 Data from the monetary statistics reporting statements submitted by banks were used to prepare this section.

CHART B.II.21

SHARES OF FOREIGN CURRENCIES

(in %; banking sector balance sheet)



The share of foreign currency assets in total assets can be viewed as stable, though it declined by 2.2 percentage points year on year to 14.9% as of 31 December 2017. A larger year-on-year change (of 6.7 percentage points) and greater variability during 2017 was recorded by the share of foreign currency deposits with, and loans to, other credit institutions in their sector aggregate with no differentiation between the currency denominations of these assets. (See Chart B.II.21)

Compared with foreign currency assets, foreign currency liabilities made up a larger share of the sector's balance sheet total (18.8%). They amounted to CZK 1,329.6 billion, an increase of 27.7% compared with the end-2016 figure. The negative difference between the shares of foreign currency assets and liabilities in the sector's balance sheet total continued to widen during 2017. At the close of the year, however, it narrowed to 3.9 percentage points. In absolute terms, foreign currency liabilities were CZK 274.6 billion higher than foreign currency assets at the end of 2017.

At the end of 2017, deposits and loans received from other credit institutions made up the largest share of total foreign currency liabilities, having risen by 66.2% year on year to CZK 569.3 billion. Another major category of liabilities was deposits and loans received from clients (CZK 403.0 billion), which fell by 5.8% year on year. Debt securities issued by banks recorded a substantial increase of 47.9% and amounted to CZK 261.6 billion at the end of 2017. (See Table B.II.13)

2.4.8 Assets and liabilities vis-à-vis non-residents[87]

Aggregate non-resident assets fell by CZK 22.9 billion year on year to CZK 743.7 billion at the end of 2017. Their share in the banking sector's total assets was 10.6%, a year-on-year drop of 2.3 percentage points. A steady downward trend has been apparent since the start of 2015. (See Table B.II.14 and Chart B.II.22)

Loans to and other receivables from clients made up the biggest share in non-resident bank assets of 39.3% and stood at CZK 296.0 billion at the end of 2017, despite having fallen by 7.1% year on year. Behind them were loans provided to and deposits made at credit institutions of CZK 251.6 billion with a 33.8% share, which, by contrast, rose by 7.6% year on year. While the share of client loans and receivables dropped by 1.8 percentage points compared with the previous year, the share of this category allocated to credit institutions rose by 3.3 percentage points.

87 Data from the monetary statistics reporting statements submitted by banks were used to prepare this section.

TABLE B.II.14

ASSETS AND LIABILITIES – NON-RESIDENTS
(in CZK billions)

	2015	2016	2017	Change 2017/2016 (in %)
ASSETS, TOTAL	794.6	766.6	743.7	-3.0
Cash	8.9	8.9	8.6	-2.7
Loans and deposits provided (credit institutions)	249.6	233.8	251.6	+7.6
Other loans and deposits provided	320.9	318.6	296.0	-7.1
Debt securities held by bank	118.6	115.6	99.9	-13.6
Equity instruments held by bank	22.5	17.8	16.8	-5.4
Other assets	74.2	71.4	69.1	-3.2
LIABILITIES, TOTAL	909.2	1,184.7	1,877.2	+58.5
Loans and deposits accepted (credit institutions)	404.5	588.1	1,130.2	+92.2
Other loans and deposits accepted	167.9	209.5	237.2	+13.3
Debt securities issued	206.6	261.5	380.2	+45.4
Equity and provisions	46.3	46.5	61.8	+32.8
Other liabilities	83.9	79.0	67.8	-14.2

The share of non-resident loans to and receivables from other credit institutions in loans and receivables of the same type for the sector as a whole was 80.4% as of 31 December 2017, a marginal change from the share of 80.7% recorded a year earlier. For most of the year, this share fluctuated at a lower level, but in 2017 Q4 it increased by more than 14 percentage points. (See Chart B.II.22)

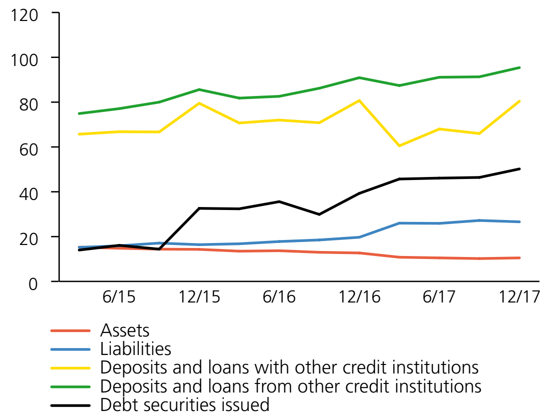
At the end of 2017, banks held non-resident debt securities totalling CZK 99.9 billion in their portfolios, representing a decrease of 13.6% year on year. These securities accounted 13.4% of non-resident assets. Cash, capital instruments held by the banking sector and other assets also recorded year-on-year declines. These asset categories together made up 12.7% of the aggregate non-resident assets recorded by the banking sector.

The gap between the rising non-resident liabilities and falling non-resident assets widened during 2017. Non-resident liabilities amounted to CZK 1,877.2 billion at the end of 2017, an increase of 58.5% in year-on-year comparison. Their share in the sector's total liabilities was 26.8%, up by 6.9 percentage points on a year earlier.[88]

Loans and deposits received from non-resident credit institutions made up more than 60% of non-resident liabilities, amounting to CZK 1,130.2 billion at the end of 2017, i.e. almost double the level a year earlier. Debt securities issued owned by non-residents accounted for 20.3% and client loans and deposits received for 12.6% of the

CHART B.II.22

NON-RESIDENT TRANSACTIONS
(in %; banking sector balance sheet)



88 This increase was due mostly to a sizeable rise in koruna non-resident deposits, in particular with credit institutions, in early 2017, which the domestic banking sector recorded in connection with expectations of appreciation of the Czech koruna after the discontinuation of the exchange rate commitment. As a result of the foreign exchange interventions prompted by this inflow of funds from abroad, banks' receivables from the CNB increased in parallel.

sector's total non-resident liabilities. Other non-resident liabilities including capital and reserves formed the remaining 6.9%.

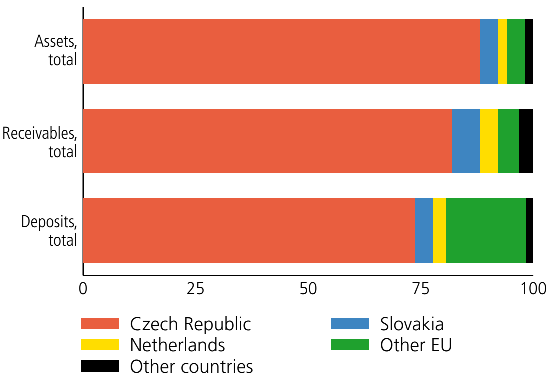
Relatively high year-on-year growth was recorded in all the main components of non-resident liabilities except for other liabilities. Non-resident securities issued by banks rose by 45.4% year on year to CZK 380.2 billion, client loans and deposits by 13.3% to CZK 237.2 billion and capital and reserves by 32.8% to CZK 61.8 billion. (See Table B.II.14 and Chart B.II.22)

2.4.9 Territorial focus of banking sector activities

The total exposure of the domestic banking sector to regional units can be expressed using the shares of assets held, receivables provided and deposits accepted in the totals for the sector as a whole taking into account the territorial point of view.

CHART B.II.23

TERRITORIAL FOCUS OF BANKING SECTOR
(in %; as of 31 December 2017)



The activities of banks in the Czech Republic have long been concentrated on the domestic market. As of 31 December 2017, domestic exposures accounted for 88.2% of the sector's assets and exposures abroad for the remaining 11.8%. From the territorial point of view, the foreign orientation of domestic banks was concentrated in EU Member States, with exposures in those countries accounting for 85.4% of total exposures abroad. The banking sector had the largest exposures to Slovakia (3.9% of total assets) and the Netherlands (2.1%), followed some way behind by Poland (0.6%), Germany (0.6%), the UK (0.5%) and Austria (0.5%). As regards non-EU Member States, the largest exposure of the domestic banking sector was that to the Russian Federation (0.5%). (See Chart B.II.23)

From the territorial point of view, most receivables of the domestic sector were distributed among domestic entities (82%) at the end of 2017, while foreign exposure made up the remaining 18%. Of the total volume of receivables, 14.9% were from entities domiciled in EU Member States and the remaining 3.1% were from non-residents based outside the EU.

Turning to the territorial structure of deposits, domestic banks again had cross-border exposures mainly to EU Member States. While 73.8% of all deposits received were from domestic sources, almost a quarter (24.7%) were from EU Member States. The remaining 1.6% of deposits consisted of domestic banks' liabilities from non-EU countries.

2.4.10 Banking sector off-balance sheet[89]

Off-balance sheet assets amounted to CZK 1,234.6 billion at the end of 2017, up by 4.1% year on year. Off-balance sheet assets accounted for almost one-fifth of the total assets of the banking sector. This share has declined slightly in recent years. (See Table B.II.15)

The structure of off-balance sheet asset items remained relatively stable. As of 31 December 2017, the banking sector as a whole had loan commitments given amounting to CZK 816.0 billion, accounting for 66.1% of off-balance sheet assets. The majority of the loan commitments (57.5%) were to non-financial corporations and 25.1% were to households. Banks also recorded financial guarantees given of CZK 170.4 billion at the end of 2017, i.e. 13.8% of off-balance sheet assets, the same share as a year earlier. In all, 82% of the guarantee recipients were non-financial corporations and 11.4% were other financial institutions. Financial guarantees given to households accounted for a mere 2.1% of the total guarantees given. Other commitments given totalled CZK 248.2 billion in this period (20.1% of off-balance sheet assets).

While the volume of off-balance sheet assets has risen in recent years, off-balance sheet liabilities have decreased. Banks recorded off-balance sheet liabilities of CZK 340.4 billion at the end of 2017, down by 12.3% year on year in relative terms. Off-balance sheet liabilities accounted for 4.9% of the sector's aggregate liabilities.

Given the long-running positive liquidity conditions in the sector, loan guarantees received were the largest item of off-balance sheet liabilities, amounting to CZK 331.5 billion as of 31 December 2017. Loan guarantees received accounted for 97.4% of total off-balance sheet liabilities, despite recording a year-on-year decrease of 10.7%. Of these guarantees, 39.8% were received from non-financial corporations, 30.6% from other financial institutions and 17.2% from credit institutions. The other sectors, i.e. general government and households, had equal shares of more than 12.4% of total financial guarantees received.

The importance of credit commitments and other commitments received, as expressed by their share in total off-balance sheet liabilities, remained marginal. Both these off-balance sheet items recorded quite large relative year-on-year declines.

Table B.II.15

BANKING SECTOR OFF-BALANCE SHEET
(in CZK billions)

	2015	2016	2017	Change 2017/2016 (in %)
OFF-BALANCE SHEET ASSETS				
Loan commitments given	735.6	773.9	816.0	+5.4
Financial guarantees given	159.2	163.3	170.4	+4.3
Other commitments given	241.6	249.0	248.2	-0.3
OFF-BALANCE SHEET LIABILITIES				
Loan commitments received	7.0	15.3	8.5	-44.5
Financial guarantees received	405.8	371.1	331.5	-10.7
Other commitments received	1.4	2.0	0.4	-78.9

89 The data on off-balance sheet items are reported at nominal value, which expresses the maximum potential exposure to credit risk. Collateral held and other credit enhancements are not taken into account.

2.5 BANKING SECTOR ASSET QUALITY

2.5.1 Default loans and receivables[90]

TABLE B.II.16

CLASSIFICATION OF RECEIVABLES – CLIENT RECEIVABLES
(in CZK billions)

	2015	2016	2017	Change 2017/2016 (in %)
Receivables, total (gross)	2,916.3	3,104.1	3,243.9	+4.5
Non-default	2,742.9	2,951.3	3,113.5	+5.5
Standard receivables	2,664.9	2,874.3	3,048.8	+6.1
Watch receivables	78.0	77.0	64.7	-16.0
Default receivables	173.4	152.8	130.4	-14.7
Substandard receivables	63.9	46.1	38.7	-16.0
Doubtful receivables	13.5	22.9	11.1	-51.6
Loss receivables	96.0	83.8	80.6	-3.8
Allowances, total	90.9	84.9	73.0	-14.0
Non-default	10.6	9.9	8.9	-10.8
Standard receivables	6.0	7.0	6.5	-7.7
Watch receivables	4.6	2.9	2.4	-18.2
Default receivables	80.3	75.0	64.1	-14.5
Substandard receivables	11.2	12.7	11.2	-11.8
Doubtful receivables	4.7	5.5	5.0	-8.6
Loss receivables	64.4	56.7	47.9	-15.6
Coverage of non-default receivables (in %)	0.4	0.3	0.3	-15.4
Coverage of default receivables (in %)	46.3	49.1	49.2	+0.2

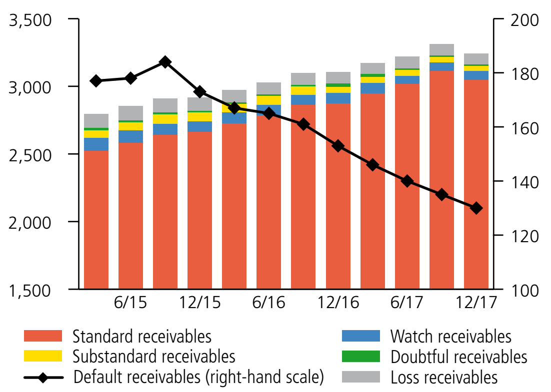
The CNB's supervision of the financial market focuses partly on regular reviews of the quality of receivables. Under the relevant methodology, such reviews categorise receivables into default receivables[91] and non-default receivables.

The domestic banking sector has long been reporting relatively favourable characteristics in terms of receivable quality. The vast majority of default receivables have long been client receivables. They accounted for 99.8% of the total default receivables recorded by the banking sector at the end of 2017. The volume of default receivables from other credit institutions is negligible.

The favourable downward trend in default receivables and their share in total client loans, which has been observed since the end of 2015, continued in the banking sector during 2017. Default receivables (in gross terms[92]) recorded a year-on-year decrease of CZK 22.4 billion in 2017 to CZK 130.4 billion at the end of the year.

CHART B.II.24

CLASSIFICATION OF RECEIVABLES FROM CLIENTS
(in CZK billions; as of end of period)



90 Classification of receivables according to CNB rules. See Decree No. 163/2014 Coll., on the pursuit of business of banks, credit unions and investment firms.

91 Default receivables are further broken down into substandard, doubtful and loss receivables.

92 Default receivables excluding allowances.

This was equivalent to a decline of 14.7% in relative terms. Default client receivables accounted for 4.0% of total client receivables, i.e. 0.9 percentage point less than a year earlier. (See Table B.II.16 and Chart B.II.24)

Loss receivables were the largest item of default client receivables in terms of volume at the end of 2017, accounting for 61.8%. Substandard receivables accounted for 29.7% of client default receivables and doubtful receivables for the remaining 8.5%.

2.5.2 Sector distribution of default loans and receivables

The non-financial corporations sector recorded the largest share of default receivables at the end of 2017. Default receivables accounted for 4.2% of banks' total receivables from non-financial corporations, down by 0.9 percentage point year on year. Other sectors recorded shares of default receivables below the average share calculated at the aggregate level for client loans. As of 31 December 2017, the household sector recorded a decline in this ratio of 0.7 percentage point to 2.5%. The ratios of default receivables from general government and other financial institutions have long been stable, and both stayed below 0.5%. (See Chart B.II.25)

Default receivables from credit institutions amounted to CZK 232.0 million on 31 December 2017, up from CZK 121.8 million a year earlier. (See Table B.II.17)

CHART B.II.25

NON-PERFORMING LOANS
(in % of total client loans granted by BS)

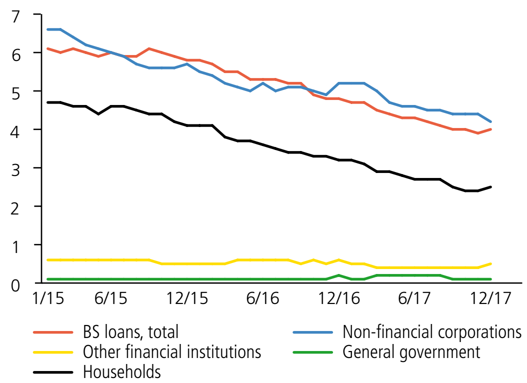


TABLE B.II.17

CLASSIFICATION OF RECEIVABLES – CREDIT INSTITUTIONS
(in CZK millions)

	2015	2016	2017	Change 2017/2016 (in %)
Receivables, total (gross)	252,378.3	223,984.3	247,279.4	+10.4
Non-default	252,009.5	223,862.5	247,047.5	+10.4
Standard receivables	249,259.5	221,663.1	245,618.6	+10.8
Watch receivables	2,750.0	2,199.4	1,428.9	-35.0
Default receivables	368.7	121.8	232.0	+90.4
Substandard receivables	246.4	0.0	0.0	N/A
Doubtful receivables	0.0	0.0	116.9	N/A
Loss receivables	122.4	121.8	115.1	-5.5
Allowances, total	179.2	152.8	143.9	-5.9
Non-default	25.9	31.0	28.8	-7.2
Standard receivables	11.4	11.3	19.5	+72.8
Watch receivables	14.5	19.7	9.2	-53.2
Default receivables	153.3	121.8	115.1	-5.5
Substandard receivables	30.9	0.0	0.0	N/A
Doubtful receivables	0.0	0.0	0.0	N/A
Loss receivables	122.4	121.8	115.1	-5.5
Coverage of non-default receivables (in %)	0.01	0.01	0.01	-15.9
Coverage of default receivables (in %)	41.6	100.0	49.6	-50.4

The cumulative provisions for the banking sector as a whole, created by banks to cover potential losses, amounted to CZK 73.1 billion on 31 December 2017, down by 14% year on year. The total coverage of default receivables in the portfolio of the domestic banking sector increased marginally by 0.1 percentage point to 49.2% as of 31 December 2017.

2.6 BANKING SECTOR PERFORMANCE AND PROFITABILITY

2.6.1 Financial and operating profit

TABLE B.II.18

BANKING SECTOR PROFITS
(in CZK billions)

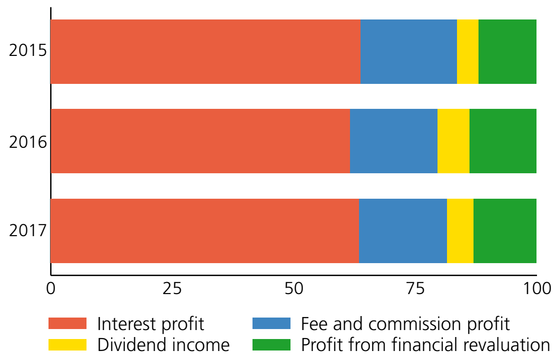
	2015	2016	2017	Change 2017/2016 (in %)
Financial and operating profit	174.2	180.2	179.2	-0.6
of which:				
Interest profit	110.9	109.9	112.1	+2.0
Interest income	150.9	143.4	146.7	+2.3
Interest expenses	40.0	33.6	34.6	+3.1
Dividend income	7.7	11.9	9.7	-18.2
Fee and commission profit	34.6	32.4	32.1	-1.2
Fee and commission income	47.9	44.8	44.5	-0.6
Fee and commission expenses	13.3	12.4	12.5	+1.1
Administrative expenses	70.7	71.7	73.5	+2.6
Staff expenses	35.1	36.5	38.3	+5.0
Other administrative expenses	35.6	35.2	35.2	+0.2
Depreciation	6.6	7.0	7.4	+5.6
Provisions	0.8	2.8	2.6	-7.0
Impairment	16.0	11.8	6.4	-45.8
Profit before tax	80.5	87.9	90.4	+2.8
Tax expense	14.2	14.4	15.0	+3.8
PROFIT AFTER TAX (current year)	66.4	73.9	75.5	+2.2

Despite the two increases in the CNB's 2W repo rate made in 2017, an environment of very low interest rates prevailed in the banking sector. In these conditions, the financial and operating profit of the banking sector remained almost the same as in 2016, falling by CZK 1 billion, or 0.6%, year on year to CZK 179.2 billion.

Interest profit edged up by 2% year on year to CZK 112.1 billion as of the end of 2017. Profit from fees and commissions showed the opposite change in the same period, falling slightly by 1.2% to CZK 32.1 billion. Income on dividends from ownership interests recorded a fairly large decline of 18.2% to CZK 9.7 billion. By contrast, profit from financial revaluation of assets and liabilities[93] contributed significantly to profit from financial and operating activities, amounting to CZK 22.8 billion at the end of 2017 despite declining by CZK 1.7 billion (7.2%). The profit from financial revaluation was due mainly to gains on financial assets and liabilities held for trading of CZK 10.5 billion and gains from valuation changes of CZK 8.1 billion. (See Table B.II.18 and Chart B.II.26)

CHART B.II.26

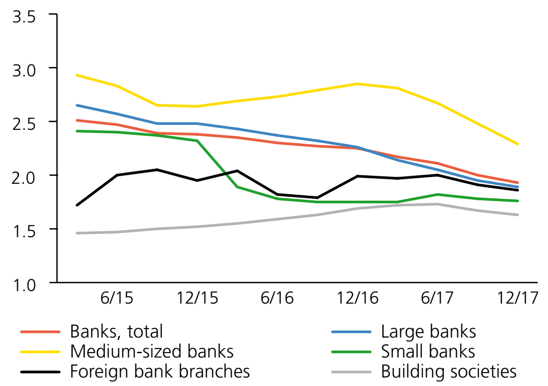
DECOMPOSITION OF FINANCIAL PROFIT
(in %)



93 The part of profit consisting mainly of gains or losses on financial assets and liabilities held for trading, hedging transactions and valuation changes.

CHART B.II.27

NET INTEREST MARGIN (ANNUAL)
(in %)



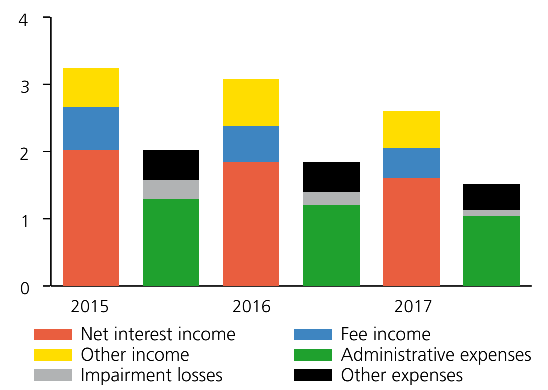
Profit stemming from the interest rate margin made up the bulk of profit from financial activities. It accounted for 63.5% of the financial profit generated by banks, up by 2.0 percentage points year on year. Profit from fees and commissions accounted for 18.1%, the same as at the end of 2016. Profit from financial revaluation had a share of 12.9% (down by 0.8 percentage point). The remaining 5.5% of financial profit was due to dividend income (down by 1.1 percentage points). (See Chart B.II.26)

The net interest rate margin[94] of the banking sector as a whole was 1.93% at the end of 2017, down by 0.32 percentage point year on year. Medium-sized banks recorded the largest decrease in net interest rate margin – a drop of 0.56 percentage point to 2.29%. Large banks saw a year-on-year decline in margin of 0.37 percentage point to 1.89%. Foreign bank branches and building societies also recorded modest year-on-year decreases in their net interest rate margin. Small banks showed a stable net interest rate margin of 1.76%, up by 1 basis point year on year on average. (See Chart B.II.27)

2.6.2 Administrative expenses and impairment

CHART B.II.28

STRUCTURE OF INCOME AND EXPENSES
(in % of assets)



Administrative expenses provide rough information about the efficiency with which the banking sector's current operating activities are managed. They increased by 2.6% year on year to CZK 73.5 billion in 2017. Personnel expenses accounted for CZK 38.3 billion of total administrative expenses (representing a slight increase in share), while other administrative expenses amounted to CZK 35.2 billion. Personnel expenses showed higher year-on-year growth, increasing by 5.0%, while other administrative expenses were broadly equivalent to the level observed a year earlier. The degree of use of financial and operating profit to cover administrative expenses was 41.0% in 2017, when this ratio decreased by 1.3 percentage points. (See Table B.II.18 and Chart B.II.28)

Asset impairment losses, which, to a limited extent, can indicate the quality of risk management in the allocation of banking sector funds, declined by almost a half (45.7%) year on year in 2017, amounting to CZK 6.4 billion on 31 December 2017 (down by CZK 5.4 billion year on year). Corporate income tax expenses in the banking sector totalled CZK 15.0 billion in 2017, 3.8% more than a year earlier. (See Table B.II.18)

94 The net interest rate margin is defined as the ratio of interest profit to financial interest-bearing assets.

2.6.3 Banking sector net profit

The after-tax profit of the banking sector as a whole amounted to CZK 75.5 billion at the end of 2017, a rise of CZK 1.6 billion on a year earlier (i.e. up by 2.2%). (See Chart B.II.29)

As regards the distribution of the banking sector's net profit among groups of banks, the biggest share fell to large banks. In 2017, they recorded a net profit of CZK 54.1 billion, accounting for 71.7% of the sector's total profit. This group's share in profit rose by 4.7 percentage points year on year, interrupting the downward trend observed in recent years. The group of medium-sized banks cumulatively generated a net profit of CZK 12.3 billion, which equates to a share of 16.3%. The share of medium-sized banks decreased by 5.1 percentage points year on year. Small banks posted a net profit of CZK 2.0 billion in 2017. The profits of small banks accounted for 2.6% of the sector's total net profit, a marginal increase of 0.2 percentage point. With a net profit of CZK 3.8 billion, foreign bank branches accounted for 5% of the sector's net profit. The profit of CZK 3.3 billion created by building societies made up the remaining 4.3%. The share of foreign bank branches in the sector's net profit increased by 0.4 percentage point and that of building societies declined by 0.3 percentage point year on year. (See Chart B.II.30)

A large majority of the banking sector generated net profits in 2017. Losses were generated by six banks, mostly foreign bank branches, which are of negligible importance for the sector's stability. The aggregate assets of the banks that generated losses in 2017 accounted for 0.7% of the total assets of the banking sector.

2.6.4 Banking sector profitability and efficiency

The profit of the domestic banking sector increased slightly year on year owing to a modest rise in interest profit, which is constantly the biggest component of the total profit generated by the sector as a whole, primarily because domestic banks focus on a traditional business model based on providing client loans covered by client deposits.

Profitability as expressed by the return on assets (RoA) of the banking sector as a whole decreased by 0.16 percentage point year on year to 1.08% in 2017. (See Chart B.II.31)

Large banks, which managed 59.3% of all banking sector assets at the end of 2017, recorded an RoA of 1.27%. This represented a year-on-year decline of 0.13 percentage point. The largest year-on-year decrease in RoA was recorded by medium-sized banks, whose RoA fell by 0.57 percentage point to 1.07%, with the assets of this group accounting for 17% of the sector's total assets. Small banks were the only group to show a year-on-year (albeit negligible) increase in RoA, to 0.40% at the end of 2017 (up by 0.02%). Foreign bank

CHART B.II.29

NET PROFIT OF BANKING SECTOR
(in CZK billions; in given period)

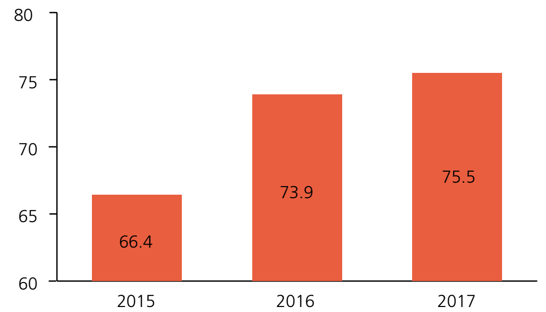


CHART B.II.30

SHARES OF BANK GROUPS IN PROFIT
(in %; banks with licences as of end of period)

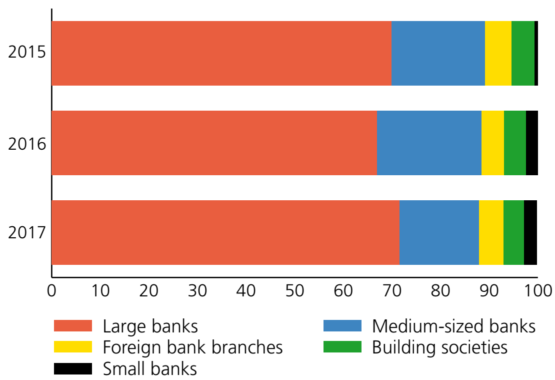


CHART B.II.31

BANKING SECTOR PROFITABILITY AND EFFICIENCY INDICATORS
(in %)

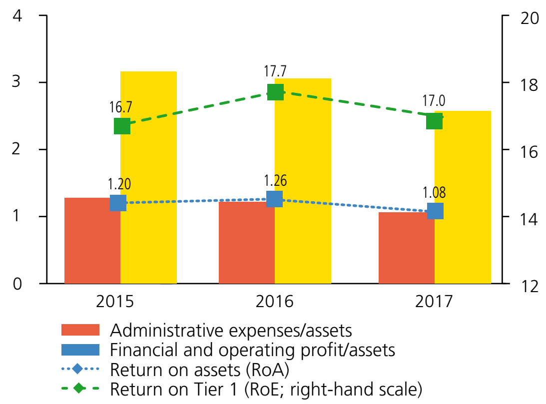


CHART B.II.32

RETURN ON ASSETS (RoA)
(in %; bank groups)

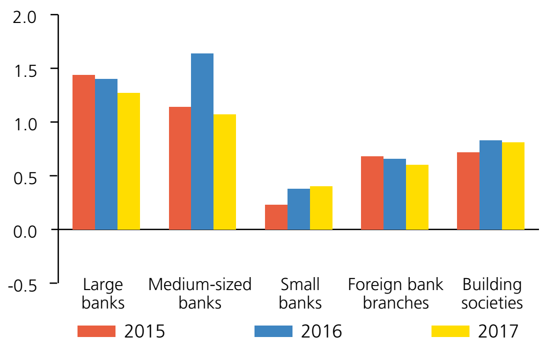
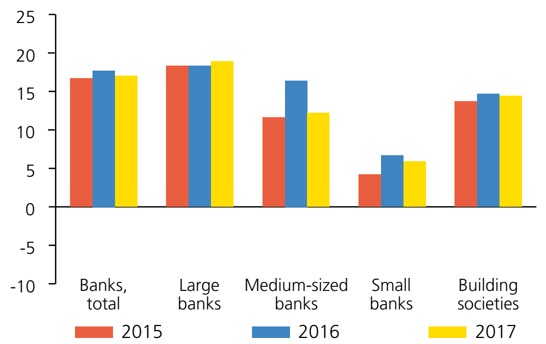


CHART B.II.33

RETURN ON TIER 1 (RoE)
(in %; bank groups)



branches saw a slight drop in RoA of 0.06 percentage point to 0.60% in the same period. The RoA of building societies recorded a marginal decline of 0.02 percentage point to 0.81%. (See Chart B.II.32)

Return on equity (RoE) is the main indicator of profitability. This indicator is usually defined in the banking sector as the ratio of net profit to Tier 1 capital.[95]

The RoE for the aggregate sector was 17.0% at the end of 2017, down by 0.7 percentage point from a year earlier. The highest RoE of 18.9% was recorded for large banks, up by 0.6 percentage point year on year. Medium-sized banks showed the largest decrease in RoE (4.2 percentage points). The RoE in this bank category was 12.2%. Small banks and building societies showed smaller declines in RoE (of 0.8 percentage point and 0.3 percentage point respectively). The RoE of small banks was 5.9% and that of building societies 14.4% at the end of 2017. (See Chart B.II.33)

The efficiency of the sector, as expressed by the ratio of administrative expenses to assets of the banking sector, showed a year-on-year improvement. This ratio amounted to 1.06% in 2017, down by 0.16 percentage point year on year.

The changes in the alternative ratio of financial and operating profit to total assets were similar in nature. This indicator stood at 2.57% at the end of 2017, down by almost 0.5 percentage point compared with the 2016 figure.

95 Tier 1 is the highest quality and, for banks in the Czech Republic, also the most significant part of regulatory capital. Tier 1 consists mostly of registered capital, retained earnings and mandatory reserve funds.

2.7 CAPITALISATION OF THE BANKING SECTOR[96]

The capital ratio[97] is one of the fundamental prudential criteria monitored and evaluated as part of the CNB's supervision of the banking sector. The main idea of the current regulatory framework laying down the capital adequacy rules, which is based on the current Basel III and CRD IV rules, emphasises the need to hold high-quality capital in amounts that would enable banks to use this capital to a larger extent to cover potential losses.

The capitalisation of the banking sector in the Czech Republic has long been satisfactory. Capital aggregates at the sector level have been increasing over recent years. The sector's regulatory capital[98] amounted to CZK 471.8 billion at the end of 2017, a rise of CZK 31.1 billion, or 7.0%, on a year earlier. (See Table B.II.19)

The vast majority of the regulatory capital of Czech banks consists of high-quality Tier 1 capital, which accounted for 97.0% of total regulatory capital as of 31 December 2017. Tier 1 capital recorded a year-on-year increase of CZK 30.1 billion, or 7.0%. Common Equity Tier 1,[99] which accounts for most of total Tier 1 capital, rose by 7.1% year on year to CZK 444.4 billion. A lower year-on-year increase of 5.4% was recorded for Additional Tier 1,[100] which amounted to CZK 13.3 billion on 31 December 2017.

The share of Tier 2 capital,[101] which consists primarily of subordinated debt, in the structure of the sector's regulatory capital has long been low. At CZK 14.0 billion, it accounts for a mere 3% of total capital. This share was unchanged from 2016. Tier 2 capital recorded a year-on-year increase of CZK 1.0 billion, or 7.5%.

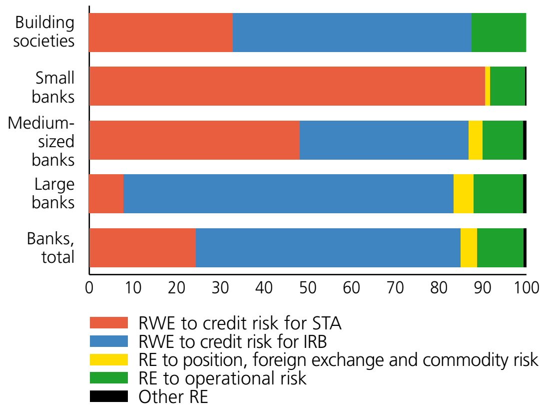
TABLE B.II.19

REGULATORY CAPITAL OF BANKING SECTOR
(in CZK billions)

	2015	2016	2017	Change 2017/2016 (in %)
CAPITAL, TOTAL	420.6	440.7	471.8	+7.0
Tier 1 (T1) capital	410.1	427.7	457.7	+7.0
Common Equity T1 (CET1)	398.3	415.0	444.4	+7.1
Additional T1 (AT1)	11.8	12.6	13.3	+5.4
Tier 2 (T2) capital	10.5	13.0	14.0	+7.5

CHART B.II.34

RISK EXPOSURE STRUCTURE
(in %; as of 31 December 2017)



96 The capitalisation of the banking sector and the credit union sector reflects the methodology used for prudential policy indicators, which is based on the currently applicable rules governing the conduct of credit institutions. These rules have been in force since 2014, when Regulation No. 575/2013 of the European Parliament and of the Council No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR) came into effect.

97 The capital ratio is defined as the ratio of the relevant capital to total risk exposures in per cent. The relevant capital surplus/shortfall is the difference between the relevant capital reported by the reporting entity and the capital that institutions must hold at all times under Article 92 of Regulation No. 575/2013, i.e. such that they satisfy a minimum Common Equity Tier 1 capital ratio of 4.5%, a minimum Tier 1 capital ratio of 6% and a minimum total capital ratio of 8%.

98 In this case, foreign bank branches operating in the Czech Republic are excluded from the Czech banking sector, as the risks to their business activities are covered by the regulatory capital of their head offices. The assessment of capital adequacy falls to the competent foreign supervisory authority.

99 Common Equity Tier 1 (CET1).

100 Additional Tier 1 (AT 1).

101 Tier 2 is the part of a bank's capital comprising subordinated debt, provisions and capital funds.

The aggregate risk exposures of the banking sector as a whole amounted to CZK 2,450.3 billion at the end of 2017, up by CZK 61.5 billion (2.6%) year on year in absolute (relative) terms.

The risk exposure structure of the domestic banking sector is consistent with the conservative business model of banks. Risk-weighted exposures to credit risk, which are a dominant component of total risk exposures, amounted to CZK 2,081.1 billion at the end of 2017. They accounted for 84.9% of total risk exposures. This represented a lower share than the 2016 figure (a decline of 1.6 percentage points). (See Chart B.II.34)

Banks quantitatively define risk-weighted exposures to credit risk by applying either a standardised approach (STA) or more advanced methods using their own internal risk-rating models (IRB). Risk-weighted exposures calculated on an IRB basis predominate in domestic banks. On 31 December 2017, they accounted for 60.6% of the total risk exposures recorded for the banking sector and for 71.3% of total risk exposures to credit risk.

Risk exposures to operational risk rose by CZK 17.9 billion year on year to CZK 262.8 billion in 2017. They made up 10.7% of total risk exposures, a rise of 0.5 percentage point compared with the end of 2016.

Risk exposures to position, foreign exchange and commodity risks, which primarily comprise market risk, recorded a year-on-year increase of CZK 29.1 billion. At CZK 91.2 billion at the end of 2017, they accounted for 3.7% of the sector's risk exposures, 1.1 percentage points more than in 2016.

The total capital ratio of banks operating in the Czech Republic fluctuated around an upward linear trend during 2017. In line with this trend, this capital ratio recorded a year-on-year increase of 0.8 percentage point to stand at 19.3% at the end of 2017. (Chart B.II.35)

As total regulatory capital consists largely of high-quality Tier 1 capital, it is clear that the Tier 1 capital ratio largely correlates with capital adequacy defined on the basis of total regulatory capital. The Tier 1 capital ratio was 18.7% at the end of 2017. This corresponded to the same year-on-year change as in the case of the total capital ratio, i.e. an increase of 0.8 percentage point.

With an almost 60% share in the sector's total assets, large banks had a slightly below-average capital adequacy level with regard to the sector as a whole. In this group of banks, the total capital ratio increased by 0.8 percentage point to 18.7% and the Tier 1 capital ratio rose by 0.7 percentage point to 18.2%. Medium-sized banks were the only group of banks to record above-average capital ratios in 2017. Their total capital ratio stood at 21.4% and their Tier 1 capital ratio at 20.5% on average. Both capital ratios rose by around 1 percentage point year on year. The smallest absolute year-on-year change in

CHART B.II.35

CAPITAL AND CAPITAL RATIOS

(in CZK billions)

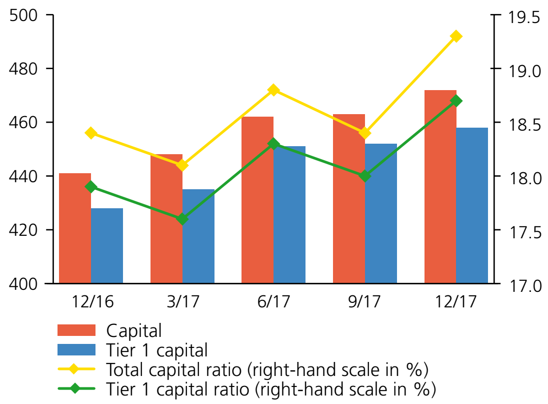
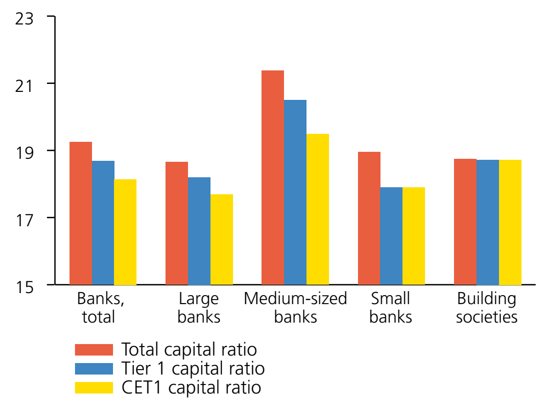


CHART B.II.36

CAPITAL RATIOS BY BANK GROUP

(in %; as of 31 December 2017)



capital ratios was recorded by the group of small banks. Both the total capital ratio and the Tier 1 capital ratio in this segment recorded a marginal year-on-year increase of 0.1 percentage point. Small banks had a total capital ratio of 19.0% and a Tier 1 capital ratio of 17.9% on 31 December 2017. The total capital of building societies consisted almost entirely of the best-quality CET1 capital. This was reflected in almost equal values of the two capital ratios. Capital adequacy in this group of banks was 18.7% at the end of 2017, up by 1.3 percentage points year on year. This was the largest increase in capital ratios in all groups of banks. The capital ratios thus increased year on year on average for all groups of banks (See Chart B.II.36)

The domestic banking sector is comfortably compliant with the capital requirements as defined by CRD IV/CRR rules. All banks without exception exceeded the prescribed minimum total capital ratio of 8% and Tier 1 capital ratio of 6%.

The leverage ratio of the sector as a whole, as defined by the ratio of Tier 1 capital to total assets, declined by 0.6 percentage point to 6.5% as of the end of 2017. Leverage expressed as the ratio of Tier 1 capital to total loans and receivables fell by 2.4 percentage points year on year to 9.0% at the end of 2017.

2.8 THE CREDIT UNION SECTOR[102]

2.8.1 Structure of the credit union sector

The credit union sector comprised ten entities as of 31 December 2017. In the last quarter of 2016, Záložna CREDITAS, spořitelní družstvo, was granted a banking licence with effect from 1 January 2017. This reduced the number of credit unions by one. (see Table B.II.20)

The total assets of the credit union sector accounted for 0.41% of the total assets of the credit institutions sector (i.e. banks and credit unions) at the end of 2017. This marginal share decreased by 0.16 percentage point year on year, primarily due to a relatively large increase in banking sector assets and the exit of CREDITAS from the credit union sector.

The Czech credit union sector is highly concentrated. This concentration increased further when CREDITAS was converted into a bank. The three largest credit unions accounted for more than three-quarters and the five largest entities for almost 94% of the total assets of the sector as a whole. The credit union with the largest amount of assets accounted for 44.4% of the credit union sector's total assets. A high level of concentration can also be observed in total loans and deposits. (See Chart B.II.37)

TABLE B.II.20

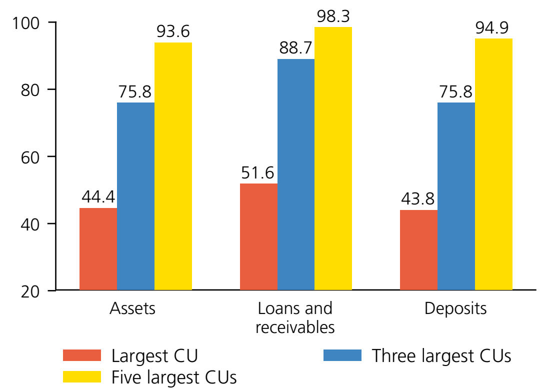
NUMBER OF CREDIT UNIONS
(as of end of period)

	2015	2016	2017
CREDIT UNIONS, TOTAL	11	11	10
Number of members of CUs	51,183	51,586	30,849
Number of new memberships	3,890	3,851	2,374
Number of memberships terminated	9,850	2,279	2,570
Number of employees of CUs (in CZ) i)	458	483	332

i) Registered number of employees.

CHART B.II.37

CONCENTRATION OF CREDIT UNION SECTOR
(shares in %; as of 31 December 2017)



2.8.2 Activities of the credit union sector

Credit unions recorded accumulated assets of CZK 23.1 billion as of the end of 2017. This meant a decrease in total assets of CZK 11.1 billion, or almost one-third, compared with the previous year.[103] The credit union sector showed mixed trends in growth in the total assets of individual entities. Five credit unions recorded an increase in total assets, while five credit unions recorded a decrease. (See Table B.II.21)

102 End-2017 data on the credit union sector valid as of 20 May 2018. Internal audits are being conducted at individual credit unions, so the figures presented in this section may differ from the CNB's updated statistics.

103 When adjusted for the exit of CREDITAS (by deducting the assets of this credit union from the sector's total assets as of 31 December 2016), the sector's total assets recorded a slight year-on-year increase of CZK 0.7 billion.

Table B.II.21

CREDIT UNION SECTOR ASSETS
(in CZK millions; as of end of period)

	2015	2016	2017	Structure 2017 (in %)
TOTAL NET ASSETS	32,316.4	34,185.0	23,100.8	100.0
Cash, cash balances at central banks and other demand deposits	8,067.0	8,489.4	6,698.5	29.0
Financial assets held for trading	631.0	436.9	398.1	1.7
Financial assets designated at fair value through profit or loss	913.2	1,184.7	0.0	0.0
Financial assets at fair value through OCI	1.1	1.1	1.1	0.0
Financial assets at amortised cost	21,759.4	22,455.3	14,856.6	64.3
Tangible and intangible assets	714.8	790.9	639.1	2.8
Tax assets	75.5	83.0	35.5	0.2
Other assets	154.3	743.8	471.9	2.0

Loans and other receivables (at amortised cost) have long been the largest item of the credit union sector's assets, accounting for 64.3% of the total assets of the sector at the end of 2017. Cash items, including demand deposits, were the second largest class of assets, accounting for 29% of the sector's total assets as of 31 December 2017. Both asset categories recorded a year-on-year decline. Loans and other receivables decreased by more than one-third to CZK 14.9 billion at the end of 2017, while the second largest asset class showed a decline of 21.1%, with credit unions holding cash and demand deposits totalling CZK 6.7 billion.

Non-financial corporations were the largest sectoral recipient of loans[104] provided by credit unions, accounting for 89.2% of the total loans of credit unions at the end of 2017. This share remained stable compared with 2016, declining by 0.4% year on year. Loans to households accounted for a stable 6.8% of total lending in year-on-year terms. Credit institutions accounted for 2.3% of total loans provided by credit unions, down by 0.5 percentage point. The remaining 1.7% of loans were provided to other financial institutions (an increase of 0.8 percentage point). (See Chart B.II.38)

Given the nature of credit unions' business, deposits have long been the largest item on their liabilities side, accounting for 82.2% of the sector's total assets as of 31 December 2017. They totalled CZK 19.0 billion, down by CZK 10 billion (or 34.5%) year on year. (See Table B.II.22 and Chart B.II.39)

Turning to the sector distribution of deposits, households have long been their most important source, accounting for 74% of credit unions' total deposits at the end of 2017. The share of deposits of households at credit unions was CZK 14.0 billion, down by 9.7 percentage points year on year. Non-financial corporations had CZK 4.4 billion deposited at credit unions at the year-end. This represented 23.1% of the sector's

Chart B.II.38

STRUCTURE OF LOANS PROVIDED BY CREDIT UNION SECTOR
(in %; as of end of period)

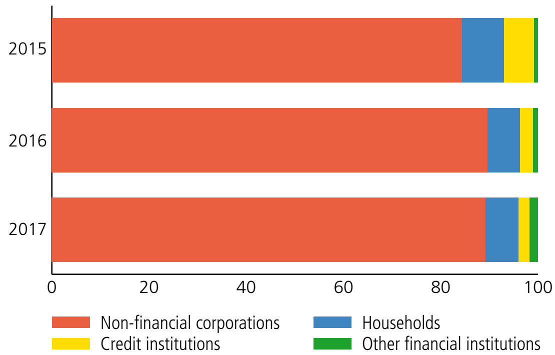
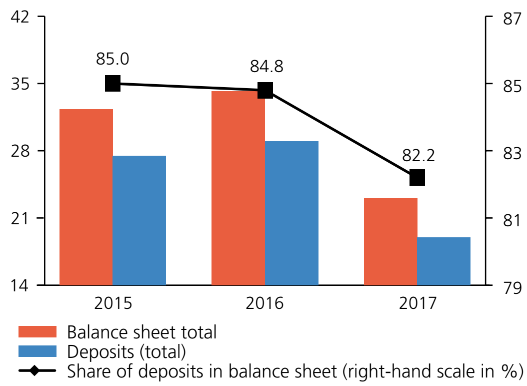


Chart B.II.39

DEPOSITS IN CREDIT UNION BALANCE SHEET
(as of end of period; in CZK billions; in %)



104 In this context, the term "loans" means all loans and receivables reported in credit unions' balance sheets at amortised cost.

Table B.II.22

CREDIT UNION SECTOR LIABILITIES
(in CZK millions; as of end of period)

	2015	2016	2017	Structure 2017 (in %)
LIABILITIES AND EQUITY	32,316.4	34,185.0	23,100.8	100.0
Liabilities, total	28,080.1	29,408.2	19,474.8	84.3
Financial liabilities held for trading	263.7	161.8	128.3	0.6
Financial liabilities measured at amortised cost	27,547.7	29,044.2	19,103.2	82.7
Deposits	27,480.1	28,983.3	18,993.3	82.2
Other financial liabilities	67.6	60.9	110.0	0.5
Derivatives – hedge accounting	0.0	0.0	0.0	0.0
Provisions	8.7	13.4	12.1	0.1
Tax liabilities	31.2	19.4	8.9	0.0
Other liabilities	228.8	169.4	222.3	1.0
Equity, total	4,236.3	4,776.8	3,626.0	15.7
Capital	4,012.0	4,650.0	3,563.6	15.4
Accumulated other comprehensive income	0.0	0.0	0.0	0.0
Retained earnings	101.3	8.9	3.4	0.0
Other reserves	115.4	148.1	115.0	0.5
Profit or loss	7.6	-30.3	-56.0	-0.2

Table B.II.23

CREDIT UNION SECTOR OFF-BALANCE SHEET
(in CZK millions; as of end of period)

	2015	2016	2017
Loan commitments given	1,225.1	1,000.3	325.1
Financial guarantees given	32.5	64.1	21.4
Other commitments given	2.6	9.8	10.3
Loan commitments received	285.0	0.0	0.0
Financial guarantees received	601.5	531.7	521.4
Other commitments received	0.6	0.6	0.0

aggregate deposits. The share of deposits of non-financial corporations in credit unions rose by 8.4 percentage points year on year. Deposits of other financial institutions (CZK 327.3 million), credit institutions (CZK 196.7 million) and general government (CZK 18.3 million) made up the remaining 2.9%.

The off-balance sheet of credit unions included credit commitments, financial guarantees and other commitments provided (and received). Credit commitments received were the largest off-balance sheet item as of 31 December 2017, despite dropping by CZK 10.2 million to CZK 521.4 million. Credit commitments provided saw the largest year-on-year change in both absolute and relative terms, declining by CZK 675.2 million, or 67.5%. (See Table B.II.23)

2.8.3 Profits of the credit union sector

The credit union sector posted a loss in 2017, the net loss amounting to CZK 56 million. This loss mainly reflected relatively low levels of financial and operating profit, which totalled CZK 331.9 million, down by CZK 488.2 million, or 59.5%, year on year. The decline in financial and operating profit mainly reflected a year-on-year fall of CZK 542.3 million in interest profit, which amounted to CZK 289.2 million at the year-end. The decline in financial profit was also largely due to a reported loss on derecognition of financial assets and liabilities not reported in the profit and loss account in the reference period, which ran to CZK 70.3 million.[105] By contrast, gains on financial assets and liabilities held for trading recorded increased by CZK 34.6 million year on year to CZK 40.9 million. Profit from fees and commissions fell only marginally, by CZK 2.4 million. The credit union sector recorded a loss despite a significant decline in administrative expenses of CZK 331.7 million at the level of the sector as a whole and lower impairment losses than reversals.[106] (See Table B.II.24)

Only one entity in the credit union sector recorded a net loss, while the other nine credit unions were profitable. The asset share of the loss-making credit union in the total assets of the credit union sector was negligible at the end of 2017.

TABLE B.II.24

CREDIT UNION SECTOR PROFITS
(as of end of period; in CZK millions)

	2015	2016	2017
FINANCIAL PROFIT	1,082.9	820.1	331.9
of which:			
Interest profit	948.6	831.5	289.2
Fee and commission profit	97.3	52.5	50.1
Gains on financial assets not measured at fair value through profit or loss	3.5	-135.6	-70.3
Gains on financial assets held for trading	31.0	6.3	40.9
Gains on financial assets designated at fair value through profit or loss	-6.4	14.5	0.0
Gains from hedge accounting	0.4	-2.1	0.0
Gains from other activities	8.5	52.9	22.0
ADMINISTRATIVE EXPENSES	757.2	715.4	383.7
DEPRECIATION AND PROVISIONS	38.7	43.7	15.8
IMPAIRMENT	226.9	74.1	-16.7
GROSS PROFIT before tax	60.2	-13.0	-50.9
Tax expense	52.6	17.3	5.1
NET PROFIT	7.6	-30.3	-56.0

2.8.4 Asset quality of the credit union sector

Risk-weighted exposures to credit risk stood at CZK 16.7 billion at the end of 2017, accounting for 91% of the total risk exposure at the end of 2017. Risk exposure to operational risk amounted to CZK 1.5 billion, representing 8.3% of the total risk exposure. Other risk exposures in the credit union sector were negligible.

The loan portfolio receivables of credit unions recorded a year-on-year decrease of CZK 8.7 billion. This corresponded to a relative decline of almost one-third of the volume reported at the end of 2016. Default loans decreased by CZK 1.5 billion (29.2%). (See Table B.II.25)

105 This is the negative difference between realised gains and realised losses reported by credit unions on securities and held-to-maturity receivables on their derecognition.

106 Reversal involves deducting income arising from the release of unneeded provisions and income arising from those previously written-off non-financial assets recorded in previous accounting periods and in the current year.

TABLE B.II.25

CLASSIFICATION OF CREDIT UNION RECEIVABLES
(in CZK billions, as of end of period)

	2015	2016	2017	Change 2017/2016 (in %)
PORTFOLIO RECEIVABLES BY DEFAULT STATUS	26.6	26.8	18.1	-32.5
Non-default	21.0	21.6	14.4	-33.3
Standard	16.3	14.3	11.4	-20.4
Watch	4.7	7.3	3.0	-58.7
Default	5.6	5.2	3.7	-29.2
Substandard	1.6	2.1	1.7	-20.9
Doubtful	0.9	0.3	0.1	-65.8
Loss	3.1	2.8	1.9	-31.4
PORTFOLIO DEFAULT RECEIVABLES FROM CLIENTS	5.6	5.2	3.7	-29.2
Substandard	1.6	2.1	1.7	-20.9
Doubtful	0.9	0.3	0.1	-65.8
Loss	3.1	2.8	1.9	-31.4
ALLOWANCES AND LOSS OF VALUE	1.0	0.9	0.5	-48.7
Allowances for individually assessed financial assets	1.0	0.9	0.5	-48.7
Allowances for individually non-impaired assets	0.0	0.0	0.0	N/A
Allowances for portfolio of individually immaterial assets	0.0	0.0	0.0	+0.0
DEFAULT RECEIVABLES (in %)				
Share of default receivables in total investment portfolio	21.0	19.4	20.3	+4.9

Default client receivables[107] of credit unions accounted for 20.3% of the sector's total receivables in 2017. The share of loss receivables in receivables in credit unions' portfolios was 10.5%. Both these shares increased slightly compared with the end of 2016.

Provisions amounted to CZK 473.2 million at the end of 2017, down by CZK 450 million from the end of the previous year.

Given the reported data on assets, the credit union sector can be considered sufficiently liquid. The share of quick assets in the sector's total assets rose from 25.9% to 30.1%. Quick assets in the credit union sector amounted to CZK 6.9 billion at the end of 2017, down by CZK 1.9 billion (or 21.5%) year on year. The decline in the volume of quick assets was caused mainly by a decrease of CZK 1.8 billion in cash, which accounted for 93.9% of the total change in quick assets. Debt securities issued by government institutions in credit unions' portfolios dropped by CZK 166 million. (See Table B.II.26)

TABLE B.II.26

CREDIT UNION LIQUIDITY RATIOS
(as of end of period; in CZK millions; in %)

	2015	2016	2017
Quick assets	8,597.7	8,851.0	6,944.0
Quick assets/assets	26.6	25.9	30.1
Deposits/loans	128.1	130.0	127.6

107 Client receivables consist of receivables from non-financial corporations, households, other financial institutions and general government. Receivables from credit institutions are reported separately. As credit unions reported no watch receivables and default receivables from credit institutions, the figures for credit unions' receivables from clients and credit unions' total receivables from all entities are identical in these categories of receivables.

2.8.5 Capitalisation of the credit union sector

The credit union sector's regulatory capital fell from CZK 4.6 billion to CZK 3.5 billion year on year. This represented a year-on-year decrease of 25%. Most of the regulatory capital (98.3%) was made up of high-quality Tier 1 capital, which decreased by CZK 1.1 billion year on year. (See Table B.II.27)

Despite the decline in the volume of capital, the Tier 1 capital ratio of the sector as a whole was 18.68% at the end of 2017, an increase of 2.77 percentage points compared with the end of 2016. The total capital ratio stood at 19.00% at the end of 2017, having risen by 2.83 percentage points year on year. All credit unions were compliant with the required minimum regulatory capital ratios.[108]

TABLE B.II.27

CAPITAL STRUCTURE OF CREDIT UNION SECTOR
(as of end of period; in CZK millions; in %)

	2015	2016	2017
CAPITAL	4,176.9	4,632.0	3,472.2
Tier 1 (T1) capital	4,081.3	4,557.6	3,414.6
Tier 2 (T2) capital	95.6	74.4	57.6
T1 capital ratio	15.09	15.91	18.68
Surplus of T1 capital	2,458.7	2,838.4	2,317.9
Total capital ratio	15.44	16.17	19.00
Surplus of total capital	2,013.4	2,339.7	2,009.9

108 The required minimum total capital ratio of 8% and the required minimum Tier 1 capital ratio of 6%.

Table B.III.1

NUMBER OF INSURANCE UNDERTAKINGS BY FOCUS OF ACTIVITY

	2015	2016	2017
NUMBER OF INSURANCE UNDERTAKINGS, TOTAL	53	52	48
of which:			
non-life	32	32	28
life	7	6	6
both life and non-life	14	14	14
NUMBER OF DOMESTIC INSURANCE UNDERTAKINGS	30	28	26
of which:			
non-life	14	13	11
life	2	1	1
both life and non-life	14	14	14
NUMBER OF BRANCHES OF INSURANCE UNDERTAKINGS FROM EU AND THIRD COUNTRIES	23	24	22
of which:			
non-life	18	19	17
life	5	5	5
both life and non-life	0	0	0

Note: Excluding the CIB, EGAP and VIG

Chart B.III.1

OWNERSHIP STRUCTURE OF DOMESTIC INSURANCE UNDERTAKINGS

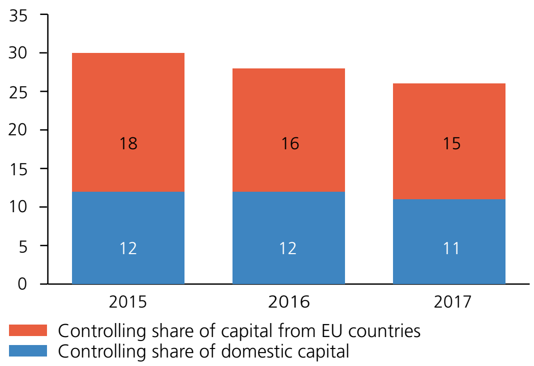
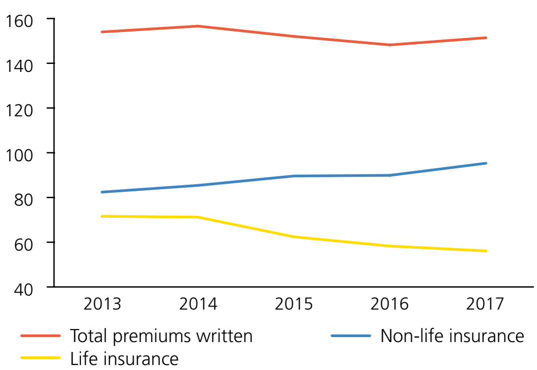


Chart B.III.2

GROSS PREMIUMS WRITTEN
(in CZK billions)



3. THE INSURANCE MARKET

3.1 INSURANCE MARKET ENTITIES

As of the end of 2017, the Czech insurance market was made up of a total of 26 domestic insurance undertakings, i.e. insurance undertakings having their registered office in the Czech Republic, and 22 branches of foreign insurance undertakings. The total number of insurance undertakings in the market fell by four compared with 2016. This figure and the other numerical data given for the insurance sector exclude the Czech Insurers' Bureau,[109] Exportní garanční a pojišťovací společnost, a.s. (EGAP)[110] and VIG RE zajišťovna, a.s.[111] (See Table B.III.1).

The number of domestic insurance undertakings carrying on business in the Czech insurance market decreased by two in 2017.[112] Of the total of 26 domestic insurance undertakings, 15 were controlled by foreign owners as at the end of 2017. As regards product focus, domestic insurance undertakings focusing on both life and non-life insurance (14 entities) predominated, followed by 11 insurance undertakings specialising in non-life insurance. Only one domestic insurance undertaking specialised in life insurance. (See Chart B.III.1)

The number of branches of foreign insurance undertakings operating in the Czech market decreased by two year on year.[113] In 2017, all the branches operating in the Czech Republic also belonged to insurance undertakings based in EU states. Of the total of 22 branches, insurance undertakings from the UK enjoy the largest representation (four branches). Insurance undertakings based in Austria and Slovakia had three branches each in the Czech Republic. Insurance undertakings domiciled in Germany, Belgium, France and Ireland each had two branches in the domestic insurance market, while insurance undertakings from Luxembourg, Hungary, the Netherlands and Spain each operated one branch. Domestic insurance undertakings focusing

109 The Czech Insurers' Bureau (Česká kancelář pojistitelů, ČKP) is a professional organisation of insurers licensed to provide motor third party liability insurance. For details on its activities and financial performance, see www.ckp.cz.

110 EGAP was established in 1992 as a wholly state-owned joint-stock company. It is a credit insurance undertaking specialising in market-uninsurable political and commercial risks associated with the financing of exports of goods, services and investment from the Czech Republic. Detailed information is available at www.egap.cz.

111 VIG RE zajišťovna, a.s has been operating on the Czech Market since 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.

112 Cestovní pojišťovna ADRIA Way družstvo and ING pojišťovna, a.s. terminated their activities in 2017. The two insurance undertakings transferred their insurance portfolios to, respectively, a domestic insurance undertaking and a branch of a foreign insurance undertaking operating in the Czech Republic before their licences were withdrawn and they went into liquidation.

113 These were branches of foreign insurance undertakings Atradius Credit Insurance N.V., organizační složka and CG Car- Garantie Versicherungs-Aktiengesellschaft organizační složka pro Českou republiku.

on non-life insurance (17 entities) strongly predominated, while five branches specialised in life insurance.

In addition to the above-mentioned domestic insurance undertakings and branches of foreign insurance undertakings licensed by the CNB, insurance undertakings and branches thereof from other EU/EEA member states may provide services in the Czech insurance market under the freedom to provide services. In all, 890 entities were registered for this purpose as of 31 December 2017, a rise of 3% compared with the end of 2016.

3.2 PREMIUMS WRITTEN

Gross premiums written[114] are one of the key indicators of the insurance market. The insurance sector recorded cumulative gross premiums written of CZK 151.4 billion at the year-end, up by 2.1% year on year. This increase of CZK 3.2 billion reflected a 6% rise in premiums written in non-life insurance, which amounted to CZK 95.3 billion in 2017. By contrast, premiums written in life insurance recorded a year-on-year decline of 3.8%, amounting to CZK 56.1 billion in 2017. As regards gross premiums written over the last five years, upward trends in premiums can be identified in non-life insurance, while a decrease in premiums can be observed in the life insurance market over the same period. (See Charts B.III.2 and B.III.3)

These developments are in line with the gradual downward trend in the share of life insurance premiums in total gross premiums written. This share declined by 2.3 percentage points compared with 2016, to 37% in 2017. (See Chart B.III.4)

As regards the breakdown of total gross premiums written by type of entity, there was no change in year-on-year comparison, as the insurance sector recorded the same dominant share of domestic insurance undertakings in total premiums written of 92.4% in 2016 and 2017. The remaining 7.6% share registered in both years fell to foreign branches of insurance undertakings based in EU Member States. (See Chart B.III.5)

Insurance penetration, as expressed by the ratio of gross premiums written to GDP (at current prices), can be considered the main indicator connecting the insurance market with the macroeconomic environment. Insurance penetration in the Czech Republic recorded a negligible year-on-year decline of 0.1 percentage point to 3.0% in 2017. (See Table B.III.2 and Chart B.III.6)

114 Gross premiums written consist of all amounts of premiums payable under insurance policies during the accounting period, regardless of whether these amounts relate fully or partly to subsequent accounting periods. They also include premiums ceded to reinsurers.

CHART B.III.3

GROSS PREMIUMS WRITTEN IN QUARTERS OF 2017
(in CZK billions)

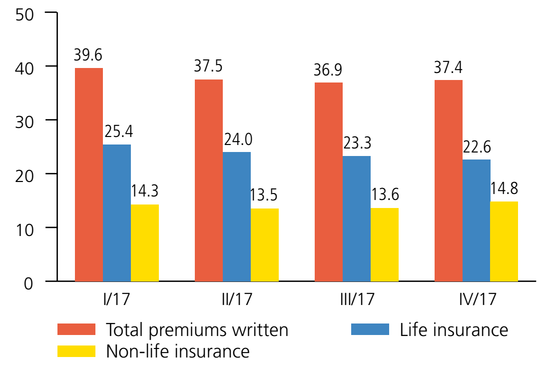


CHART B.III.4

SHARES OF LIFE INSURANCE AND NON-LIFE INSURANCE IN GROSS PREMIUMS WRITTEN
(in %)

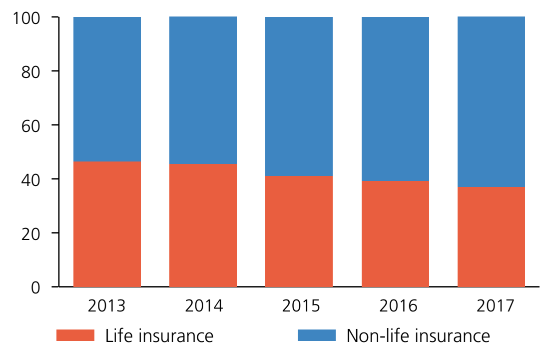


CHART B.III.5

SHARES OF ENTITIES IN GROSS PREMIUMS WRITTEN
(in %)

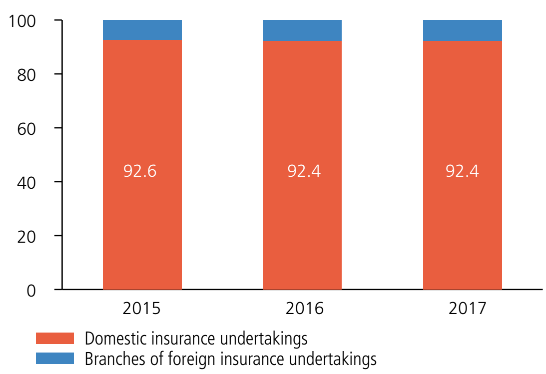


Table B.III.2

TOTAL INSURANCE PENETRATION IN CZECH REPUBLIC
(in CZK billions)

	2015	2016	2017	Change 2017/2016 (in %)
Premiums written	152.0	148.2	151.4	+2.1
GDP (at current prices)	4,595.8	4,773.2	5,055.0	+5.9
		in %		
Premiums written/GDP	3.3	3.1	3.0	x

Chart B.III.6

SHARES OF PREMIUMS WRITTEN IN GDP
(in %)

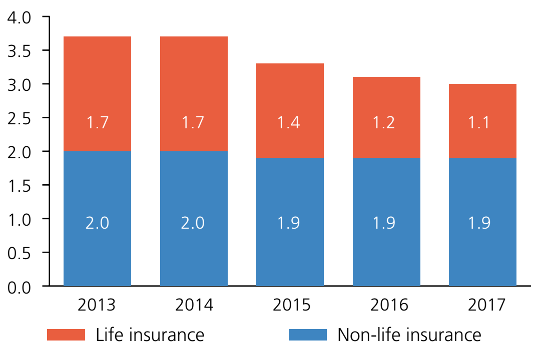


Chart B.III.7

CLASSES OF LIFE INSURANCE OF DOMESTIC INSURANCE UNDERTAKINGS

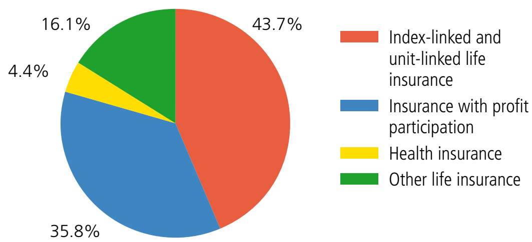
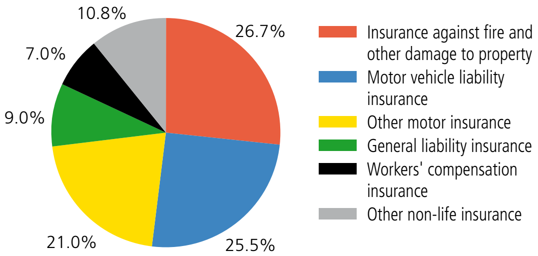


Chart B.III.8

CLASSES OF NON-LIFE INSURANCE OF DOMESTIC INSURANCE UNDERTAKINGS



An important instrument used by insurance companies to mitigate risks is reinsurance. It is used primarily by non-life insurers in cases where frequent and serious damage and hence high claim settlement costs could put their financial stability and solvency at risk. In 2017, non-life insurance premiums ceded to reinsurers amounted to CZK 27.2 billion, representing 28.5% of gross premiums written. The share of premiums ceded to reinsurers is significantly lower in the life insurance sector. Premiums of CZK 4.4 billion were ceded to reinsurers in 2017. This represented 7.9% of total premiums written in life insurance.

The importance of the individual insurance classes can be quantified using the distribution of gross premiums written among those classes. As of the end of 2017, index-linked and unit-linked life insurance accounted for the biggest share in domestic life insurance (43.7%). Insurance with profit participation had the second-largest share (35.8%). Premiums written in health insurance made up 16.1% of total life insurance premiums. The remaining share of other life insurance, which falls outside the above categories, was 4.4%. (See Chart B.III.7)

Domestic non-life insurers were focused, again in terms of the distribution of total gross premiums written among the individual classes, on insurance against fire and other damage to property (26.7%), motor vehicle liability insurance (25.5%) and other motor insurance (21%). Lower shares of premiums written were recorded for general liability insurance (9%) and workers' compensation insurance (7%). Other forms of non-life insurance, which under the Solvency II framework include (according to the size of their share in total premiums written) income protection insurance, miscellaneous financial loss insurance, assistance insurance and health insurance, made up the remaining 10.8%. (See Chart B.III.8)

3.3 CLAIM SETTLEMENT COSTS

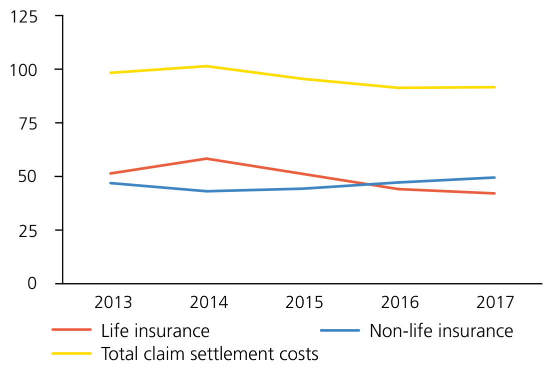
Gross claim settlement costs[115] totalled CZK 91.6 billion in 2017. This represented a slight increase of CZK 0.3 billion, or 0.4%, compared with the previous period. Gross claim settlement costs in non-life insurance rose by CZK 2.3 billion year on year to CZK 49.5 billion in 2017, while the same indicator for life insurance fell by CZK 2.0 billion to CZK 42.1 billion compared with 2016.

A trend of year-on-year growth in gross claim settlement costs has been observed in the non-life insurance sector since 2014, while claims paid in the life insurance segment have been falling constantly. As a result, claim settlement costs in non-life insurance exceeded those in life insurance in 2016. This difference increased slightly further in 2017. (See Chart B.III.9)

Total claim settlement costs borne by reinsurers edged up by CZK 0.1 billion year on year to CZK 14.5 billion in 2017. In the same year, the share of reinsurers in claim settlement costs in non-life insurance was 25.1%, which is 1.2 percentage point less than in 2016. In life insurance, the share of reinsurers increased by 0.5 percentage point to 4.9%.

CHART B.III.9

GROSS CLAIM SETTLEMENT COSTS
(in CZK billions)



3.4 ASSETS OF INSURANCE UNDERTAKINGS[116]

The total assets of the domestic insurance sector amounted to CZK 486.4 billion as of 31 December 2017, an increase of CZK 20.3 billion, or 4.4%, on a year earlier. While the total assets of domestic insurers rose by 5% year on year to CZK 435 billion, the assets of branches of foreign insurance undertakings totalled CZK 51.4 billion at the end of 2017. This represented a marginal decline of CZK 0.2 billion compared with the 2016 figure. (See Table B.III.3)

Given the nature of insurance undertakings' business model, the most important category of assets in terms of volume is investments. Domestic insurance undertakings' investments amounted to CZK 312.6 billion at the end of 2017, a rise of CZK 13.9 billion, or 4.7%, compared with 2016. (See Table B.III.4)

TABLE B.III.3

SHARES OF INSURANCE UNDERTAKINGS IN TOTAL ASSETS
(in CZK billions)

	2015	2016	2017	Share 2017 (in %)
TOTAL ASSETS	455.3	466.1	486.4	100.0
Domestic insurance undertakings	402.9	414.5	435.0	89.4
Branches of insurance undertakings	52.4	51.6	51.4	10.6

115 Claim settlement costs are given gross of the share of reinsurers.

116 The overview of domestic insurance undertakings' assets and liabilities is based on balance sheets reported in accordance with accounting standards, not the Solvency II methodology.

TABLE B.III.4

ASSET STRUCTURE OF DOMESTIC INSURANCE UNDERTAKINGS
(in CZK billions)

	2015	2016	2017	Structure 2017 (in %)
TOTAL ASSETS	402.9	414.5	435.0	100.0
Investments	297.9	298.7	312.6	71.9
of which:				
Real estate	4.1	3.5	3.5	0.8
Participating interests	22.3	23.2	24.5	5.6
Shares, variable-yield securities	23.8	23.0	22.8	5.2
Debt securities	234.8	233.7	223.9	51.5
Deposits at financial institutions	12.5	8.9	6.2	1.4
Other financial placements	0.5	6.4	31.7	7.3
Investments of life insurance where investment risk is borne by policy holders	65.9	69.8	74.8	17.2
Debtors (receivables)	13.5	15.9	15.9	3.7
Other assets	25.5	30.1	31.7	7.3

In 2017, as in previous years, debt securities – with a total volume of CZK 223.9 billion – accounted for the biggest share of investments. They represented over half (51.5%) of domestic insurance undertakings' total assets. Participating interests and shares and other variable-yield securities were also major items in the total investments of domestic insurance undertakings at the end of 2017. These two asset categories had similar shares in total assets. Participating interests (CZK 24.5 billion) accounted for 5.6% of the total assets of domestic insurance undertakings, while other variable-yield securities (CZK 22.8 billion) made up 5.2%. The share of the residual group of other investments in total assets was 7.3%.

Investments of life insurance where the investment risk is borne by the policy holders accounted for 17.2% of total assets, increasing by CZK 5 billion to CZK 74.8 billion. Receivables from insurance undertakings' debtors remained at the same level as at the end of 2016. Insurance undertakings' receivables amounted to CZK 15.9 billion, or 3.7% of total assets. Other assets, which include cash at financial institutions, cash in hand and deferred acquisition costs for insurance contracts, accounted for the remaining 7.3%.

3.5 LIABILITIES OF INSURANCE UNDERTAKINGS

As in previous years, technical provisions were the most important liability item for insurance undertakings. Net technical provisions[117] amounted to CZK 220.6 billion at the end of 2017, a year-on-year drop of CZK 2.9 billion, or 1.3%. (See Table B.III.5)

Net technical provisions, which consist of the provision for unearned premiums, the life insurance provision, the outstanding claims provision, the provision for bonuses and rebates and other provisions, accounted for a majority of domestic insurance undertakings' total liabilities (50.7%). Technical provisions for unit-linked life insurance, which are given separately, increased by CZK 4.9 billion compared with the previous period to CZK 74.7 billion in 2017.

Shareholders' equity formed almost 16% of the liabilities of domestic insurance undertakings at the end of 2017. The equity of domestic insurance undertakings stood at CZK 69.1 billion, representing a slight year-on-year drop of CZK 2.9 billion. Liabilities to creditors rose relatively strongly compared with the previous period, increasing by CZK 21.3 billion to CZK 51.6 billion. Other liabilities of domestic insurance undertakings, such as passive reinsurance deposits, amounted to CZK 19.0 billion.

TABLE B.III.5

LIABILITY STRUCTURE OF DOMESTIC INSURANCE UNDERTAKINGS
(in CZK billions)

	2015	2016	2017	Structure 2017 (in %)
TOTAL LIABILITIES	402.9	414.5	435.0	100.0
Shareholders' equity	71.7	72.0	69.1	15.9
Technical provisions[a)]	225.7	223.5	220.6	50.7
Provision for life insurance where investment risk is borne by policy holders[a)]	65.9	69.8	74.7	17.2
Creditors (liabilities)	21.2	30.3	51.6	11.9
Other liabilities	18.3	18.9	19.0	4.4

a) net amount

3.6 PROFITS OF INSURANCE UNDERTAKINGS

Domestic insurance undertakings and branches of foreign insurance undertakings operating in the Czech Republic generated a net profit of CZK 10.9 billion in 2017. This figure represents a decline in profit of CZK 1.1 billion compared with the previous year.

The technical account[118] for non-life insurance ended 2017 in a profit of CZK 4.3 billion, down by CZK 1.5 billion compared with 2016. The technical account for life insurance recorded a profit of CZK 8.8 billion in 2017, CZK 0.3 billion more than in 2016. (See Chart B.III.10)

Domestic insurance undertakings accounted for a large majority of the net profit of the Czech insurance sector. They generated a net profit of CZK 10.6 billion. This represented 97.2% of the sector's total profit, even though the net profit recorded by domestic insurance undertakings fell by CZK 0.6 billion year on year. Branches of foreign insurance undertakings posted a net profit of only CZK 0.3 billion in 2017, a drop of CZK 0.5 billion compared with 2016. (See Table B.III.6)

CHART B.III.10

PROFITS OF INSURANCE UNDERTAKINGS
(in CZK billions)

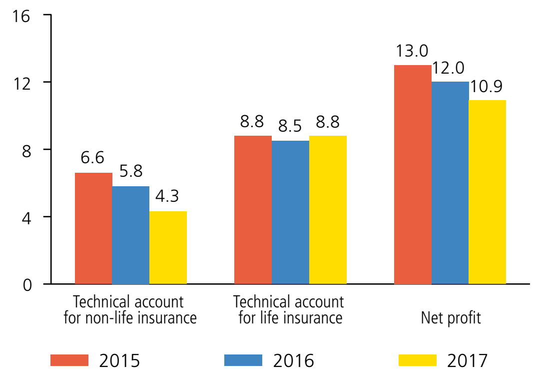


TABLE B.III.6

PROFIT OF INSURANCE UNDERTAKINGS
(in CZK billions)

	2015	2016	2017	Structure 2017 (in %)
NET PROFIT, TOTAL	13.0	12.0	10.9	100.0
Domestic insurance undertakings	12.1	11.2	10.6	97.2
Branches of insurance undertakings	0.9	0.8	0.3	2.8

117 Net of the share of reinsurers in technical provisions.

118 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.

Return on assets (RoA), i.e. the ratio of net profit to total assets of domestic insurance undertakings, decreased by 0.3 percentage point year on year to 2.4% in 2017. Return on equity (RoE), i.e. the ratio of net profit to equity, fell by 0.3 percentage point to 15.3% compared with the previous year. An alternative profit indicator – the ratio of net profit to earned premiums[119] – dropped by 0.8 percentage point to 9.7%. (See Table B.III.7)

Table B.III.7

PROFITABILITY AND EFFICIENCY OF DOMESTIC INSURANCE UNDERTAKINGS
(in %)

	2015	2016	2017
DOMESTIC INSURANCE UNDERTAKINGS, TOTAL			
Net profit/assets (RoA)	3.0	2.7	2.4
Net profit/shareholders' equity (RoE)	16.8	15.6	15.3
Net profit/earned premiums	11.0	10.5	9.7
NON-LIFE INSURANCE			
Profit on technical account for non-life insurance/earned premiums	10.6	9.4	6.8
Claims incurred, including change in TPs/earned premiums	56.4	57.3	58.5
Net operating costs/earned premiums	30.8	31.5	30.6
Acquisition costs for insurance contracts/earned premiums	25.6	28.5	27.8
Administrative expenses/earned premiums	15.5	13.0	12.7
LIFE INSURANCE			
Profit on technical account for life insurance/earned premiums	15.7	16.2	18.8
Claims incurred, including change in TPs/earned premiums	84.9	77.9	75.9
Net operating costs/earned premiums	22.9	23.6	24.0
Acquisition costs for insurance contracts/earned premiums	17.5	18.3	18.9
Administrative expenses/earned premiums	7.3	8.4	8.5

As regards non-life insurance, the ratio of profit on the technical account to earned premiums of domestic insurance undertakings fell by 2.6 percentage points to 6.8%. The ratio of claims incurred, including change in technical provisions, to earned premiums rose by 1.2 percentage points to 58.5%. By contrast, the ratio of net operating costs to earned premiums showed a positive change, decreasing from 31.5% to 30.6%. The ratio of administrative expenses to earned premiums also went down slightly in 2017 compared with 2016, falling by 0.3 percentage point to 12.7%.

Turning to life insurance, the ratio of the result of the technical account to earned premiums rose by 2.6 percentage points to 18.8% in 2017. In relation to earned premiums, moderate growth was also recorded by acquisition costs for insurance contracts (of 0.6 percentage point to 18.9%) and administrative expenses (of 0.1 percentage point to 8.5%). By contrast, the ratio of claims incurred, including change in technical provisions, to earned premiums dropped by 2 percentage points to 75.9% in 2017.

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

3.7 SOLVENCY AND MINIMUM CAPITAL REQUIREMENT

Under Solvency II, domestic insurance undertakings report two important indicators to the Czech National Bank: the ratio of eligible own funds to the solvency capital requirement (SCR[120]), and the ratio of eligible own funds to the minimum capital requirement (MCR[121]). If the ratio of the eligible own funds (for compliance with the SCR) to the SCR of the insurance undertaking falls below 100%, the supervisory authority must intervene. If the insurance undertaking is unable to cover the MCR with eligible own funds (for compliance with the MCR) and then fails to submit a short-term funding plan or the CNB does not approve that plan, its licence should be withdrawn.

The data reported by domestic insurance undertakings at the end of 2017 reveal that the Czech insurance market is sufficiently able to meet the Solvency II capital requirements. The median ratio of eligible own funds to the SCR rose by 11 percentage points to 225% compared with the end of 2016. The median ratio of eligible own funds to the MCR of domestic insurance undertakings was 402%, up by 96 percentage points on the same period a year earlier. (See Table B.III.8)

TABLE B.III.8

COMPLIANCE WITH SOLVENCY II CAPITAL REQUIREMENTS BY DOMESTIC INSURANCE UNDERTAKINGS

	1 January 2016*	31 December 2016	31 December 2017
Aggregate eligible own funds for compliance with SCR	CZK 108.3 billion	CZK 112.5 billion	CZK 111.2 billion
Median ratio of eligible own funds to SCR	205%	214%	225%
Aggregate eligible own funds for compliance with MCR	CZK 108.3 billion	CZK 112.5 billion	CZK 111.1 billion
Median ratio of eligible own funds to MCR	352%	306%	402%

* According to initial statements submitted by domestic insurance undertakings as part of the process of preparation for implementing the Solvency II directive in the Czech Republic

120 The SCR is calculated at least once a year using the standard formula, using the standard formula in combination with a partial internal model, or using a full internal model. In the calculation, the domestic insurance undertaking must take into account all the measurable risks to which it is exposed. These include measurable risks on liabilities arising from existing contracts and contracts which the insurance undertaking expects to be concluded over the next 12 months. The SCR corresponds to the value at risk of the insurance undertaking's basic own funds at a confidence level of 99.5% over a one-year period.

121 The MCR is the level of eligible own funds under which policy holders and beneficiaries would be exposed to unacceptable risk if the insurance undertaking was allowed to continue operating. It is calculated quarterly as a linear function of a set or subset of variables, such as the insurance undertaking's technical provisions, premiums written, capital at risk, deferred taxes and administrative expenses. These variables are measured net of reinsurance. The minimum MCR levels are stipulated by law.

4. THE CAPITAL MARKET

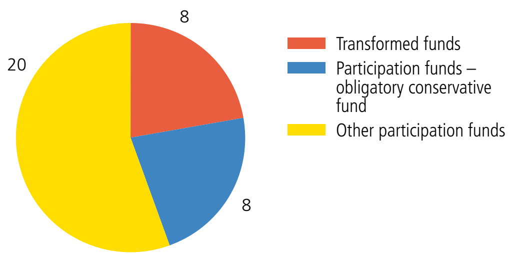
4.1 PENSION MANAGEMENT COMPANIES AND THEIR FUNDS

The sector of pension management companies and their funds in the Czech Republic saw no major structural changes in 2017.

4.1.1 Pension management companies

CHART B.IV.1

THIRD-PILLAR FUNDS
(numbers of funds; as of 31 December 2017)



A total of eight pension management companies were active in the area of private pension and supplementary pension savings in the Czech Republic as of 31 December 2017, the same number as at the end of 2016. At the end of 2017, pension management companies were managing assets in 36 pension management company funds, of which 28 were participation funds and eight were transformed funds. (See Chart B.IV.1)

Pension management companies generated a net after-tax profit of CZK 1.4 billion in 2017 (down by CZK 0.1 billion year on year). Financial and operating profit rose by CZK 0.2 billion year on year to CZK 2.8 billion. The net profit generated from fees and commissions slightly increased by 9.7% year on year to CZK 2.7 billion in 2017. Fee and commission income rose year on year (by 7.9% to CZK 3.6 billion), whereas fee and commission expenses were generally flat. The key factor behind the growth in fee and commission income was remuneration for fund asset management, which rose by 9.1% year on year to CZK 3.3 billion, while the expense items saw growth in payments for portfolio management (of 13.9% to CZK 0.4 billion) but a parallel decline in payments for intermediation (of 14.0% to CZK 0.3 billion). The administrative expenses of pension management companies were flat year on year at CZK 1.1 billion.

The total capital of pension management companies rose by 1.3% year on year to CZK 9.0 billion, representing a capital ratio of 139.7% in relation to the specified capital requirements of CZK 6.5 billion.

TABLE B.IV.1

CAPITAL AND CAPITAL REQUIREMENTS
Pension management companies

	2015	2016	2017	Change 2017/2016 (in %)
Capital, total (in CZK billions)	8.8	8.9	9.0	1.3
Capital requirements (in CZK billions)	6.6	7.4	6.5	-13.1
Capital ratio (in %)	132.6	119.9	139.7	N/A

This capital ratio grew by 19.8 percentage points year on year. (See Table B.IV.1)

4.1.2 Planholders in the third pillar

According to the CNB's records, almost 4.5 million planholders were participating in the third pension pillar at the end of 2017. The number of supplementary pension savings planholders rose by 40.7% year on year to 762,800. By contrast, as policies were terminated, the number of pension scheme planholders in transformed funds fell by a further 7.2% year on year to 3.7 million at the end of 2017. (See Table B.IV.2)

Table B.IV.2

NUMBERS AND STRUCTURE OF PARTICIPANTS
(in thousands; as of end of period)

	2015	2016	2017
Numbers of second and third pillar participants			
Number of retirement savings planholders	84.5	0.0	0.0
Number of supplementary pension savings planholders	367.2	542.0	762.8
Number of private pension scheme planholders	4,259.9	3,979.4	3,690.5
Third pillar participants by contribution type			
Planholders with own contribution	4,525.4	4,414.7	4,355.1
Planholders with employer contribution	1,283.4	1,304.1	1,354.2
Planholders with state contribution	3,789.6	3,576.0	3,640.2

4.1.3 Assets of pension management company funds

At the end of 2017, pension management companies were managing assets totalling CZK 445.4 billion in their third pillar funds, up by 10.8% on 2016. Transformed funds still had a majority share (92.9%) of the assets of pension management company funds. However, the share of participation funds increased by 2.6 percentage points year on year to 7.1%. (See Chart B.IV.2)

Transformed funds placed the bulk of their assets in debt securities (80.1% of total assets), while investing just 1.7% of total assets in shares and units and 17.4% in time deposits and on term accounts. Investment in other assets accounted for 0.8% of their assets.

The asset structure of participation funds is generally less conservative than that of transformed funds and is affected by the investment profiles of the individual funds. Obligatory conservative participation funds' investments in debt securities accounted for 55.3% of their assets and investments in claims on banks (deposits) for 44.7% at the end of 2017. By contrast, other participation funds have higher shares of investment in shares (11.3% of assets) and units (16.1% of assets). Their investments in debt securities amount to 32.0% and their investments in claims on banks to 40.4% of their total assets. (See Chart B.IV.3)

Chart B.IV.2

ASSETS BY FUND TYPE
Pension management company funds
(in CZK billions; at end of period)

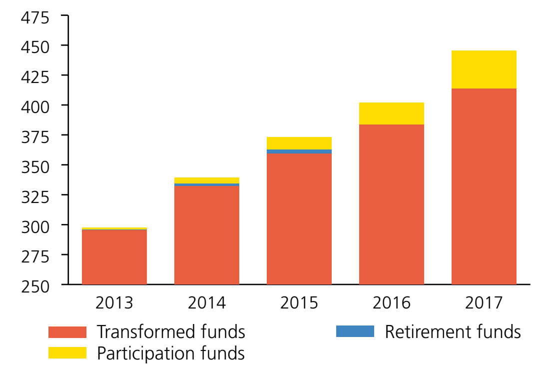
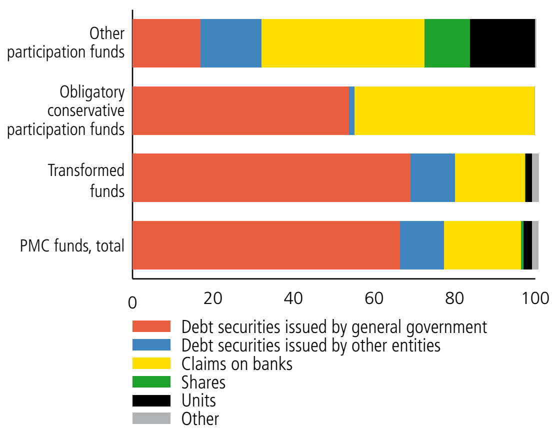


Chart B.IV.3

ASSETS OF THIRD-PILLAR FUNDS
(in %; as of 31 December 2017)



4.1.4 Planholders' own funds in pension management company funds

CHART B.IV.4

CONTRIBUTIONS RECEIVED BY PMC FUNDS
(in CZK billions; at end of period)

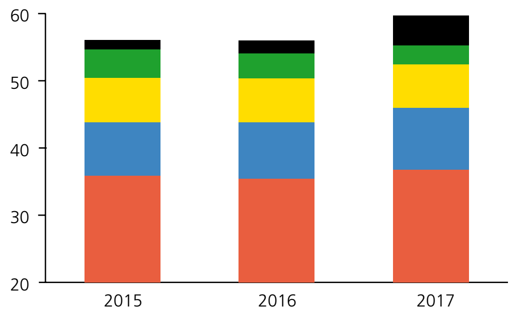
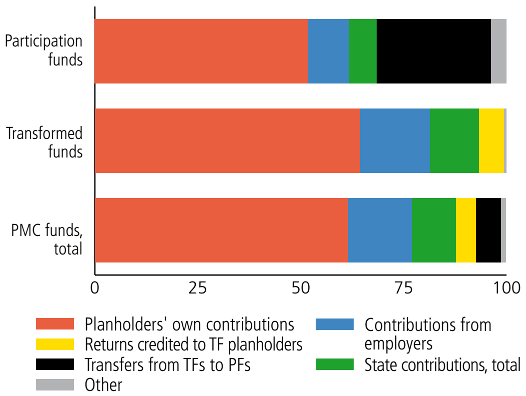


CHART B.IV.5

CONTRIBUTIONS RECEIVED
Third-pillar funds
(in %; as of 31 December 2017)



Pension management companies were managing planholders' own funds totalling CZK 412.6 billion in third-pillar funds at the end of 2017, i.e. 8.2% more than in 2016, of which a majority (92.8%) were in transformed funds and a smaller proportion (7.2%) were in participation funds. Both fund types saw year-on-year growth in funds – moderate growth of 7.2% for transformed funds and high growth of 64.7% for participation funds.

In 2017, third-pillar pension management company funds received contributions totalling CZK 59.7 billion, up by 6.6% on 2016. Of this amount, a majority (78.0%) still went into transformed funds, a much smaller proportion than in the previous year (a year-on-year drop of 6.6 percentage points). By contrast, participation funds received 52.4% (CZK 4.5 billion) more in contributions than in 2016.

With regard to the structure of the contributions, the majority were planholders' own contributions (61.6%), followed by contributions from employers (15.5%) and state contributions (10.7%). Roughly 4.8% were returns on contributions credited to transformed fund planholders. Funds transferred from transformed funds to participation funds amounted to 6.1% (CZK 3.7 billion) and transfers among pension management companies to 0.9%. The remainder were funds received from other sources and as yet unidentified payments which have been credited to the depositary's account but not to a specific supplementary pension savings or private pension scheme planholder. (See Charts B.IV.4 and B.IV.5)

4.1.5 Funds paid out from pension management company funds

Pension management company funds paid out a total of CZK 27.9 billion to planholders in 2017, up by CZK 3.6 billion compared with 2016. Most of this amount (81.6%, or CZK 22.7 billion) consisted of funds paid to planholders, where the dominant types of payment were lump-sum settlements and surrenders. (See Chart B.IV.6)

Transformed funds of pension management companies paid out a total of CZK 21.7 billion to planholders in 2017. This was CZK 1.0 billion more than in 2016. Lump-sum settlements represented the largest part of this figure (CZK 17.3 billion, 232,007 cases). Surrenders accounted for the second-largest part of the funds paid out from these funds (CZK 2.5 billion, 68,704 cases).

Participation funds of pension management companies paid out a total of CZK 1.4 billion to planholders in 2017, with surrenders accounting for the largest share (CZK 0.6 billion, 11,339 cases), followed by retirement pensions (CZK 0.3 billion). The number of persons receiving retirement pensions from these funds increased from 1,971 to 4,227 year on year.

A large part of the amounts paid out from the funds managed by pension companies were transfers from transformed funds to participation funds and transfers among pension management companies (14.8%, or CZK 4.1 billion). The remainder were funds returned to the state budget (1.9%), funds returned to planholders (1.0%) and other funds paid (0.8%).

CHART B.IV.6

BENEFITS PAID TO PLANHOLDERS
Third-pillar funds
(in %; as of 31 December 2017)

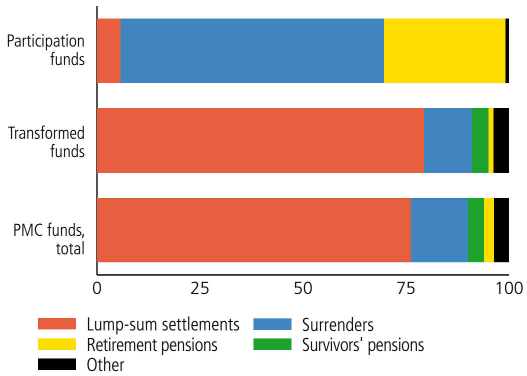


Chart B.IV.7

INVESTMENT FIRMS
(numbers of firms at end of period)

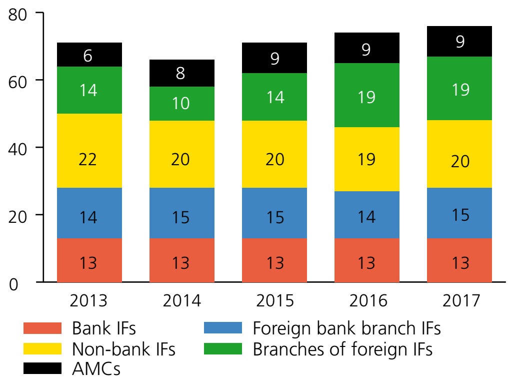


Chart B.IV.8

CLIENT ASSETS
Licensed investment firms
(in CZK billions; at end of period)

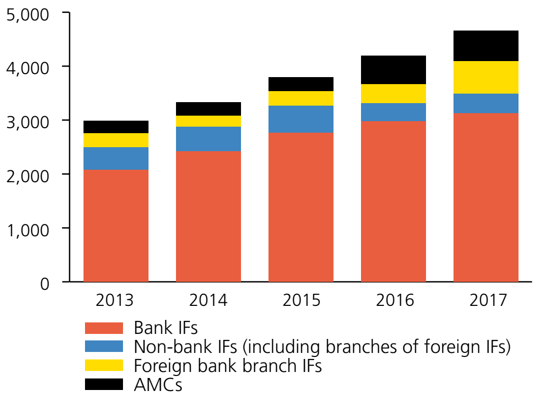
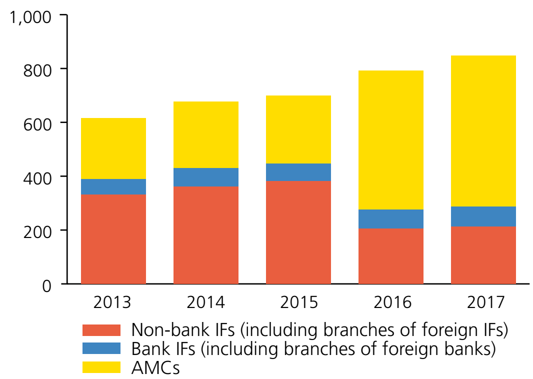


Chart B.IV.9

FUNDS MANAGED
Licensed investment firms
(in CZK billions; at end of period)



4.2 INVESTMENT FIRMS

4.2.1 Licensed investment firms

There were 33 investment firms registered on the Czech capital market as of the end of 2017, 13 of them banks and 20 non-bank investment firms. A total of 15 foreign bank branches and 19 branches of foreign non-bank investment firms were also active on the Czech market. Nine domestic management companies managing assets of clients under contract (asset management companies[122]) held investment firm licences at the end of 2017. (See Chart B.IV.7)

Licensed investment firms[123] had a total of 1.3 million clients at the end of 2017. Bank investment firms accounted for the largest share of the total number of clients (0.9 million). Domestic non-bank investment firms registered 0.3 million clients. Foreign bank branches and branches of foreign investment firms had 48,200 and 17,200 clients respectively at the end of 2017. Domestic asset management companies had 1,126 clients.

4.2.2 Client assets and managed funds

The total assets of investment firms' clients grew by 11.0% year on year to CZK 4,655.8 billion at the end of 2017. Of this amount, the assets of domestic banks' clients reached CZK 3,124.9 billion and those of domestic non-bank investment firms' clients CZK 367.7 billion, a year-on-year increase of 4.9% and 10.1% respectively. The assets of clients of asset management companies amounted to CZK 559.4 billion at the end of the period under review (a year-on-year rise of 6.5%). The largest year-on-year growth (69.1%) was recorded for the assets of clients of branches of foreign banks, which amounted to CZK 601.0 billion at the end of 2017. The assets of clients of foreign investment firm branches increased by 25.1% year on year to CZK 2.9 billion. (See Chart B.IV.8)

As of the end of 2017, investment firms were managing funds totalling CZK 848.1 billion, up by 7.1% on a year earlier, Asset management companies accounted for most of the managed funds (CZK 559.6 billion), up by 8.6% on a year earlier. The assets managed by domestic non-bank investment firms amounted to CZK 213.6 billion (up by 3.8% on a year earlier) and those managed by domestic bank investment firms to CZK 71.6 billion (up by 5.8% on a year earlier). Relatively low levels of managed funds (CZK 3.2 billion)

122 Management companies which provide the core investment service of asset management for a client if an investment instrument is part of such assets pursuant to Article 4(2)(d) of the Capital Market Undertakings Act (referred to as "asset management companies" or "AMCs").

123 Entities licensed by the CNB and branches of entities registered in another EU Member State which are authorised to provide investment services in the Czech Republic.

were registered by foreign bank branches and zero levels for foreign investment firms. (See Chart B.IV.9)

As regards structure, most of the funds managed were investment securities (80.0%), in particular bonds (76.6%, or CZK 649.6 billion) and, to a lesser extent, shares (3.4%). Collective investment securities and cash also had relatively significant shares, accounting for 16.4% and 3.4% respectively.

4.2.3 Volumes of trading in securities

Investment firms carried out trades for their clients totalling CZK 61,389.5 billion[124] in 2017. Trades under a management relationship accounted for 39.2% of this figure.

Securities trades carried out by bank investment firms for their clients totalled CZK 21,528.6 billion (35.1% of the total volume), while client trades of non-bank investment firms reached CZK 32,644.0 billion (53.2% of the total volume). Client trades of asset management companies amounted to CZK 5,166.4 billion and those of foreign bank branches to CZK 2,039.9 billion. Foreign investment firm branches carried out trades for their clients worth CZK 10.5 billion. (See Chart B.IV.10 and Table B.IV.3)

In 2017, investment firms carried out trades for their own account totalling CZK 134,262.0 billion, the largest share of which (91.1%) consisted of trades conducted by bank investment firms. Non-bank investment firms carried out trades for their own account amounting to CZK 865.3 billion (0.6% of the total volume), while foreign bank branches' trades for their own account over the same period totalled CZK 9,764.0 billion (7.3% of the total volume). (See Chart B.IV.10 and Table B.IV.3)

In terms of structure, both trades for own account and trades for clients were dominated by bonds. (See Chart B.IV.11)

124 The overall volume of trades comprises spot transactions, custody transfers, repos, buy/sell-back trades and sell/buy-back trades.

CHART B.IV.10

SECURITIES TRADES BY ENTITY
(in %; structure by entity in 2017)

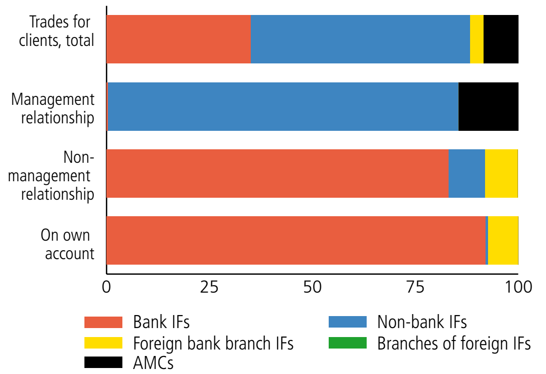


TABLE B.IV.3

VOLUMES OF SECURITIES TRADES BY INVESTMENT FIRMS
(in CZK billions)

		2015	2016	2017
For clients	IFs, total	17,699.1	30,668.1	61,389.5
	Bank IFs	4,576.6	4,976.2	21,528.6
	Non-bank IFs	12,059.4	23,934.0	32,644.0
	Foreign bank branch IFs	989.0	933.4	2,039.9
	Branches of foreign IFs	11.3	11.2	10.5
	AMCs	62.8	813.3	5,166.4
On own account	IFs, total	41,548.2	49,449.4	134,262.0
	Bank IFs	36,290.2	42,431.7	123,632.0
	Non-bank IFs	653.9	1,215.6	865.3
	Foreign bank branch IFs	4,604.2	5,802.1	9,764.0
	Branches of foreign IFs	0.0	0.0	0.0
	AMCs	0.0	0.0	0.7

CHART B.IV.11

SECURITIES TRADES BY SECURITY TYPE
(in %; structure by security type in 2017)

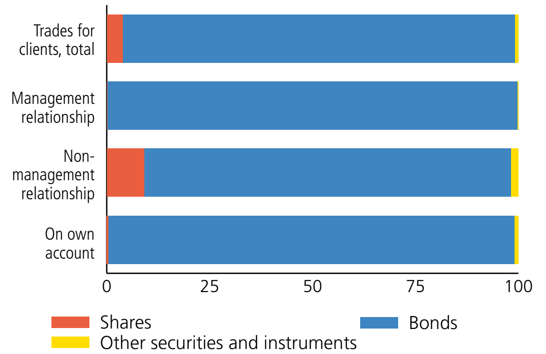


Chart B.IV.12

RISK EXPOSURES
Non-bank investment firms
(structure in %; at end of period)

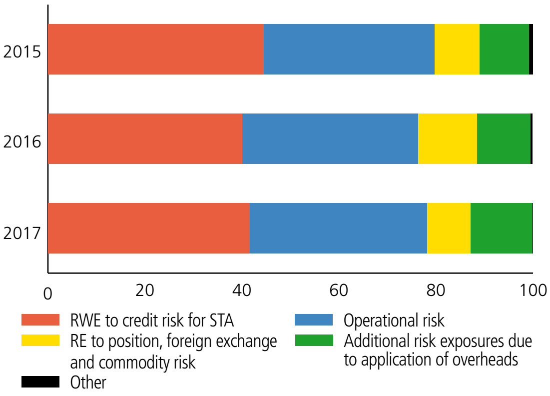


Table B.IV.4

PROFIT AND LOSS ACCOUNT – NON-BANK INVESTMENT FIRMS
(in CZK millions)

	2015	2016	2017	Change 2017/2016 (in %)
Financial and operating profit	3,178.5	2,889.1	3,242.4	12.2
of which:				
Interest profit	83.9	59.2	44.7	-24.6
Dividend income	41.8	36.2	65.0	79.4
Fee and commission profit	2,582.0	2,206.1	2,510.9	13.8
Profit from revaluation of assets	492.6	530.2	464.6	-12.4
Other operating gain/loss	-21.7	57.3	157.1	174.0
Administrative expenses	2,073.0	1,953.1	2,143.4	9.7
Depreciation and provisions	73.8	88.7	90.4	2.0
Impairment	25.5	1.0	1.2	20.0
Profit or (-) loss from other activities	0.8	2.3	-0.8	-
Tax expense	210.3	179.7	203.1	13.0
PROFIT for year after tax	796.7	668.8	803.4	20.1

4.2.4 Capital, ratios and profits of investment firms[125]

The investment firm sector was sufficiently capitalised in 2017. The regulatory capital of domestic non-bank investment firms (20 entities) totalled CZK 2.5 billion, which means it was almost unchanged compared with a year earlier. As regards structure, Common Equity Tier 1 (CET1) accounted for 99.2%.

Calculated risk exposures for individual types of risk amounted to CZK 11.4 billion for domestic non-bank investment firms, of which CZK 2.2 billion were risk exposures for investment firms with a restricted licence to provide investment services and investment firms with a restricted licence for own-account trading under Articles 95(2) and 98 of the CRR and Articles 96(2) and 98 of the CRR respectively.

Risk-weighted exposures to credit risk under the standardised approach (STA) accounted for the largest part of risk exposures (41.6%). Risk exposures to operational risk also recorded a significant share (36.6%), while lower risk exposures were calculated for position, foreign exchange and commodity risk (9.0%). Additional risk exposures due to the application of overheads accounted for 12.7% of total risk exposures for non-bank investment firms. (See Chart B.IV.12)

Domestic non-bank investment firms recorded improved profits in 2017 compared with the previous period. The total net profit of non-bank investment firms rose by 20.1% year on year to CZK 0.8 billion, due mainly to financial and operating profit, which grew by 12.2% year on year to CZK 3.2 billion. This growth was caused mainly by a return of the net margin on fees and commissions to CZK 2.5 billion, roughly the same level as in 2015. (See Table B.IV.4)

As regards ratios, net after-tax profit represented 3.2% of the average assets of domestic non-bank investment firms and 32.6% of Tier 1 capital. This was 0.5 and 6.5 percentage points higher, respectively, than in 2016.

Turning to the costs of domestic non-bank investment firms, administrative expenses accounted for 8.6% of their average assets and 66.1% of their financial and operating profit.

125 This section analyses the capital and profits of domestic non-bank investment firms, unless stated otherwise.

4.3 FUND INVESTMENT

Unlike in previous years, when the fund investment sector and its structure underwent many changes, there were only minor changes in the regulations and the other conditions for doing business in this sector in 2017.

4.3.1 Structure of the management companies and investment funds sector

A total of 29 management companies, one branch of a foreign management company, 227 mutual funds, 26 autonomous funds and almost 100 non-autonomous investment funds with legal personality were registered in the management companies and investment funds sector at the end of 2017. Almost two-thirds (148) of the total number of mutual funds were collective investment funds intended for the public (of which 59 were standard funds) and the rest were mutual funds for qualified investors.

All investment funds with legal personality were funds for qualified investors. The predominant form of establishing these funds is the still relatively new legal form of a SICAV.[126] A total of 103 funds with variable registered capital were registered in the Czech Republic at the end of 2017, as against 48 at the end of 2015 and 82 at the end of 2016.

In addition, investment in 1,190 foreign funds comparable to standard funds and 31 foreign funds comparable to special funds could be publicly offered in the Czech Republic at the end of 2017. According to figures from the Czech Capital Market Association, a total of CZK 203.3 billion was invested in foreign collective investment funds at the end of 2017, 4.0% more than at the end of 2016.

Investment in 137 foreign funds comparable to funds for qualified investors from other EU Member States is also offered in the Czech Republic. Moreover, Specialised European Venture Capital Funds (EuVECAs) and European Social Entrepreneurship Funds (EuSEFs) may be established. No domestic funds of this type have been set up, but 28 EuVECAs are offered in the Czech Republic on a cross-border basis.

126 A joint-stock company with variable registered capital, a legal form introduced by the Act on Management Companies and Investment Funds (2013).

Table B.IV.5

CAPITAL AND CAPITAL REQUIREMENTS
Management companies

	2015	2016	2017	Change 2017/2016 (in %)
Capital, total (in CZK billions)	1.3	1.5	1.8	20.2
Capital requirements (in CZK billions)	0.2	0.3	0.3	5.7
Capital ratio (in %)	623.9	555.8	632.2	N/A

Chart B.IV.13

INVESTMENT FUND ASSETS
Domestic investment funds
(in CZK billions; at end of period)

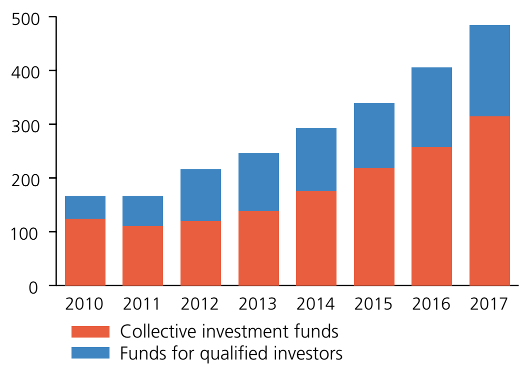
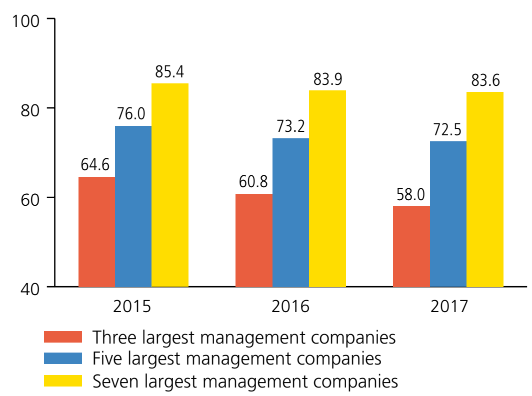


Chart B.IV.14

COLLECTIVE INVESTMENT FUND ASSETS BY MANAGER
(in %; at end of period)



4.3.2 Management companies

Management companies generated a net profit of CZK 1.0 billion in 2017, up by 12.2% on a year earlier. Financial profit rose by 14.3% year on year to CZK 2.5 billion, owing mainly to an increase in net profit from fees and commissions of 12.1% to CZK 2.4 billion. Administrative expenses of management companies grew by 18.1% year on year to CZK 1.1 billion.

The total capital of management companies increased by 20.2% year on year to CZK 1.8 billion, representing a capital ratio of 632.2% in relation to the specified capital requirements of CZK 0.3 billion. (See Table B.IV.5)

4.3.3 Assets in domestic investment funds

At the end of 2017, the assets in investment funds managed by Czech management companies, the branch of a foreign management company and autonomous investment funds were up by 19.6% year on year to CZK 485.0 billion. The gradual upward trend in investment in such funds thus continued. (See Chart B.IV.13)

The assets invested in domestic collective investment funds managed by Czech management companies and the branch of a foreign management company totalled CZK 315.1 billion at the end of 2017, up by 22.1% year on year. This represented an increase of 44.2% by comparison with 2015.

Market concentration in terms of the value of the assets managed by collective investment fund managers declined slightly further during 2017. At the end of 2017, the three companies with the largest market shares were managing 58.0% of the assets of collective investment funds, down by 2.8 percentage points year on year. (See Chart B.IV.14)

As regards fund type, mixed funds were managing the largest amount of assets at the end of 2017. They accounted for 44.3% of the total assets of collective investment funds (up by 3.4 percentage points). At the end of 2017, mixed funds were managing assets of CZK 139.6 billion, an increase of 32.4% compared with the end of 2016. (See Chart B.IV.15)

Bond funds were managing assets totalling CZK 83.4 billion at the end of 2017, 1.5% higher than in the same period of 2016. The share of assets in bond funds in the total assets of all domestic collective investment funds fell by 5.4 percentage points year on year to 26.5%.

Assets of CZK 62.8 billion were being managed by equity funds at the end of 2017. This represents 19.9% of the assets of collective investment funds. Real estate funds were managing CZK 26.6 billion (8.5%) of the assets of collective investment funds. The other types of funds had relatively low asset levels at the end of 2017: CZK 1.5 billion in money market funds and CZK 1.2 billion in other funds.

The assets in domestic funds for qualified investors managed by Czech management companies, the branch of a foreign management company and autonomous investment funds totalled CZK 169.8 billion at the year-end, i.e. 15.2% more than in the same period of 2016.

4.3.4 Structure of collective investment fund assets

As regards the composition of the investment portfolio, the largest part (31.5%) of the assets of collective investment funds was invested in debt securities at the end of 2017, with 14.7% invested in bonds issued by general government and 16.8% in bonds issued by other entities. The share of debt securities in total assets fell by 5.8 percentage points year on year. Collective investment funds had 29.0% of their assets invested in securities of collective investment funds, a similar share as in the previous year. In all, 18.0% of assets were invested in deposits and other receivables, up by 3.6 percentage points on the same period of the previous year. Investments in shares and similar investment securities amounted to 16.1% of assets at the end of 2017, up by 0.8 percentage point on the end of 2016. Other investments accounted for the remainder (5.4%) of the assets of collective investment funds. (See Chart B.IV.16)

The structure of the assets in the individual types of funds reflects the investment orientation of the given type of fund. In the case of bond funds, the bulk of the funds' assets (71.8%) are invested in debt securities, followed by deposits at banks (17.4%) and collective investment fund securities (10.3%). Mixed funds invest a large part of their assets in collective investment fund securities (45.6%) and bonds (27.3%). In line with their investment strategy, equity funds invest mainly in shares (61.5%) and to a lesser extent in collective investment fund securities (28.8%) and deposits at banks (8.6%). By contrast, they do not invest in bonds. Real estate funds put most of their assets into other types of investments, such as real estate and holdings in real estate companies (58.5%) and deposits and other receivables (39.3%). (See Chart B.IV.17)

CHART B.IV.15

ASSETS BY FUND TYPE
Collective investment funds
(in CZK billions; at end of period)

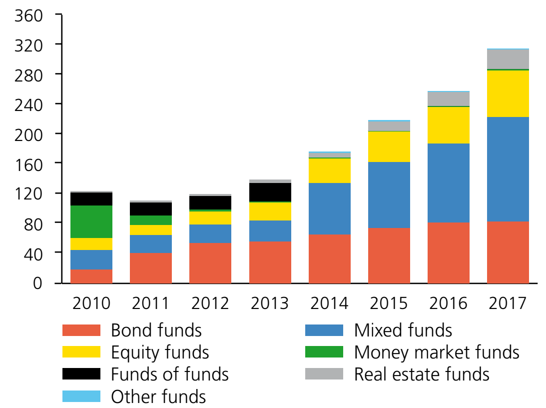


CHART B.IV.16

ASSET STRUCTURE
Collective investment funds
(in %; at end of period)

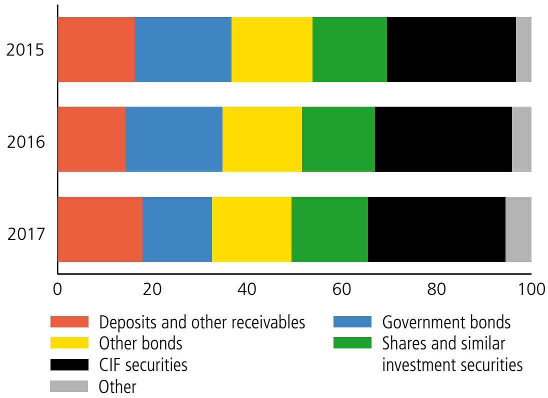


CHART B.IV.17

ASSET STRUCTURE BY FUND TYPE
Collective investment funds
(in %; as of 31 December 2017)

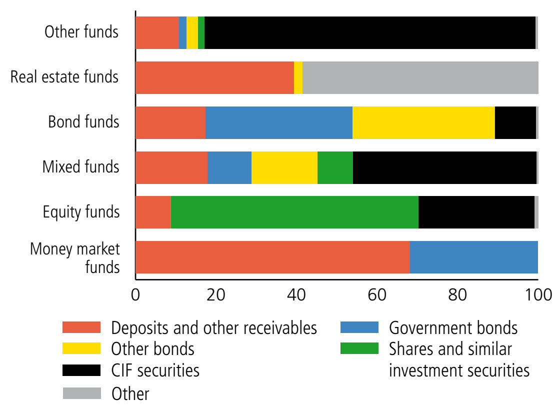
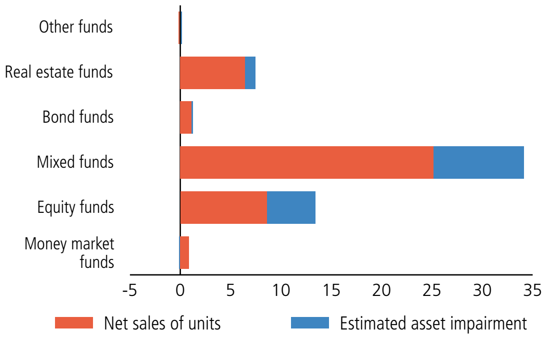


CHART B.IV.18

DECOMPOSITION OF YEAR-ON-YEAR CHANGE IN ASSETS
Collective investment funds
(in CZK billions; as of 31 December 2017)



4.3.5 Sales and redemptions of fund units

Sales and redemptions of fund units and the net value of unit issues and redemptions significantly affect the total assets of collective investment funds. As in the previous year, positive net sales of units were recorded for most types of funds (except for other funds) in 2017.

The amount received for units issued (CZK 106.3 billion) was higher than the amount paid out of the assets of collective investment mutual funds for units redeemed (CZK 64.1 billion). The resulting difference between units issued and redeemed was thus positive at CZK 42.2 billion, contributing to a rise in the total balance sheet assets of collective investment funds. Net sales of units increased by 26.1% year on year. (See Chart B.IV.18)

4.4 REGULATED MARKETS

4.4.1 Trading on the Prague Stock Exchange[127]

A total of 23 share issues could be traded on the share and unit market of the Prague Stock Exchange (PSE) at the end of 2017 (two fewer than at the end of 2016), of which 13 were domestic issues. In all, 116 issues were registered on the bond market, one more than at the end of 2016. On the structured product market, a total of 61 issues (ten fewer than in 2016) had been admitted to trading as of 31 December 2017, of which 48 were issues of warrants and 13 were issues of certificates. A total of 30 investment fund shares and two investment fund units could also be traded on the PSE at the end of 2017. (See Chart B.IV.19)

The total volume of trades on the PSE stock market decreased by 17.4% year on year to CZK 138.8 billion in 2017. The most successful month was February and the weakest month, as in the previous year, was July. The average daily trading volume again fell year on year, from CZK 666.8 million to CZK 555.1 million at the end of 2017. This was the lowest annual average daily trading volume on the PSE in ten years. (See Chart B.IV.20)

As usual, ČEZ shares were the most traded issue on the PSE (CZK 40.9 billion), accounting for 29.4% of the total volume of share trades in 2017, followed by Moneta Money Bank (CZK 30.0 billion), which increased its share of total trades on the PSE's Prime Market by 5.1 percentage points to 21.6% in its second year of trading on the PSE and was also the only one of the first four issues to raise its trading volume year on year. The third most traded issue was Komerční banka (CZK 28.4 billion), whose share dropped by 9.2 percentage points year on year to 20.5%. Trading on the PSE is traditionally highly concentrated, with the three most traded share issues accounting for 71.5%, the five most traded issues for 89.4% and the ten most traded issues for almost 98.9% of the total volume of share trades. (See Chart B.IV.21)

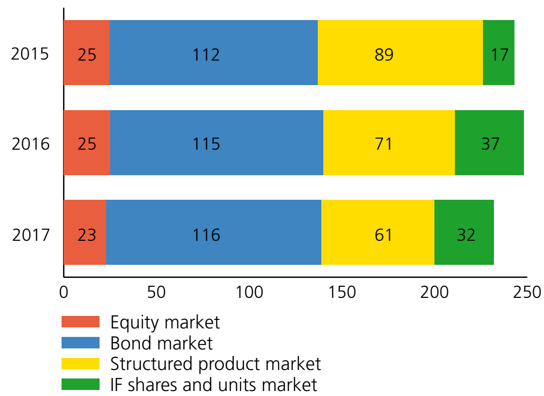
The market capitalisation of shares traded on the PSE rose by 19.9% year on year to CZK 1,252.6 billion at the end of 2017. (See Chart B.IV.22)

Domestic issues accounted for 54.9% (CZK 687.3 billion) of the total market capitalisation. The Erste Group Bank issue was the largest in terms of market capitalisation, accounting for 31.7% of total market capitalisation, followed by ČEZ with a share of 21.3% and Komerční banka with a share of 13.9%.

127 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.

CHART B.IV.19

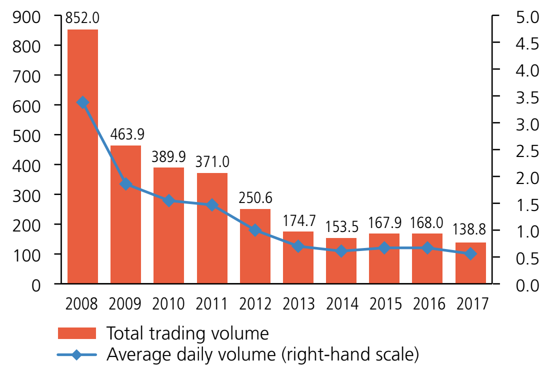
NUMBERS OF REGISTERED ISSUES ON PSE
(at end of period)



Source: PSE statistics

CHART B.IV.20

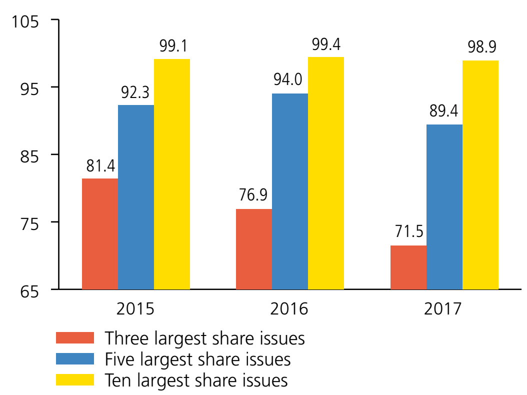
SHARE TRADING ON PSE
(in CZK billions; at end of period)



Source: PSE Statistical Fact Book

CHART B.IV.21

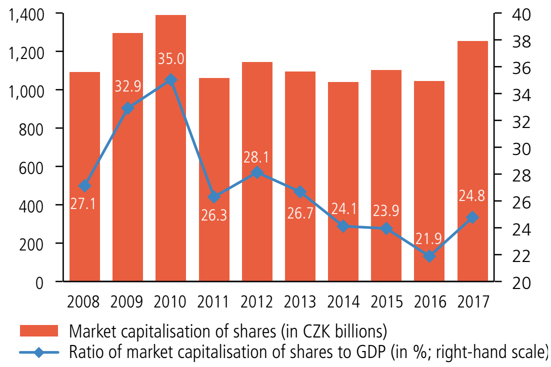
CONCENTRATION OF SHARE TRADING ON PSE
(in %; shares in total annual trading volume)



Source: PSE Statistical Fact Book

CHART B.IV.22

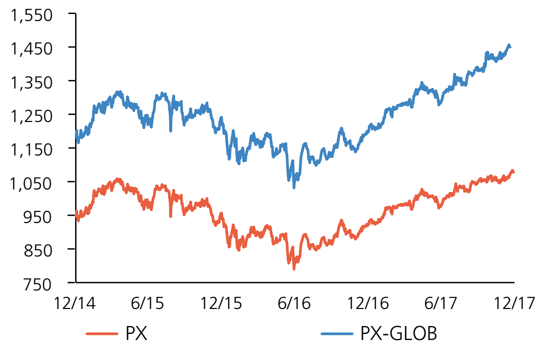
MARKET CAPITALISATION OF SHARES ON PSE
(in CZK billions; at end of period)



Source: CZSO, PSE Statistical Fact Book

CHART B.IV.23

PSE PRICE INDICES



Source: PSE statistics

The official price index of the most liquid shares on the PSE, the PX index, was up by 17.0% (156.6 points) year on year at the end of 2017 and, unlike in the previous four years, ended the year above 1,000 points, at 1,078.26 points. The PX index closing quotation recorded its yearly minimum of 923.3 points right at the beginning of the year on 17 January 2017 and its yearly maximum of 1,083.5 points on 27 December 2017. The PX-GLOB index, comprising all traded shares, moved in parallel with the PX index. (See Chart B.IV.23)

Corporate issues and, to a limited extent, financial issues totalling CZK 6.2 billion were the only bonds traded on the PSE bond market in 2017. Registered OTC bond trades on the PSE totalled CZK 548.4 billion at the end of 2017, up by 33.3% compared with 2016, the majority of which (90.6%) were government bond trades.

Only very small volumes were traded again on the structured product market in 2017, although the volume of trading in these instruments increased by almost 80% year on year to CZK 227.3 million. Trading in investment fund shares and units amounted to CZK 87.3 million in 2017.

4.4.2 Trading on the RM-SYSTÉM exchange[128]

Annual trading volumes on the other domestic regulated market, RM-S, continued to show a downward trend. Total share trading amounted to CZK 3.1 billion in 2017, down by 9.0% from a year earlier. (See Chart B.IV.24)

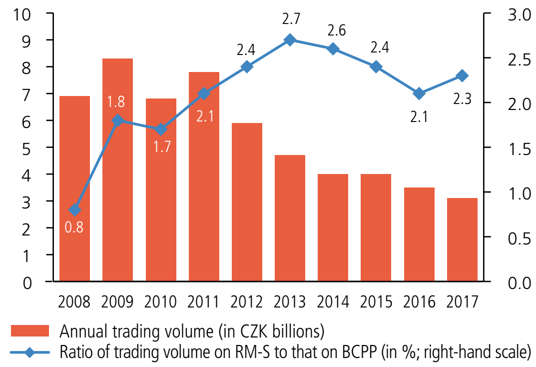
The volume of bond trades totalled CZK 8.8 million, representing a year-on-year decrease of 27.4%.

The RM index stood at 1,501.8 points at the end of 2017, an increase of 29.6% compared with the end of 2016. The RM index recorded its minimum on 2 January 2017, when it closed at 1,162.3 points. By contrast, it reached its maximum of 1,763.2 points during 18 December 2017, closing that day at 1,618.9 points. (See Chart B.IV.25)

CHART B.IV.24

SHARE TRADING ON RM-S

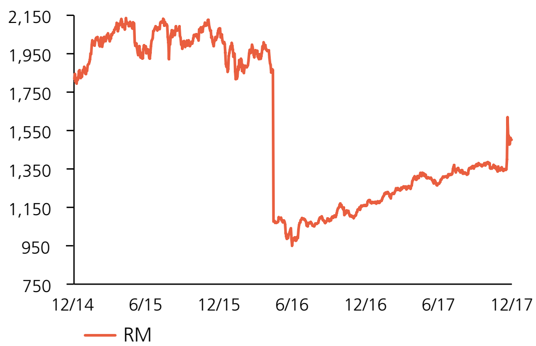
(share trading volumes; all markets)



Source: RMS statistics

CHART B.IV.25

RM INDEX



Source: RM-S statistics

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

PART C – ANNEXES

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

Annex 1

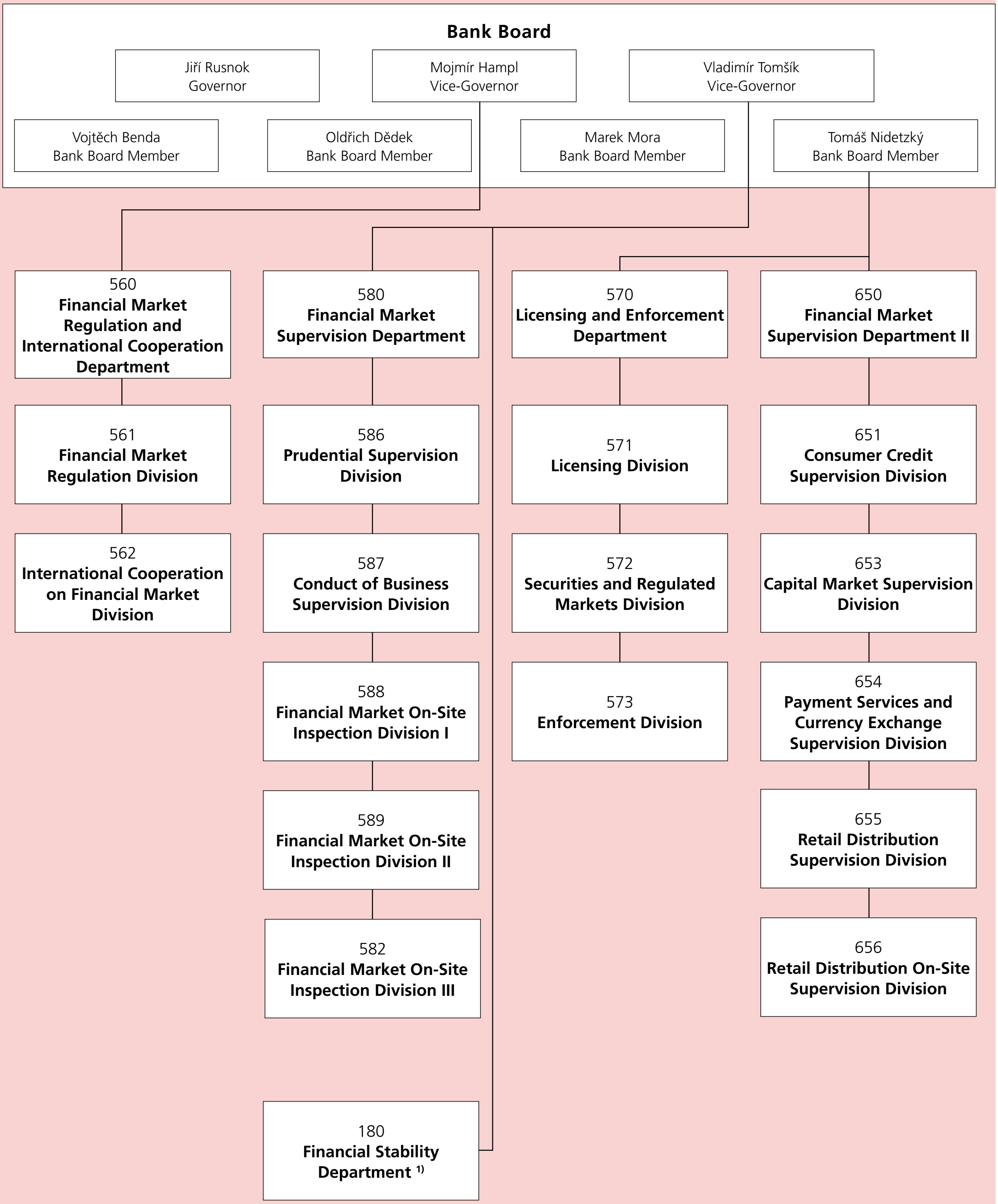
MAIN INDICATORS OF MONETARY AND ECONOMIC DEVELOPMENTS IN THE CZECH REPUBLIC

		2013	2014	2015	2016	2017
Gross domestic product	Volume (in CZK billions) 1)	3,980.2	4,088.2	4,308.5	4,415.8	4,619.0
	Increase (in %) 2)	-0.5	2.7	5.4	2.5	4.6
Final consumption expenditure of households	Increase (in %) 2)	0.5	1.8	3.8	3.6	4.0
Final consumption expenditure of government	Increase (in %) 2)	2.5	1.1	1.9	2.0	1.5
Gross capital formation	Increase (in %) 2)	-5.1	8.5	13.1	-2.4	5.4
Gross fixed capital formation	Increase (in %) 2)	-2.5	3.9	10.4	-2.5	5.9
Output – percentage increase	Industry (sales) 3)	-0.1	5.0	4.3	3.4	6.5
	Construction 3)	-6.7	4.3	6.8	-5.6	3.3
Prices	Inflation rate (in %) 4)	1.4	0.4	0.3	0.7	2.5
Unemployment	Unemployment rate (in %) 5)	7.1	6.2	5.1	4.0	2.9
Foreign trade	Exports of goods and services (in %) 2)	0.2	8.7	6.2	4.3	6.9
	Imports of goods and services (in %) 2)	0.1	10.1	7.0	3.1	6.2
Average wage	Nominal (in %) 6)	-0.1	2.9	3.2	3.7	7.0
	Real (in %) 6)	-1.5	2.5	2.9	3.0	4.4
Balance of payments	Current account (in CZK billions) 7)	-21.8	7.9	11.3	74.2	54.2
Exchange rates	CZK/USD 8)	19.6	20.8	24.6	24.4	23.4
	CZK/EUR 8)	26.0	27.5	27.3	27.0	26.3
Average interbank	7-day 9)	0.21	0.17	0.16	0.14	0.24
deposit rate (PRIBOR)	3-month 9)	0.46	0.36	0.31	0.29	0.41
	6-month 9)	0.58	0.43	0.39	0.36	0.48
Discount rate	(in %) 10)	0.05	0.05	0.05	0.05	0.05
Lombard rate	(in %) 10)	0.25	0.25	0.25	0.25	1.00
2W repo rate	(in %) 10)	0.05	0.05	0.05	0.05	0.50
PX capital market index 9)		989.0	946.7	956.3	921.6	1,078.2

Source: CZSO (macroeconomic indicators); PSE; CNB; data as of 20 April 2018
1) Constant prices of 2010, seasonally adjusted
2) Percentage increase on a year earlier in real terms, seasonally adjusted
3) Percentage increase on a year earlier in real terms
4) Growth in consumer prices in %, end of period
5) Average, age 15–64 (ILO methodology)
6) Year-on-year growth in % %, converted numbers of employees
7) Current prices
8) Average daily nominal koruna exchange rates
9) Annual average from monthly averages
10) As of 31 December of given year

Annex 2

ORGANISATIONAL STRUCTURE OF CNB FINANCIAL MARKET SUPERVISION
as of 31 December 2017



1) The CNB's Financial Stability Department was elevated to multi-divisional department status on 1 January 2018. This decision of the CNB Bank Board reflected the increasing importance of financial stability and macroprudential policy in the central bank's work.

Annex 3

BREAKDOWN OF BANKS INTO GROUPS [1)]

(as of 31 December 2017)

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 China (Hungary) Close Ltd. Prague branch, odštěpný závod
3. Komerční banka, a. s.	3. BNP Paribas Fortis SA/NV, pobočka Česká republika
4. UniCredit Bank Czech Republic and Slovakia, a. s.	4. BNP Paribas Personal Finance SA, odštěpný závod
	5. BNP Paribas S.A., pobočka Česká republika
II. Medium-sized banks	6. Citibank Europe plc, organizační složka
1. Hypoteční banka, a. s.	7. COMMERZBANK Aktiengesellschaft, pobočka Praha
2. J&T BANKA, a. s.	8. Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka
3. MONETA Money Bank, a.s.	9. HSBC Bank plc - pobočka Praha
4. PPF banka a. s.	10. Industrial and Commercial Bank of China Limited, Prague Branch, odštěpný závod
5. Raiffeisenbank a. s.	11. ING Bank N.V.
	12. mBank S.A., organizační složka
III. Small banks	13. MUFG Bank (Europe) N.V. Prague Branch
1. Air Bank a.s.	14. Oberbank AG pobočka Česká republika
2. Banka CREDITAS a.s.	15. PKO BP S.A., Czech Branch
3. Česká exportní banka, a.s.	16. Poštová banka, a.s., pobočka Česká republika
4. Českomoravská záruční a rozvojová banka, a.s.	17. PRIVAT BANK der Raiffeisenlandesbank Oberösterreich Aktiengesellschaft,
5. Equa bank a.s.	pobočka Česká republika
6. Expobank CZ a.s.	18. Privatbanka, a.s., pobočka Česká republika
7. Fio banka, a.s.	19. Saxo Bank A/S, organizační složka
8. Sberbank CZ, a.s.	20. Sumitomo Mitsui Banking Corporation Europe Limited, Prague Branch
9. Wüstenrot hypoteční banka a.s.	21. Volksbank Raiffeisenbank Nordoberpfalz eG pobočka Cheb
	22. Všeobecná úverová banka a.s., pobočka Praha; zkráceně: VUB, a.s.,
	pobočka Praha
	23. Waldviertler Sparkasse Bank AG
	24. Western Union International Bank GmbH, organizační složka
	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) Note: As from 2016, banks having total assets of over 10% of the banking sector's total assets are regarded as large banks, banks having total assets of 2%–10% of the banking sector's total assets are regarded as medium-sized banks and banks having total assets of less than 2% of the banking sector's total assets are regarded as small banks. For more details see www.cnb.cz > *Supervision, regulation* > *Aggregate information on the financial sector* > *Basic indicators of the financial market* > *Banks* > *Methodology*.

Annex 4

CREDIT UNIONS
(as of 31 December 2017)

1.	Artesa, spořitelní družstvo
2.	Citfin, spořitelní družstvo
3.	České spořitelní družstvo
4.	Československé úvěrní družstvo
5.	Družstevní záložna Kredit
6.	Družstevní záložna PSD
7.	Moravský Peněžní Ústav - spořitelní družstvo
8.	NEY spořitelní družstvo
9.	Peněžní dům, spořitelní družstvo
10.	Podnikatelská družstevní záložna

Annex 5

PENSION MANAGEMENT COMPANIES
(as of 31 December 2017)

1.	Allianz penzijní společnost, a.s.
2.	AXA penzijní společnost a.s.
3.	Conseq penzijní společnost, a.s.
4.	Česká spořitelna - penzijní společnost, a.s.
5.	ČSOB Penzijní společnost, a. s., člen skupiny ČSOB
6.	KB Penzijní společnost, a.s.
7.	NN Penzijní společnost, a.s.
8.	Penzijní společnost České pojišťovny, a.s.

Annex 6

MANAGEMENT COMPANIES
(as of 31 December 2017)

1.	AKRO investiční společnost, a.s.
2.	AMISTA investiční společnost, a.s.
3.	Amundi Czech Republic, investiční společnost, a.s.
4.	APRIN investiční společnost a. s.
5.	Art of Finance investiční společnost, a.s.
6.	AVANT investiční společnost, a.s.
7.	AXA investiční společnost a.s.
8.	CARDUUS Asset Management, investiční společnost, a.s.
9.	Conseq Funds investiční společnost, a.s.
10.	ČSOB Asset Management, a.s., investiční společnost
11.	DELTA Investiční společnost, a.s.
12.	Fio investiční společnost, a.s.
13.	Generali Investments CEE, investiční společnost, a.s.
14.	INVESTIKA, investiční společnost, a.s.
15.	Jet Investment, a.s.
16.	J&T INVESTIČNÍ SPOLEČNOST, a.s.
17.	Partners investiční společnost, a.s.
18.	Patria investiční společnost, a.s.
19.	Pioneer investiční společnost, a.s.
20.	PROSPERITA investiční společnost, a.s.
21.	QI investiční společnost, a.s.
22.	Raiffeisen investiční společnost a.s.
23.	REDSIDE investiční společnost, a.s.
24.	REICO investiční společnost České spořitelny, a.s.
25.	RSJ Investments investiční společnost a.s.
26.	Safety invest funds, investiční společnost, a.s.
27.	WMS investiční společnost, a.s.
28.	WOOD & Company investiční společnost, a.s.
29.	ZFP Investments, investiční společnost, a.s.

Annex 7

INSURANCE UNDERTAKINGS AND BRANCHES OF FOREIGN INSURANCE UNDERTAKINGS
(as of 31 December 2017)

I. Life insurance undertakings and branches of foreign insurance undertakings	**III. Mixed life and non-life insurance undertakings**
1. AEGON Pojišťovna, a.s.	1. Allianz pojišťovna, a.s.
2. Basler Lebensversicherungs-Aktiengesellschaft, pobočka pro Českou republiku	2. AXA životní pojišťovna a.s.
3. MetLife Europe d.a.c., pobočka pro Českou republiku	3. BNP Paribas Cardif Pojišťovna, a.s.
4. NN Životná poisťovňa, a.s., pobočka pro Českou republiku	4. Česká podnikatelská pojišťovna, a.s.,
5. NN Životní pojišťovna N.V., pobočka pro Českou republiku	Vienna Insurance Group
6. NOVIS Poisťovňa a.s., odštěpný závod	5. Česká pojišťovna a.s.
	6. ČSOB Pojišťovna, a. s., člen holdingu ČSOB
II. Non-life undertakings and branches of foreign insurance undertakings	7. ERGO pojišťovna, a.s.
1. AEGON Hungary Closed Company Ltd., organizační složka	8. Generali Pojišťovna a.s.
2. AIG Europe Limited, organizační složka pro Českou republiku	9. Hasičská vzájemná pojišťovna, a.s.
3. Atradius Crédito y Caución S.A. de Seguros y Reaseguros,	10. Komerční pojišťovna, a.s.
pobočka pro Českou republiku	11. Kooperativa pojišťovna, a.s., Vienna Insurance Group
4. AWP P&C Česká republika - odštěpný závod zahraniční právnické osoby	12. MAXIMA pojišťovna, a.s.
5. AXA pojišťovna a.s.	13. Pojišťovna České spořitelny, a.s.,
6. Basler Sachversicherungs - Aktiengesellschaft, pobočka pro Českou republiku	Vienna Insurance Group
7. Chubb European Group Limited, organizační složka	14. UNIQA pojišťovna, a.s.
8. Colonnade Insurance S.A., organizační složka	
9. COMPAGNIE FRANCAISE D´ ASSURANCE POUR LE COMMERCE EXTERIEUR	
organizační složka Česko	
10. Credendo - Short-Term EU Risks úvěrová pojišťovna, a.s.	
11. Česká kancelář pojistitelů	
12. Česká pojišťovna ZDRAVÍ a.s.	
13. D.A.S. Rechtsschutz AG, pobočka pro ČR	
14. Direct pojišťovna, a.s.	
15. ERV Evropská pojišťovna, a. s.	
16. EULER HERMES SA, organizační složka	
17. Exportní garanční a pojišťovací společnost, a.s.	
18. HALALI, všeobecná pojišťovna,a.s.	
19. HDI Versicherung AG, organizační složka	
20. INTER PARTNER ASSISTANCE, organizační složka	
21. MetLife Europe Insurance d.a.c., pobočka pro Českou republiku	
22. Österreichische Hagelversicherung - Versicherungsverein auf Gegenseitigkeit,	
Agra pojišťovna, organizační složka	
23. Pojišťovna VZP, a.s.	
24. PRVNÍ KLUBOVÁ pojišťovna a.s.	
25. QBE INSURANCE (EUROPE) LIMITED, organizační složka	
26. Servisní pojišťovna a.s.	
27. Slavia pojišťovna a.s.	
28. Stewart Title Limited, organizační složka	
29. Union poisťovňa, a.s., pobočka pro Českou republiku	
30. Vitalitas pojišťovna, a.s.	

1) The Czech Insurers' Bureau (CIB) and Exportní garanční a pojišťovací společnost, a.s. (EGAP) are not included in the analyses in Part B of this report.

Annex 8

LICENSED INVESTMENT FIRMS

(as of 31 December 2017)

I. Investment firms – banks

1. Česká exportní banka, a.s.
2. Česká spořitelna, a.s.
3. Českomoravská záruční a rozvojová banka, a.s.
4. Československá obchodní banka, a. s.
5. Expobank CZ a.s.
6. Fio banka, a.s.
7. J & T BANKA, a.s.
8. Komerční banka, a.s.
9. MONETA Money Bank, a.s.
10. PPF banka a.s.
11. Raiffeisenbank a.s.
12. Sberbank CZ, a.s.
13. UniCredit Bank Czech Republic and Slovakia, a.s.

II. Investment firms – non-banks

1. 42 Financial Services a.s.
2. Accredio, a.s.
3. AKCENTA CZ a.s.
4. Amundi Czech Republic Asset Management, a.s.
5. ATLANTA SAFE, a.s.
6. ATLANTIK finanční trhy, a.s.
7. BH Securities a.s.
8. Citfin - Finanční trhy, a.s.
9. Colosseum, a.s.
10. Conseq Investment Management, a.s.
11. CYRRUS, a.s.
12. CYRRUS CORPORATE FINANCE, a.s.
13. EFEKTA obchodník s cennými papíry a.s.
14. HighSky Brokers, a.s.
15. NN Investment Partners C.R., a.s.
16. Patria Finance, a.s.
17. Roklen360 a.s.
18. RSJ Custody s.r.o.
19. RSJ Securities a.s.
20. WOOD & Company Financial Services, a.s.

III. Investment firms – branches (organisational units) of foreign banks

1. Bank Gutmann Aktiengesellschaft, pobočka Česká republika
2. BNP Paribas Fortis SA/NV, pobočka Česká republika
3. BNP Paribas S.A., pobočka Česká republika
4. Citibank Europe plc, organizační složka
5. COMMERZBANK Aktiengesellschaft, pobočka Praha
6. Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka
7. HSBC Bank plc - pobočka Praha
8. ING Bank N.V.
9. mBank S.A., organizační složka
10. MUFG Bank (Europe) N.V. Prague Branch
11. Oberbank AG pobočka Česká republika
12. Privatbanka, a.s., pobočka Česká republika
13. Saxo Bank A/S, organizační složka
14. Všeobecná úverová banka a.s., pobočka Praha; zkráceně: VUB, a.s., pobočka Praha
15. Western Union International Bank GmbH, organizační složka

IV. Investment firms – branches (organisational units) of foreign non-bank investment firms

1. Admiral Markets AS, organizační složka
2. Admiral Markets AS, org.sl.
3. AISA Direct Ltd, pobočka
4. Catus AG Vermögensverwaltung
5. COVERDEAL HOLDINGS LIMITED, odštěpný závod
6. Dom Maklerski Banku Ochrony Środowiska Spółka Akcyjna, organizační složka Česká republika
7. eBrókerház Befektetési Szolgáltató Zártkörűen Működő Részvénytársaság
8. European Investment Centre, o.c.p., a.s. - organizační složka
9. GKFX Financial Services Limited
10. Goldenburg Group Limited
11. IronFX Global Limited pobočka
12. LaSalle Investment Management, organizační složka
13. Leadcapital Markets Ltd
14. Lynx B.V., organizační složka
15. Monecor (London) Ltd
16. Nuntius Brokerage and Investment Services S.A. , odštěpný závod
17. OKTAVEST GmbH
18. R Capital Solutions Ltd
19. RELIANTCO INVESTMENTS LTD, organizační složka
20. X-TRADE BROKERS DOM MAKLERSKI SPółKA AKCYJNA, organizační složka

V. Management companies carrying on asset management

1. Amundi Czech Republic, investiční společnost, a.s.
2. AXA investiční společnost a.s.
3. CARDUUS Asset Management, investiční společnost, a.s.
4. ČSOB Asset Management, a.s., investiční společnost
5. Erste Asset Management GmbH, pobočka Česká republika
6. Generali Investments CEE, investiční společnost, a.s.
7. Partners investiční společnost, a.s.
8. WOOD & Company investiční společnost, a.s.
9. ZFP Investments, investiční společnost, a.s.

Annex 9

(BASE) BOND PROSPECTUSES AND SUPPLEMENTS THERETO IN 2017

Issuer	Document type	Decision date	Decision
Brooc Global Investments a.s.	Prospectus	07 January 2017	Agreed
DRFG TELCO s.r.o.	Base prospectus	20 January 2017	Agreed
Home Credit B.V.	Prospectus	03 February 2017	Agreed
Alpha Quest Funds SICAV p.l.c.	Prospectus	28 February 2017	Agreed
COMFORT FINANCE GROUP CFG LTD	Base prospectus	07 March 2017	Agreed
Passerinvest Finance, a.s.	Prospectus	11 March 2017	Agreed
RN Solutions a.s.	Prospectus	11 March 2017	Agreed
GEEN General Energy a.s.	Prospectus	18 March 2017	Agreed
SOLEK HOLDING SE	Prospectus	08 April 2017	Agreed
MONETA Money Bank a.s.	Base prospectus	12 April 2017	Agreed
CPI BYTY, a.s.	Base prospectus	04 May 2017	Agreed
Wüstenrot hypoteční banka a.s.	Base prospectus	23 May 2017	Agreed
Equa bank a.s.	Base prospectus	13 May 2017	Agreed
Československá obchodní banka, a.s.	Supplement to base prospectus for investment certificates	01 June 2017	Agreed
UNICAPITAL Invest I a.s.	Supplement to base prospectus	01 June 2017	Agreed
Pražská plynárenská, a.s.	Prospectus	09 June 2017	Agreed
ZOOT a.s.	Prospectus	22 June 2017	Agreed
J&T Global Finance VIII., s.r.o.	Prospectus	01 July 2017	Agreed
Hypoteční banka, a.s.	Base prospectus	04 July 2017	Agreed
ZOOT a.s.	Supplement to prospectus	15 July 2017	Agreed
e-Finance, a.s.	Base prospectus	20 July 2017	Agreed
Garanční systém finančního trhu	Base prospectus	02 August 2017	Agreed
eFi Palace, s.r.o.	Base prospectus	23 August 2017	Agreed
CEE Real Estate a.s.	Base prospectus	30 August 2017	Agreed
KSPM s.r.o.	Base prospectus	26 August 2017	Proceedings halted
Československá obchodní banka, a.s.	Base prospectus	14 September 2017	Agreed
SOLEK HOLDING SE	Base prospectus	21 September 2017	Agreed
DRFG Real Estate Management a.s.	Base prospectus	05 October 2017	Agreed
Moravská stavební - INVEST, a.s.	Prospectus	28 October 2017	Agreed
Guaranteed investment a.s.	Base prospectus	28 October 2017	Agreed
MND a.s.	Prospectus	08 November 2017	Agreed
NWD Group a.s.	Base prospectus	11 November 2017	Agreed
RSRE INVEST a.s.	Prospectus	16 November 2017	Agreed
EUC a.s.	Prospectus	17 November 2017	Agreed
PROXIMA ALFA TRADE, a.s.	Prospectus	22 November 2017	Denied
Trigema Real Estate Finance a.s.	Base prospectus	01 December 2017	Agreed
Teplárna Otrokovice a.s.	Prospectus	14 December 2017	Agreed

Debt securities with a unit face value of greater than EUR 100,000

Annex 10

SHARE PROSPECTUSES AND SUPPLEMENTS THERETO IN 2017

Issuer	Purpose of prospectus	Decision date	Decision
OHL ŽS, a.s.	Public offering (capital increase)	27 January 2017	Agreed
OHL ŽS, a.s.	Public offering (capital increase)	31 March 2017	Agreed

Annex 11

LICENSING DECISIONS IN THE MARKET INFRASTRUCTURE AND EMIR AREA IN 2017

Regulated entity	Subject of proceedings	Decision date	Decision
Centrální depozitář cenných papírů, a.s.	Prior consent to acquisition of qualifying holding (Ondřej Dusílek)	20 February 2017	Agreed
Allianz pojišťovna, a.s.	Exemption from collateral exchange requirement under Article 11(3) of EMIR	26 July 2017	Agreed
Komerční banka, a.s.	Exemption from collateral exchange requirement under Article 11(3) of EMIR	29 July 2017	Agreed
UniCredit Bank Czech Republic and Slovakia, a.s.	Exemption from collateral exchange requirement under Article 11(3) of EMIR	29 July 2017	Agreed
Raiffeisenbank a.s.	Exemption from collateral exchange requirement under Article 11(3) of EMIR	08 August 2017	Agreed
UniCredit Bank Czech Republic and Slovakia, a.s.	Exemption from collateral exchange requirement under Article 11(3) of EMIR	11 October 2017	Agreed

Annex 12

STATISTICS ON ADMINISTRATIVE PENALTY PROCEEDINGS CONDUCTED IN 2017

Area of imposition of penalty	No. of administrative penalty proceedings continuing from 2016	No. of administrative penalty proceedings opened in 2017	No. of administrative penalty proceedings closed in 2017	Total fines imposed (in CZK thousands)
Supervision of credit institutions	3	1	4	2,650
Insurance market supervision	10	30	34	1,120
Capital market supervision	28	28	38	16,830
Violation of the Bureau-de-change Act	5	19	15	2,045
Consumer protection	1	2	1	1,500
Payment system	2	10	10	5,880
Circulation of banknotes and coins	0	11	9	2,730
Act on the CNB	0	0	0	0
Consumer credit	0	5	3	150
Act on Certain Measures against Money Laundering and Terrorist Financing	0	1	1	80
Financial market supervision, total	49	107	115	32,985

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LIST OF CHARTS – PART B

ABBREVIATIONS

AIF	alternative investment fund
AIFMD	Alternative Investment Fund Managers Directive
AM	asset management
AMA	Advanced Measurement Approaches
AMC	asset management company
AML/CFT	anti-money laundering/combating the financing of terrorism
AMM	additional liquidity monitoring metrics
ATC	Advisory Technical Committee
AVA	additional valuation adjustment
AWG	Analysis Working Group
BCBS	Basel Committee on Banking Supervision
BCG	Basel Consultative Group
BRRD	Bank Recovery and Resolution Directive
BS	banking sector
CCR	Central Credit Register
CET1	Common Equity Tier 1
CFD	contract for difference
CIB	Czech Insurers' Bureau
CIF	collective investment fund
CRA	credit risk adjustment
CRD IV	fourth Capital Requirements Directive
CRR	Capital Requirements Regulation
CSDP	Central Securities Depository Prague
CSDR	Central Securities Depositories Regulation
CSMAD	Directive on Criminal Sanctions for Market Abuse
CU	credit union
CVA	credit valuation adjustment

DGSD	Directive on Deposit Guarantee Schemes
DLT	distributed ledger technology
DTI	debt-to-income ratio
EBA	European Banking Authority
EC	European Communities
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EDIS	European Deposit Insurance Scheme
EEA	European Economic Area
EFC	Economic and Financial Committee
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	European Market Infrastructure Regulation
ESAs	European Supervisory Authorities
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EuSEF	European Social Entrepreneurship Fund
EuVECA	European Venture Capital Fund
FATF	Financial Action Task Force on Money Laundering
FAU	Financial Analytical Unit of the Ministry of Finance of the Czech Republic
FinTech	financial technology
FSC (ECB)	Financial Stability Committee (ECB)
FSC (EU)	Financial Services Committee (EU)
GDP	gross domestic product
ICAAP	Internal Capital Adequacy Assessment Process
IDD	Insurance Distribution Directive
IF	investment firm
IFRS	International Financial Reporting Standards
InsurTech	technological innovation in insurance

IOSCO	International Organization of Securities Commissions
IRB	internal ratings based approach
IRRBB	interest rate risk in the banking book
IWG	Instruments Working Group
LCR	liquidity coverage ratio
LTV	loan-to-value
MAR	Market Abuse Regulation
MCD	Mortgage Credit Directive
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MIPC	Market Infrastructure and Payments Committee
MMFR	Money Market Funds Regulation
MMoU	Multilateral Memorandum of Understanding
NPL	non-performing loan
NSFR	Net Stable Funding Ratio
O-SII	other systemically important institution
ORSA	Own Risk and Solvency Assessment
OTC	over-the-counter
PAD	Payment Accounts Directive
PMC	pension management company
PRIIPs	packaged retail and insurance-based investment products
PSD	Payment Services Directive
PSE	Prague Stock Exchange
PXE	Power Exchange Central Europe, a.s.
Q&A	questions and answers
RM-S	RM-SYSTÉM, česká burza cenných papírů a.s.
SF-TDS	Secured Financing Transaction Data Store
SFTR	Regulation on Transparency of Securities Financing Transactions and of Reuse

SICAV	société d'investissement à capital variable
SKD	Short-term Bond System
SREP	Supervisory Review and Evaluation Process
SRMR	Single Resolution Mechanism Regulation
SRP	supervisory review process
SSR	Regulation on Short Selling and Certain Aspects of Credit Default Swaps
SVYT	Transaction Settlement System
T2S	TARGET2-Securities
TARGET2	Trans-European Automated Real-time Gross Settlement Express Transfer System
TF	transformed fund
TIPS	Target Instant Payment System
TLAC	total loss-absorbing capacity
UCITS	undertaking for collective investment in transferable securities
VaR	value at risk

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