



FINANCIAL MARKET SUPERVISION REPORT

2010

FINANCIAL MARKET SUPERVISION REPORT

ISBN 978-80-87225-32-5

INTRODUCTION	5
FINANCIAL MARKET COMMITTEE	6
A. FINANCIAL MARKET SUPERVISION IN 2010	9
1. LEGISLATIVE CHANGES IN THE FINANCIAL MARKET SUPERVISION AREA IN 2010	10
1.1 Assessment of the situation in financial market regulation	10
1.2 Changes to laws	10
1.3 CNB decrees and provisions	11
1.4 Official information	13
1.5 Regulatory changes under preparation	14
2. EUROPEAN REGULATION	17
2.1 Amendments to the capital requirements directives (2006/48/EC and 2006/49/EC)	17
2.2 Implementing measure for the Solvency II directive	18
2.3 Financial Conglomerates Directive (FICOD)	18
2.4 Proposal for a regulation on OTC derivatives, central counterparties and trade repositories	18
2.5 Regulation in the collective investment area	18
2.6 Guarantee and compensation schemes	19
2.7 Green Paper on auditing	19
2.8 Green Paper on corporate governance in financial institutions	20
2.9 European framework for financial market crisis management	20
3. FINANCIAL MARKET SUPERVISION IN 2010	21
3.1 Licensing, approval and authorisation activities	21
3.2 Notifications	26
3.3 Registrations of representations of banks and financial institutions	27
3.4 Enforcement	28
3.5 Off-site surveillance	30
3.6 On-site examinations	35
3.7 Central Credit Register	40
4. SUPERVISION OF COMPLIANCE WITH CONSUMER PROTECTION REGULATIONS	41
4.1 Summary of consumers' complaints	41
4.2 Legal and methodological activities	42
4.3 Financial education	42
5. INTERNATIONAL COOPERATION	43
5.1 Changes in the financial market supervisory set-up in the EU	43
5.2 Cooperation within European Central Bank structures	46
5.3 Cooperation within the Basel Committee on Banking Supervision	47
5.4 Cooperation within other international organisations	47
5.5 Cooperation with partner supervisory authorities	48

B. THE FINANCIAL MARKET IN 2010	49
SUMMARY	50
1. THE ECONOMIC ENVIRONMENT IN 2010	55
2. CREDIT INSTITUTION SECTORS	57
2.1 The structure of the banking sector	57
2.2 Activities of the banking sector	59
2.3 Risks in banking	66
2.4 Capital adequacy	69
2.5 Banking sector performance	72
2.6 The credit union sector	74
3. THE CAPITAL MARKET	78
3.1 Investment firms	78
3.2 Collective investment	80
3.3 Pension funds	82
3.4 Regulated markets	84
4. THE INSURANCE MARKET	86
4.1 Insurance market structure	86
4.2 Ownership structure of domestic insurance undertakings	88
4.3 Premiums written	88
4.4 Claim settlement costs	91
4.5 Assets of insurance undertakings	92
4.6 Liabilities of insurance undertakings	94
4.7 Financial results	96
ABBREVIATIONS	98
GLOSSARY	101
C. ANNEXES	106

The Czech National Bank has issued a Financial Market Supervision Report each year since 2006¹, when on the basis of an amendment to Act No. 6/1993 Coll., on the Czech National Bank, a new legal obligation was imposed on the CNB to compile such a report for each past calendar year and to submit it for information to the Chamber of Deputies, the Senate and the Government by 30 June of the following year.

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

The Financial Market Supervision Report 2010 consists of two parts. Part A gives information on the direct conduct of financial market supervision, on changes in the legislation regulating the financial market, on the introduction of new methods for enhancing the stability and transparency of the financial market, on the entities operating in the Czech financial market, on licensing and enforcement procedures and on international cooperation in the supervisory area. Part B describes developments in the individual segments of the financial market, i.e. credit institutions, the insurance sector and the capital market, in the given year.

The Financial Market Supervision Report is also intended to inform the public about the CNB's activities in the field of supervision of the domestic financial market and about the situation and trends in the Czech financial market in 2010. Like the individual Financial Market Supervision Reports for 2006–2009, the Financial Market Supervision Report for 2010 will be published on the CNB website along with other information about the financial market.

The report was discussed and approved by the CNB Bank Board on 9 June 2011.

¹ The Financial Market Supervision Reports for 2006–2009 are published on the CNB website at <http://www.cnb.cz> – *Financial Market Supervision – Aggregate Information on the Financial Sector – Financial Market Supervision Reports*.

FINANCIAL MARKET COMMITTEE

The Financial Market Committee (the "Committee") was established on the basis of Act No. 57/2006 Coll., under which financial market supervision in the Czech Republic was integrated into the Czech National Bank (CNB),² as an advisory body to the CNB Bank Board for financial market supervision. The Committee debates matters of a conceptual nature relating to financial market regulation and supervision and also provides its opinion on significant financial sector trends having a regulatory aspect. The Committee does not deal with matters concerning specific financial market entities.

The composition of the Committee in 2010 was as follows:

- Tomáš Síkora, Chairman,
- Radek Urban, Vice-Chairman, and
- Petr Marsa (all three aforementioned members were elected by the Budget Committee of the Chamber of Deputies from candidates proposed by financial market professional organisations),
- František Klufa, Financial Arbitrator of the Czech Republic,
- Monika Strejcová, who replaced Klára Król in 2010,
- Dušan Hradil, who replaced Daniel Drahotský in 2010 (all from the Czech Ministry of Finance),
- Vladimír Tomšík, who replaced Miroslav Singer in 2010 (both from the CNB).

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

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

In practice, detailed minutes are prepared after each Committee meeting, containing a written record of the discussion, the opinions of the individual members of the Committee and the conclusions approved by the Committee. After being approved, these minutes are passed on to the CNB Bank Board for information. To make the Committee's activities transparent, a record is also made of the main items on the agenda and the conclusions of the debate. After approval, this record is published on the CNB website (in Czech only: <http://www.cnb.cz/cs> – *Dohled nad finančním trhem – Výkon dohledu – Výbor pro finanční trh*). The Committee members can, at their discretion, consult financial market professional associations on most of the documents under discussion.

By law, the Committee should meet at least twice a year. In 2010 the Committee met three times (on 31 March, 4 October and 6 December). Between its meetings, the Committee deals with operational and routine matters in compliance with its Rules of Procedure by electronic communication.

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

In 2010 the Committee dealt, among other things, with the assessment and consequences of the amendment to the Act on Private Pension Insurance which took effect in August 2009. The Committee will continue to pay attention to progress with the pension reform in 2011.

In 2010 the CNB's management again informed the FMC regularly and in detail about the current situation in the Czech financial market in the context of the recent financial crisis and about measures taken in the financial market supervision area. In this regard, the Committee also discussed the changes made in the structure of regulation and supervision of the European financial sector and their implications for the domestic financial market.

² The position of the Financial Market Committee is governed by Articles 45a–45d of Act No. 6/1993 Coll., on the Czech National Bank, as amended by Act No. 57/2006 Coll.

Promotion of financial literacy and consumer protection are other significant topics addressed by the Committee on a regular basis. In this context, a Consumer Protection Department has been operating within the CNB since September 2008. This issue also covers the activities of the office of the Financial Arbitrator of the Czech Republic. The Committee was regularly informed about the activities of both the above institutions in 2010.

The Committee members were also informed several times about the activities of the Ministry of Finance's working group dealing with the unification of rules for the distribution of products on the financial market.

OPINION OF THE FINANCIAL MARKET COMMITTEE ON THE CNB'S FINANCIAL MARKET SUPERVISION REPORT FOR 2010

The Financial Market Committee has a statutory duty to discuss the Czech National Bank's Financial Market Supervision Report for the previous year. The Report is then approved by the CNB Bank Board and submitted to the Chamber of Deputies, the Senate and the Government for information. The Committee members discussed the report *per rollam* in two parts and none of them exercised the right to convene a Committee meeting.

Having acquainted itself with the results of the financial sector in 2010, the Committee stated that, following previous manifestations of the global financial and economic crisis, economic growth had resumed in the Czech Republic. The previous adverse economic trends were still partly affecting the financial performance of institutions operating in the domestic financial market and the ability of businesses and individuals to repay their obligations. Economic growth had recovered thanks to improved export opportunities, as world trade had also emerged from the financial crisis. The growth had thus been driven initially chiefly by net exports and later by a substantial recovery in additions to inventories. As regards sectors, a recovery in gross value added formation had occurred in industry, trade and banking. The Czech National Bank had responded to the economic developments by lowering its key interest rates in May 2010.

The Financial Market Committee, being aware that the final version of the Financial Market Supervision Report for 2010 must also be approved by the CNB Bank Board, acknowledges this draft report and has no reservations about its content.

On behalf of the Financial Market Committee:



Tomáš Síkora, Chairman

PART A

FINANCIAL MARKET SUPERVISION IN 2010

1. LEGISLATIVE CHANGES IN THE FINANCIAL MARKET SUPERVISION AREA IN 2010

1.1 ASSESSMENT OF THE SITUATION IN FINANCIAL MARKET REGULATION

In 2010, the CNB worked to implement the EU's rapidly changing regulations in the financial market area and to amend the regulatory framework in the Czech Republic. The CNB's activities included working with the Czech Ministry of Finance (MF) and other state administration bodies on the preparation of new laws. It prepared a number of decrees and official information documents for the individual sectors of the financial market as well as explanatory opinions on the application of regulatory requirements by financial market participants.

1.2 CHANGES TO LAWS

The CNB works in close cooperation with the Czech Ministry of Finance, which has primary responsibility for preparing laws in the financial market area. This cooperation is based on an agreement on cooperation in the preparation of draft national legislation concerning the financial market and other regulations concluded between the CNB and the Ministry of Finance in May 2006.

Several laws regulating the business activities of financial institutions and other entities subject to regulation and supervision were prepared in 2010 with the active involvement of the CNB.

Amendment to the Act on Banks, the Credit Unions Act and the Capital Market Undertakings Act

An amendment to the Act on Banks, the Credit Unions Act and the Capital Market Undertakings Act transposing the amended capital requirements directives (Directives 2006/48/EC and 2006/49/EC) defines new competences of the CNB, e.g. the determination of the significance of branches, remedial measures to ensure a sufficient amount and appropriate structure of capital, and activities of supervisory colleges (most of the provisions of the directives were transposed into an amendment to Decree No. 123/2007 Coll.). The CNB submitted a number of comments on the amendments, most of which were accepted by the Ministry of Finance. The amendments were approved by the Chamber of Deputies in December 2010 and promulgated in the Collection of Laws on 28 February 2011.

Act on Financial Collateral

The Act on Financial Collateral transposes into Czech law Directive 2009/44/EC amending Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on financial collateral arrangements (an amendment of the settlement finality directive). In the comments procedure the CNB submitted fundamental comments related above all to the use of credit receivables as financial collateral, the expansion of the set of entities that may provide financial collateral and the possibility of pooling financial collateral. The Act on Financial Collateral was passed by the Czech Parliament in December 2010.

Amendment to the Payment System Act

By amending the Payment System Act, the Czech Republic is transposing Directive 2009/110/EC on the taking up, pursuit and prudential supervision of the business of electronic money institutions and the relevant part of the amendment of the settlement finality directive. Above all, the amended act will improve the conditions for the business of electronic money institutions, simplify small-scale electronic money issuance and create a level playing field for all market participants. This amendment will govern the protection of interconnected payment systems and systemic risk reduction. A total of 15 other laws are being changed in connection with this amendment. The amendment was debated in the Chamber of Deputies in December 2010.

The act amending some acts in connection with the adoption of Regulation of the European Parliament and of the Council on credit rating agencies

With reference to directly applicable European Community regulation on rating agencies, this Act further amends the conditions for the business of a rating agency that has its registered office in the territory of the Czech Republic, the issuance of ratings and the CNB's competences and powers in the area defined in the regulation on rating agencies. The Act amends seven laws and three CNB decrees. It was promulgated in the Collection of Laws on 21 May 2010.

1.3 CNB DECREES AND PROVISIONS

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

1.3.1 Decrees and provisions issued

In 2010, the CNB completed legislative work on decrees and provisions relating chiefly to new laws in the financial market area. These were usually issued on the day the laws took effect or immediately thereafter.

- ***Decree No. 32/2010 Coll., on payment systems with settlement finality*** was prepared in connection with the adoption of the new Act No. 284/2009 Coll., the Payment System Act, and is based in terms of content on the amendment to the settlement finality directive transposed by this Act. The Decree regulates the requisites of an application for a licence to operate a payment system, including annexes and forms.
- ***Decree No. 74/2010 Coll., amending Decree No. 582/2004 Coll. implementing certain provisions of the Act on Insurance Intermediaries and Independent Loss Adjusters***, repealed Annex 6 of the said decree (the list of institutions authorised to provide training programmes for insurance intermediaries) in connection with the new Insurance Act. This list is currently published on the CNB website.
- ***Decree No. 98/2010 Coll., amending Decree No. 604/2006 Coll., on the use of techniques and instruments for effective management of the assets of a standard fund and of a special fund***, regulates the terms and conditions under which a public special fund can conclude repo operations (extension of the range of eligible counterparties to repo operations to include institutions subject to supervision and belonging to any of the categories of institutions approved by the CNB and given in the CNB's list).
- ***Decree No. 224/2010 Coll., amending Decree No. 269/2004 on the requisites of, and annexes to, applications pursuant to Act No. 189/2004 Coll., on Collective Investment***, regulates primarily the special requisites of, and annexes to, applications for a non-autonomous investment fund licence and applications for permission for a merger or separation of a management company and an investment fund in connection with a change in the Act on Collective Investment and an amendment of the Act on Conversions of Commercial Companies and Cooperatives.
- ***Decree No. 276/2010 Coll., on submission of statements and other information by investment firms to the Czech National Bank***, amends the scope and content of certain disclosure duties to the CNB. The amendments include mainly the introduction of notification of the CNB about changes in the stock and balance of client assets, which is required by the Capital Market Undertakings Act, and changes arising from the implementation of EU directives amending Directive 2006/48/EC of the European Parliament and of the Council. Some business-related statements required until now have simultaneously been repealed and will be replaced by data collected on an individual basis.

1. LEGISLATIVE CHANGES IN THE FINANCIAL MARKET SUPERVISION AREA IN 2010

- **Decree No. 302/2010 Coll., on submission of statements and other information by pension funds to the Czech National Bank for supervisory purposes**, contains in particular a reduction in the frequency and time limits for submitting statements and also the introduction of a unified statement on the organisational structure and an overall rationalisation (reduction in scope) of the content of some statements.
- **Decree No. 303/2010 Coll., on the details of certain rules for the provision of investment services**, lays down rules concerning the protection of customers' assets, personal transactions, conflicts of interests, incentives, taking and storing of records, and conduct toward clients.
- **Decree No. 356/2010 Coll., amending Decree No. 603/2006 Coll., on the disclosure duties of a collective investment fund and an investment company, as amended by Decree No. 241/2007 Coll.**, repeals and amends certain provisions in connection with the new Decree No. 358/2010 Coll.
- **Decree No. 357/2010 Coll., amending Decree No. 604/2006 Coll., on the use of techniques and instruments for effective management of the assets of a standard fund and of a special fund which collects money from the public**, as amended by Decree No. 98/2010, repeals certain provisions which were transposed into the new Decree No. 358/2010 Coll. for reasons of consistency.
- **Decree No. 358/2010 Coll., on submission of statements and other information by management companies and collective investment funds to the Czech National Bank**, brings together most of the disclosure requirements for supervisory purposes in one decree and ensures the separation of disclosure duties to the CNB and those to the public. It contains in particular a reduction in the frequency and time limits for submitting statements and also the introduction of a new unified statement on the organisational structure and an overall rationalisation of the individual statements.
- **Decree No. 359/2010 Coll., amending Decree No. 433/2009 Coll., on the manner of submitting, form and requisites of the statements of insurance and reinsurance companies**, contains only minor amendments reacting to partial changes in legal rules and experience from the use of the new statements introduced in 2009.
- **Decree No. 380/2010 Coll., amending Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms**, was prepared in connection with the transposition of amendments to Directives 2006/48/EC and 2006/49/EC on capital requirements. It contains a substantial change to the exposure rules and lays down new capital requirements for the trading book and new rules for remuneration of senior officers.
- **Provision of the Czech National Bank No. 1 of 19 October 2010, on reporting by credit unions to the Czech National Bank**, contains necessary amendments linked with the transposition of amendments to Directives 2006/48/EC and 2006/49/EC concerning capital adequacy and exposure.
- **Provision of the Czech National Bank No. 2 of 13 October 2010, amending Provision of the Czech National Bank No. 2 of 30 November 2009, on reporting by banks and foreign bank branches**, contains in particular amendments linked with the transposition of amendments to Directives 2006/48/EC and 2006/49/EC on capital requirements in the area of hybrid instruments in the structure of capital and with CEBS recommendations on the standard reporting framework for large exposures.

1.4 OFFICIAL INFORMATION

The CNB issues official information documents containing important facts for financial market participants. The following official information documents were issued in 2010:

- Official information of 11 February 2010 disclosing the maximum technical interest rate of insurance corporations of 2.5%.
- Official information of 11 February 2010 disclosing the questions set for professional examinations for the medium and higher level of competence of insurance intermediaries.
- Official information of 18 February 2010 regarding the acknowledgement of some professional examinations organised by the Institute for the Financial Market of the Faculty of Economics and Administration at Masaryk University for the purposes of testing the knowledge of the staff of investment service providers.
- Official information of 4 March 2010 regarding the disclosure of information by banks, credit unions and investment firms.
- Official information of 24 March 2010 regarding the submitting of information and documents by domestic insurance and reinsurance companies to the Czech National Bank.
- Official information of 25 March 2010 regarding the acknowledgement of some broker examinations for the purposes of testing the knowledge of persons assisting investment firms in their activities.
- Official Information of 6 May 2010 regarding the comparability of duties of an issuer from a third state.
- Official Information of 21 May 2010 regarding the interpretation of the terms trustworthiness and competence.
- Official Information of 21 May 2010 regarding the assessment of senior officers of banks, branches of foreign banks from third countries, financial holding entities and electronic money institutions.
- Official Information of 28 June 2010 regarding the launch of the CNB's internet application for data collection and registration of entities on 1 August 2010.
- Official Information of 27 August 2010 regarding certain obligations of an insurance intermediary.
- Official Information of 10 December 2010 regarding the conduct of business in the financial market "Qualitative Requirements for the Conduct of Business – Fundamental Information".
- Official Information of 10 December 2010 regarding operational risk management in the area of information systems of a regulated market operator, central depository and settlement system administrator.
- Official Information of 20 December 2010 regarding the requisites of an application for a merger, sale of business, etc. pursuant to the Act on Banks and the Act on Credit Unions.
- Official Information of 22 December 2010 regarding the conduct of business of banks, credit unions and investment firms in the financial market – remuneration.

1. LEGISLATIVE CHANGES IN THE FINANCIAL MARKET SUPERVISION AREA IN 2010

- Official Information of 29 December 2010 regarding the prudential rules for banks, credit unions and investment firms – consisting of seven official information documents (Setting the value of underlying exposures for exposure purposes; Exposures not included in investment portfolio exposures; Instruments included in original junior capital; Operational risk measurement; Setting the capital requirement for operational risk; Application for prior consent to use special approaches; Information on a consolidated group).
- Official Information of 29 December 2010 regarding certain provisions of CNB Provision No. 1/2010 CNB Bull., on reporting by credit unions to the Czech National Bank.

The CNB provided market participants and the public with information in the form of opinions and replies to queries, which it published on its website. A number of explanatory opinions regarding financial market regulation were published in this way in 2010.

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

1.5 REGULATORY CHANGES UNDER PREPARATION³

1.5.1 Draft laws

Numerous other changes to the regulations were under preparation in 2010, mostly in order to implement EU regulations. These amendments are planned to be submitted to the Czech Parliament in 2011.

Amendment to the Act on Collective Investment

An amendment to the Collective Investment Act was proposed by the Ministry of Finance in connection with Directive 2009/65/EC (UCITS IV), which Member States are obliged to transpose by 1 July 2011. The directive contains new provisions to increase the efficiency of the standard collective investment fund sector. These provisions should simplify the cross-border activities of such funds (by allowing a management company to establish standard funds in a state other than the one in which its registered office is situated) and streamline asset management by maximising the volume of portfolios managed (cross-border mergers, asset pooling, master-feeder structure). The CNB made a number of comments in the inter-departmental comments procedure (standardisation of information duties, elimination of unjustified differences in access to standard and special funds for the public, numerous terminological adjustments in authorisations to issue decrees, harmonisation of administrative fees on the financial market, etc.), most of which the Ministry of Finance accepted. The draft amendment was submitted to the Government in November 2010.

Amendment to the Capital Market Undertakings Act

The draft amendment to the Capital Market Undertakings Act includes in particular the transposition of an amendment to Directive 2003/71/EC on the prospectus to be published when securities are offered to the public. The changes are not significant. The definitions in the regulation of public offers are to be more closely linked to the implementation of Directive 2004/39/EC (MiFID), and the regulatory burden for offers of securities to a limited group of persons and for offers of limited value is to be reduced. At the EU level, the possible procedure of an investor when publishing a supplement to a prospectus is to be unified and the issuer's duty to publish a summary of the data published over the preceding 12 months is to be removed. The CNB made legislative and technical comments on the draft and pointed out several cases of incorrect transposition of the directive. The CNB also suggested other changes to the Act, including a new solution for supervision of cross-border business under the MiFID and a prohibition of trading on the regulated market.

³ See section 2 *European regulation* for details on planned changes to the regulations relating to EC proposals (in the areas of capital requirements, Solvency II, collective investment, derivatives trading, guarantee schemes, auditing, etc.).

Amendment to the Securities Act

The CNB prepared comments on a draft amendment to the Securities Act which the Ministry of Finance circulated for comments from other government departments in October 2010. The amendment implements partial changes aimed at increasing legal certainty in the handling of securities (e.g. the introduction of a general definition, a change in the definition of foreign security, the explicit option of issuing "innominate" securities and the possibility of the issuer of a bond also being its first acquirer). Thanks to previous collaboration with the Ministry of Finance, the number of comments was limited; most of them were directed at clarifying formulations contained in the amendment.

Amendment to the Insurance Act

Preparations for transposing Directive 2009/138/EC (Solvency II) into the Insurance Act continued in a joint project of the Czech Insurance Association, the Ministry of Finance, the Czech Society of Actuaries and the CNB. Draft amendments were discussed primarily in the relevant working groups of this project.

Amendment to the Act on Insurance Intermediaries

The CNB submitted to the Ministry of Finance a draft amendment of selected provisions of the Act on Insurance Intermediaries with the aim of introducing tied agents (similarly as on the capital market), new obligations for intermediaries (document archiving, etc.) and easier recourse against delinquents (the possibility of imposing a fine without a prior remedial measure). The draft was presented to the Ministry of Finance, which accepted the proposal, and the two institutions then worked on the amendment together.

Amendment to the Act on Banks and the Credit Unions Act

As part of the preparation of amendments to some other regulations the CNB elaborated and submitted to the Ministry of Finance a number of suggestions regarding changes to the Act on Banks and the Credit Unions Act. These include the removal of non-functional provisions, revisions to the regulation of third-country bank branches, and changes directed at harmonising financial market regulations. The Ministry of Finance plans to incorporate these changes into an amendment to the above acts and submit it to the Government in mid-2011.

1.5.2 Draft decrees

In connection with the planned amendment of laws, legislative work commenced in 2010 on decrees which are expected to be completed in 2011. These include:

- a decree laying down more detailed regulation of some rules in the collective investment area, which will transpose two implementing directives for the UCITS IV directive. The decree will include prudential rules, rules for effective management of assets and rules of conduct and information disclosure, and will replace the existing partial decrees.
- a decree on the minimum requisites of statutes, which will be revised in accordance with European Commission (EC) regulation on disclosure of key information for investors implementing the UCITS IV directive.
- a new decree on the activities of a depository of a collective investment fund and on the provisions of a depository agreement of a standard fund, which above all will transpose the implementing directive for the UCITS IV directive in the area of the requisites of depository agreements and will replace Decree No. 115/2007 Coll., stipulating details for fulfilling the duties of a depository.
- an amendment to Decree No. 233/2009 Coll. on applications, approval of persons and the manner of proving professional qualifications, trustworthiness and experience of persons, and on the minimum amount of funds to be provided by a foreign bank to its branch, supplementing specimen forms of applications and their annexes in the collective investment area (licences, approval of directors and qualifying holdings, and changes in statutes and the depository).

1. LEGISLATIVE CHANGES IN THE FINANCIAL MARKET SUPERVISION AREA IN 2010

- an amendment to Decree No. 234/2009 Coll., on protection against market abuse and transparency is being prepared in connection with minor changes to Act No. 256/2004 Coll., on Capital Market Undertakings, implemented by amendment No. 420/2009 Coll. and by the implementation of the financial collateral and prospectus directives. This amendment mainly governs the recognition of equivalence of the law of issuers from third countries for the purposes of compliance with information duties.
- a decree on the pursuit of business of payment institutions, electronic money institutions, small-scale payment service providers and small-scale electronic money issuers, which will replace Decree No. 374/2009 Coll. The decree is being prepared in connection with the new directive for electronic money institutions and a related amendment to the Payment System Act. The amendment to this Act will change some provisions regarding applications and notifications on entering the sector, the acquisition of qualifying holdings and the capital adequacy rules; electronic money institutions will be allowed to provide payment services as well.
- a decree on reporting by payment institutions, electronic money institutions, small-scale payment service providers and small-scale electronic money issuers, which is being prepared in connection with the amendment to the Payment System Act and the decree on the pursuit of business of such entities, and which will replace Decree No. 375/2009 Coll.
- a decree on payment systems with settlement finality, which will replace Decree No. 32/2010 Coll.
- a new decree, which will replace Decree No. 62/2004 Coll., stipulating the manner of execution of payments between banks and settlement on accounts at banks, and the technical procedures to be used by banks for corrective settlement, in the context of amendments to the Payment System Act and other laws.

2. EUROPEAN REGULATION

Intensive work continued in 2010 at the level of the European Commission, the Council and the European Parliament on new and amended European financial market regulations with the aim of eliminating the causes of the global economic crisis and maintaining the growth and competitiveness of the EU.

The CNB paid extraordinary attention to the European Commission's proposals and prepared relevant opinions on an ongoing basis. CNB representatives in EU committees and working groups actively promoted the CNB's positions. In the case of consultation documents, opinions were sent directly to the European Commission.

The legislative preparation of the new institutional set-up for EU financial market regulation and supervision was completed in 2010. Regulations of the European Parliament and of the Council⁴ established the European Systemic Risk Board (ESRB) and three European Supervisory Authorities (ESAs), namely the European Banking Authority, the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority as of 1 January 2011. The former Level 3 committees ceased to exist at the end of 2010.⁵

2.1 AMENDMENTS TO THE CAPITAL REQUIREMENTS DIRECTIVES (2006/48/EC AND 2006/49/EC)

In connection with the 2009 amendment to the Capital Requirements Directive⁶, the legislative process for another amendment to this decree (CRD III⁷) was under way in 2010. This amendment introduces an increase in the capital requirements for the trading book, especially in the case of the inclusion of securitised and re-securitised exposures in the trading book and in the case of the use of internal models. Institutions are also required to put in place appropriate rules for the remuneration of persons whose activities have a significant effect on the risk profile of the institution, rules that support regular and effective risk management and are in line with the institution's strategy and long-term objectives. In the event of inappropriate setting or application of the remuneration rules, the supervisor may impose various remedial measures, including reduction of the bonuses of the persons concerned or a capital increase above the minimum capital requirement. The European Parliament proposed a tightening of some requirements, including the application of the remuneration rules already for 2010. The CNB provided the Ministry of Finance with opinions on the proposals on an ongoing basis in the search for a compromise, expressed its disagreement with additional requirements and pointed out application difficulties.

Preparation of CRD IV

At the recommendation of the Basel Committee on Banking Supervision (Basel III), the European Commission in April 2010 submitted a consultative document on further amendments to the Capital Requirements Directive and started work on regulatory changes in this area (CRD IV). After assessing the consultation, the Commission decided not to start preparing another amendment of the CRD and instead began work on a new directive and a new regulation which, if adopted, will repeal the current CRD. The CNB provided support to the Ministry of Finance by preparing comments on documents for meetings of the group in which the Commission's proposals are being discussed.

4 Regulations of the European Parliament and of the Council (EU) Nos. 1092/2010, 1093/2010, 1094/2010 and 1095/2010 of 24 October 2010.

5 See section 5 *International cooperation*.

6 Commission Directive 2009/83/EC, which together with Commission Directive 2009/27/EC represents an amendment to the Capital Requirements Directive (CRD I) and Directive 2009/111/EC of the European Parliament and of the Council (CRD II).

7 Directive 2010/76/EU of the European Parliament and of the Council.

2.2 IMPLEMENTING MEASURE FOR THE SOLVENCY II DIRECTIVE

In 2010, the European Commission started to prepare on the draft implementing measure for the Solvency II framework directive. The CNB worked closely with the Ministry of Finance on formulating comments on the documents discussed in the Commission's working group. The CNB expressed its opinions on the questions asked by the Commission (concerning the materiality and proportionality principles, consistency between solo and group provisions, reporting to supervisors, simplification of the implementing measure, etc.). In particular it adopted a negative stance on several debatable issues (such as the introduction of a "non-liquidity premium" in the technical reserves calculation, the consideration of diversification in the calculation of risk margins, and the requirement for all supervisory authorities to exchange all information about insurance companies in the supervision of groups). The CNB also made a whole range of technical comments on the consolidated text of the implementing measure. The measure is expected to be approved by the Commission in mid-2011. The EU Council and the European Parliament will then have their say on it.

In connection with the preparation of this implementing measure, the QIS5 quantitative impact study took place in the second half of 2010, testing specific impacts of the implementation of the Solvency II capital requirements on European insurers. The CNB elaborated a national report based on the participation of 24 Czech insurance companies in QIS5.

2.3 FINANCIAL CONGLOMERATES DIRECTIVE (FICOD)

The European Commission submitted to the EU Council for discussion a proposal for an amendment to the Financial Conglomerates Directive and related amendments to sectoral directives. The FICOD amendment is based on the decision of the Member States to amend the directive in two stages. The first stage, represented by this amendment, aims at eliminating the problems detected in an evaluation of the directive's effectiveness, namely the revision of certain definitions, the criteria for identifying a group as a financial conglomerate and the methods used for calculating capital adequacy at financial conglomerate level. The CNB prepared an opinion on the proposal, on the basis of which the Ministry of Finance made some comments and proposals. The CNB's comments mainly concerned accompanying amendments to the CRD and the insurance directive (Solvency I), namely the scope of application of sectoral requirements at the level of a financial conglomerate headed by a mixed-activity financial holding entity.

2.4 PROPOSAL FOR A REGULATION ON OTC DERIVATIVES, CENTRAL COUNTERPARTIES AND TRADE REPOSITORIES

The proposal for a regulation published by the European Commission in September 2010 is directed at uniform regulation of OTC derivatives and lays down an obligation to clear eligible derivatives transactions through central counterparties and to report transactions to a trade repository. The CNB was involved in the preparation of Ministry of Finance instructions at the meeting of the relevant working group and in the elaboration of the general position for the Czech Parliament. The CNB's comments related above all to mitigation of the impact of regulation on small, systemically insignificant financial institutions and to minimisation of the role of the European Securities and Markets Authority (ESMA) in the process of authorisation and supervision of central counterparties and trade repositories.

2.5 REGULATION IN THE COLLECTIVE INVESTMENT AREA

In connection with Directive 2009/65/EC governing the activity of standard collective investment funds, two implementing directives were under preparation regarding organisational requirements, rules of conduct, risk management, fund mergers and rules for master and feeder standard funds. The implementing directives took effect in July 2010 with an implementation deadline of 1 July 2011. Two EC regulations governing the disclosure of key information for investors and cooperation and exchange of information between national supervisors were published at the same time.

The proposal for a directive on alternative investment fund managers published by the EC in 2009 was discussed in a working group of the EU Council and simultaneously in the Economic Committee of the European Parliament. Alternative investment funds represent a very diverse range of funds (e.g. hedge funds, private equity funds, commodity funds and real estate funds). The directive lays down licensing and operating rules and transparency requirements for their managers' activities. The draft directive was finally approved after many compromises, but had not been published in the Official Journal of the EU by the end of 2010.

2.6 GUARANTEE AND COMPENSATION SCHEMES

The European Commission simultaneously prepared proposals for changes to the directive on deposit guarantee schemes and the directive on investor compensation schemes. The CNB drew up opinions on both proposals, in which it expressed its fundamental disagreement with the shortening of the time limit for the payment of compensation, the high costs of the new rules for compensation scheme funding and the risks related to the proposal for obligatory solidarity between compensation schemes (obligatory loans between compensation schemes under non-market conditions).

Other fundamental comments on the deposit guarantee schemes directive concerned the obligatory use of the deposit insurance fund for measures to stabilise banks, exceptions from the single compensation limit, and the shortening of the limit for payments from 30 to 7 days.

As regards investor compensation schemes, the CNB did not deem it correct to align deposit and investment protection regimes. Investing on capital markets is different in nature from depositing funds at banks. Capital market investors should be more sophisticated and above all do not need to get back invested funds for routine operations within a matter of days. With reference to this, the CNB also disagreed with the discontinuation of the 90% ceiling on insurance cover, the increase in compensation from EUR 30,000 to EUR 50,000 and with advance payment of compensation. Other comments concerned the plan to extend protection to bankruptcy of a third party to which an investment firm has entrusted its clients' funds, and to assets in UCITS funds.

The CNB also adopted the above stance in its comments on the Finance Ministry's general positions at the meetings of European Commission working groups.

In July 2010, the Commission issued a consultation document on guarantee schemes in the insurance sector. The CNB prepared an opinion disagreeing with the obligatory introduction of guarantee schemes in all Member States. It agrees – solely from the perspective of optimal consumer protection – with the possibility of opening a debate on the potential introduction of guarantee schemes for life insurance products that are directly related to saving for old age. This opinion was sent to the Commission.

2.7 GREEN PAPER ON AUDITING

The CNB prepared an opinion on the Green Paper on auditing published by the European Commission in October 2010. The opinion includes disagreement with the EC's plans to regulate external auditors more strongly (interventions in corporate governance, obligatory audit firm rotation, etc.), to establish new EU authorities for audit supervision and to change the market structure through regulation. By contrast, it supports having a debate about reducing the burden for small audited entities and about ways getting the perception of auditors' reports closer to reality. This opinion was sent to the European Commission.

2.8 GREEN PAPER ON CORPORATE GOVERNANCE IN FINANCIAL INSTITUTIONS

In June 2010, the European Commission issued a Green Paper on corporate governance in financial institutions pointing to alleged weaknesses in corporate governance in such institutions and suggesting possible measures to eliminate them. This document opened a public debate on corporate bodies, the risk management function, the role of external auditors, the role of supervisors, the role of shareholders, the effectiveness of application of corporate governance principles by financial institutions, remuneration and conflicts of interest. The CNB drew up an opinion and answers to questions contained in the document, which were sent to the European Commission.

2.9 EUROPEAN FRAMEWORK FOR FINANCIAL MARKET CRISIS MANAGEMENT

In October 2010, the European Commission published a communication summarising its short-term and long-term objectives in the crisis management area. The CNB prepared an opinion on this document containing a number of objections relating mainly to risks consisting in intra-group asset transfers, the strengthening of group crisis resolution and obligatory solidarity between compensation schemes, which would simultaneously be used to finance rescue measures. This opinion was then incorporated into positions at EFC and FSC meetings and used in the preparation of instructions for Early Intervention Working Group meetings, which the Ministry of Finance attends. Further discussions about the future crisis management framework were held at ECOFIN level, where the CNB – within the framework of instructions for meetings – supported the retention of national supervisory authorities' powers in the crisis management area and rejected proposals to allow intra-group asset transfers under non-market conditions.

3. FINANCIAL MARKET SUPERVISION IN 2010

3.1 LICENSING, APPROVAL AND AUTHORISATION ACTIVITIES⁸

*Credit institutions*⁹

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

	As of 31 Dec. 2009	Entries	Exits	As of 31 Dec. 2010
Banks	21 (of which 5 building societies)	1	0	22 (of which 5 building societies)
Foreign bank branches (under the single licence)	18	1	0	19
Credit unions	17	0	3	14
Credit institutions, total	56	2	3	55

In May 2010, a banking licence was granted to the investment firm Fio, burzovní společnost, a.s., Fio banka, a.s. was established, Fio družstevní záložna was dissolved and the licences of two other credit unions were withdrawn (Úvěrní družstvo PDW and Vojenská družstevní záložna).

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

Continuing from 2009	Opened	Completed	As of 31 Dec. 2010
34	61	88	7

In 2010, the CNB conducted 95 administrative proceedings concerning regulated credit institutions, 21 of them banks and the remainder credit unions¹⁰. A total of 88 administrative decisions were issued during the year.

Other important administrative decisions made in the credit institution sector in 2010 included the granting of consent to Komerční banka, a.s. to merge with Komerční banka Bratislava, a.s. and the widening of the banking licence of Wüstenrot hypoteční banka a.s..

The major proceedings concerning qualifying holdings included the applications of EGB Ceps Beteiligungen GmbH and EGB Ceps Holding GmbH, which were granted subsequent consent to acquire a qualifying holding in Stavební spořitelna České spořitelny, a.s., and the proceeding conducted with the AnaCap group, which withdrew its application to take over Banco Popolare Česká republika, a.s. during the proceeding.

The largest number of proceedings as usual related to prior consents to the acquisition of qualifying holdings (47) and to the approval of members of bodies and senior officers of credit unions (27).

⁸ For details regarding sections 3.1–3.4 see *Lists of regulated entities and Financial market supervision – final administrative decisions on the CNB website*.

⁹ For details see Part B, section 2.1 *The structure of the banking sector* and section 3 *The credit union sector*.

¹⁰ No administrative proceedings are held on branches of foreign banks.

The collective investment and pension fund sectors

A total of 23 management companies, 49 investment funds, 149 open-end mutual funds, one closed-end mutual fund and 10 pension funds were active in the Czech Republic at the end of 2010. Of the total number of funds, 80 were special funds for qualified investors (47 of which were investment funds and 33 mutual funds).

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

	As of 31 Dec. 2009	Entries	Exits	As of 31 Dec. 2010
Management companies	22	3	2	23
Investment funds	27i)	22ii)	0	49ii)
Open-end mutual funds	139	20	10	149
of which: standard funds	36	1	0	37
Closed-end mutual funds	2	1	2	1
Pension funds	10	0	0	10
Depositories	8	0	0	8

i) Of which *Metrostav Nemovitostní, uzavřený investiční fond, a.s.*, and *ŽSD Invest, uzavřený investiční fond, a.s.*, were not entered in the Commercial Register as of 31 December 2009.

ii) *Investment funds Safety Real uzavřený investiční fond, a.s.*, and *Conseq čtvrtý, uzavřený investiční fond, a. s.*, were not entered in the Commercial Register as of 31 December 2010

In 2010 the CNB recorded increased interest in special funds for qualified investors specialising in investment in real estate and real estate companies established in the form of non-autonomous investment funds (investment funds whose assets are managed by a management company).

A total of 307 administrative proceedings were conducted and 273 decisions were made in the collective investment area in 2010. Licences were granted to three new management companies (*Partners investiční společnost, a.s.*, *Ivory Asset Management – investiční společnost a.s.* and *Safety invest, investiční společnost, a.s.*) and 22 non-autonomous investment fund.¹¹ Two management companies terminated their activities – the authorisation of *Bayerische Investment Funds a.s. – investiční společnost*, was revoked and *Fortius Global Investments, investiční společnost, a.s.*, went voluntarily into liquidation.

The CNB conducted nin¹² administrative proceedings concerning prior or subsequent consents to the acquisition of a qualifying holding in a management company or an investment fund. One of the most significant acquisitions was the entry of the J&T group into *Atlantik Asset Management investiční společnost, a.s.*

The administrative proceedings in the collective investment area most frequently concerned the approval of changes in the statutes of collective investment funds (171). A total of 37 administrative proceedings concerned prior consents to the discharge of office of director of a management company or an investment fund. In all, 31 administrative proceedings were held on the granting of licences to establish mutual funds. Five authorisations to establish a mutual fund were revoked at the request of a management company, and two authorisations to merge mutual funds were granted.

11 HOYA, uzavřený investiční fond, a.s., 5P uzavřený investiční fond, a.s., FINVEST uzavřený investiční fond, a.s., FAVILLA uzavřený investiční fond, a.s., Solidní Finance, uzavřený investiční fond, a.s., V.I.G. ND, uzavřený investiční fond a.s., WEBSTER INVEST, uzavřený investiční fond, a.s., ČP INVEST Realitní uzavřený investiční fond a.s., Safety Real uzavřený investiční fond, a.s., Convenio, uzavřený investiční fond, a.s., Patronus první, uzavřený investiční fond, a.s., Patronus druhý, uzavřený investiční fond, a.s., GLADIUS uzavřený investiční fond, a.s., Patronus třetí, uzavřený investiční fond, a.s., Patronus čtvrtý, uzavřený investiční fond, a.s., CHENEN realitní, uzavřený investiční fond, a.s., 1.Regionální uzavřený investiční fond, a.s., Imperial nemovitostní, uzavřený investiční fond a.s., OREAL uzavřený investiční fond, a.s., AVRE uzavřený investiční fond, a.s., REDO uzavřený investiční fond, a.s., and Conseq čtvrtý, uzavřený investiční fond, a.s.

12 Three administrative proceedings opened in 2009 concerning the acquisition of a qualifying holding in *WOOD & Company investiční společnost, a.s.*, were joined into one proceeding.

Three administrative proceedings were held concerning the transfer of a mutual fund to the management of another management company. The CNB received 11 applications for permission to merge special funds for qualified investors with an unregulated entity.

In 2010, the CNB held two administrative proceedings in which it granted authorisation to offer the securities of a foreign special fund to the public in the Czech Republic.

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

	Continuing from 2009	Opened in 2010	Completed in 2010	Continuing into 2011
Collective investment sector	42	265	273	34
Pension fund sector	3	33	36	0
Total	45	298	309	34

There were no major changes in the private pension area as regards CNB licensing, approval and authorisation activities in 2010. The CNB received 33 applications for the opening of administrative proceedings. A total of 36 administrative proceedings were conducted in 2010, three of which were continued from 2009. All proceedings held in the private pension area were closed in 2010.

The most significant administrative decisions concerned the granting of consent to change a pension plan of Allianz penzijní fond, a.s., and the granting of prior consent for Sociét  Beaujon to acquire more than 10% of the capital of AXA penzijní fond, a.s.

The other 34 administrative proceedings held in 2010 concerned decisions to grant prior consent to the election of a person to a pension fund body. All proceedings, except one where the application was withdrawn, were completed with the granting of prior consent.

One notification (not subject to the Administrative Procedure Code regime) was submitted to the CNB under Act No. 340/2006 Coll., on the activities of institutions for occupational retirement provision from Member States of the European Union or other Contracting States of the Agreement on the European Economic Area within the territory of the Czech Republic, pursuant to which institutions for occupational retirement provision from other Member States of the EU can operate in the Czech Republic.

Investment firms and investment intermediaries

In the area of investment service providers, a total of 39 entities holding investment firm licences, 11 of them banks, were registered under Article 5 of Act No. 256/2004 Coll., on Capital Market Undertakings, at the beginning of 2010. Two investment firm licences expired in 2010, one owing to a change in the objects of business (Global Brokers, a.s.) and one because of serious breach of the rules of business (Proventus Finance, a.s.). In addition, one non-bank investment firm was converted into a bank (Fio, burzovní společnost, a.s., became Fio banka, a.s.). The CNB registered 37 investment firms, 12 of them banks, as of the end of 2010.

Table A.V – Numbers of entities in the investment services provider sector

	As of 31 Dec. 2009	Entries	Exits	As of 31 Dec. 2010
Non-bank investment firms	28	0	3	25
Bank investment firms	11	1	0	12
Total	39	1	3	37

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

Continuing from 2009	Opened in 2010	Completed in 2010	Continuing into 2011
8	340	338	10

In 2010, the CNB issued 336 decisions in the area of investment services provision. In two cases, proceedings to grant investment firm licences were discontinued. The largest number of decisions (311) related to the withdrawal of registration of investment intermediaries.

As regards the other 25 decisions, 11 decisions concerned prior consent to the discharge of office of director of an investment firm, two were on the widening of investment firm licences, one was on the approval of auction rules and four were on consents to the acquisition of qualifying holdings in investment firms. The most significant acquisition was the entry of the J&T group into Atlantik finanční trhy, a.s.

Payment institutions and small-scale payment service providers

On 1 November 2009, Act No. 284/2009 Coll., the Payment System Act, amending Act No. 219/1995 Coll., the Foreign Exchange Act, took effect and foreign exchange licences were abolished. Activities carried on before 1 November 2009 on the basis of a foreign exchange licence for non-cash foreign currency transactions or for provision of financial services are now included in payment services under the Payment System Act. The CNB no longer issues new foreign exchange licences. The legislative change contains a transition period owing to which the entities with foreign exchange licences may operate on the basis of their existing licences until 30 April 2011, when this transition period will end pursuant to the Payment System Act and all authorisations based on foreign exchange licences will become null and void by law.

In 2010, the CNB issued one authorisation for the pursuit of business of a payment institution to GE Money s.r.o. This authorisation then expired simultaneously with the dissolution of GE Money s.r.o., which merged with GE Money Bank a.s. Consequently, there was no payment institution operating in the Czech Republic as of 31 December 2010. The CNB had 22 entities entered in the register of small-scale payment service providers as of the end of 2010.

The insurance sector

A total of 36 domestic insurance companies (including the Czech Insurers' Bureau) and one reinsurance company were subject to supervision by the CNB as of the end of 2010. A total of 17 branches of insurance companies were subject to supervision by the CNB to a limited extent

Table A.VII – Number of entities in the insurance sector

	As of 31 Dec. 2009	Entries	Exits	As of 31 Dec. 2010
Insurance companies (including branches and reinsurers)	54	3	3	54
of which:				
domestic insurance companies (excluding the CIB)	36	0	0	36
branches of insurance companies from the EU/EEA	16	3	2	17
branches of insurance companies from third countries	1	0	1	0
reinsurance companies	1	0	0	1

The CNB conducted 94 administrative proceedings and issued 89 administrative decisions in 2010.

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

Continuing from 2009	Opened in 2010	Completed in 2010	Continuing into 2011
4	90	89	5

The CNB approved an application by Pojišťovna VZP, a.s. for additions of new categories of non-life insurance, and Triglav pojišťovna, a.s. was granted approval to carry on reinsurance activities for non-life reinsurance.

A category of reinsurance activities (facultative reinsurance activities) was abolished with the coming into effect of the Act on Insurance. By adapting to the new law, Allianz pojišťovna, Generali pojišťovna, ČSOB Pojišťovna, a.s., člen holdingu ČSOB, Hasičská vzájemná pojišťovna, a.s., POJIŠŤOVNA CARDIF PRO VITA, a.s., UNIQA pojišťovna, a.s. and Slavia pojišťovna, a.s., which had been carrying on facultative reinsurance activities, were granted approval to carry on standard reinsurance activities for non-life insurance.

One of the most important decisions in the area of acquisition of qualifying holdings was the prior consent granted to METLIFE Inc. to take control of Amcico pojišťovna, a.s. Intra-group transfers took place, with AVIVA LIFE & PENSIONS SE and AVIVA EUROPE SE being granted prior consent to take control of Aviva životní pojišťovna, a.s., and SOCIETE BEAUJON being granted prior consent to take control of AXA pojišťovna, a.s.

UNIQA pojišťovna, a.s. was granted approval to change its financial placement structure.

In 2010, the CNB issued 75 decisions granting prior consent to membership of a statutory or supervisory body of an insurance or reinsurance company.

In 2010, the CNB conducted eight administrative proceedings concerning registration in the register of responsible actuaries maintained by the CNB and no proceedings concerning deletion from the register. In all, 57 responsible actuaries were entered in the above register as of the end of 2010 (49 as of 31 December 2009).

Securities issues and regulated markets

At the start of 2010, a total of 65 companies whose securities had been admitted to trading on a regulated market (issuers of listed securities) were registered, 17 of which were located outside the Czech Republic (two outside the EU). The number of issuers of listed securities was unchanged in 2010. Securities of six issuers (bonds in four cases, shares in two cases) were newly admitted to trading on a regulated market. The number of issuers whose securities were excluded from trading was the same (all six cases involved bonds and were linked with their maturity).

The number of licensed regulated market operators (RM-System, česká burza cenných papírů a.s., Burza cenných papírů Praha, a.s. and Power Exchange Central Europe, a.s.) and the number of settlement systems (the RM-S transaction settlement system SVYT, the CNB's short-term bond market, and the Central Securities Depository settlement system) remained unchanged from the previous year. The Central Securities Depository, a.s (formerly UNIVYC) opened for business in July 2010 on the basis of a licence granted in 2009, taking over the securities register previously maintained by the Czech Securities Centre.

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

	As of 31 Dec. 2009	Entries	Exits	As of 31 Dec. 2010
Issuers of listed securities	65	6	6	65
of which: foreign	17	3	2	18
Regulated market operators	3	0	0	3
Settlement systems	3	0	0	3
Central depository	1	0	0	1

In 2010, the CNB issued 91 decisions in the area of securities issues and regulated markets. Most of them (86) concerned the approval of documents relating to new issues of securities.

In addition to these approval proceedings, one proceeding concerned the disclosure duties of issuers of listed securities (the granting of an exemption from the duty for an issuer having its registered office in a non-EU Member State). Two takeover bids were considered in 2010.

With regard to market infrastructure the CNB issued two licensing decisions in 2010 and granted two requests by the Central Securities Depository, a.s. (formerly UNIVYC, a.s.) for the approval of changes in settlement system rules.

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

Continuing from 2009	Opened in 2010	Completed in 2010	Continuing into 2011
2	91	91	2

3.2 NOTIFICATIONS (UNDER THE SINGLE LICENCE)

During 2010, the CNB received 452 announcements by foreign regulators of notifications of cross-border provision of services, of which 26 from banks (two of them electronic money institutions), 44 from insurance companies¹³, 111 from collective investment funds, three from management companies and 268 from investment services providers.

Five banks (of which one electronic money institution), seven insurance companies, two management companies, 213 foreign funds (collective investment funds) and 44 investment services providers discontinued their activities under the cross-border provision of services in 2010.

The competent supervisory authorities from EU countries were notified of the intention of one domestic insurance company to carry on insurance business in their territory under the free movement of services (Triglav pojišťovna, a.s.) and two insurance companies widened such business (Komerční pojišťovna, a.s. and Allianz pojišťovna, a.s.). At the same time, two domestic banks (Česká exportní banka, a.s. and Česká spořitelna, a.s.) provided notification of their intention to carry on business within host states under the free movement of services. Komerční banka, a.s. and Fio banka, a.s. were granted consent to establish branches in Slovakia. Three domestic banks have branches in Slovakia and four domestic credit unions operate in Slovakia, Poland, Hungary and Cyprus.

¹³ In addition to insurance companies, insurance company branches operating in other EU/EEA countries are notified in this manner. In 2010, the CNB was notified by foreign regulators of the intention of 10 branches to provide services in the Czech Republic (this figure is included in the total of 44 notifications).

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

	As of 31 Dec. 2009	Entries in 2010	Exits in 2010	As of 31 Dec. 2010
Credit institutions	275	26	5	296
of which: electronic money institutions	12	2	1	13
Insurance companies	621	44	7	658 ¹⁴
Funds	1,449	111	213	1,347
Management companies	47	3	2	48
Investment services providers	1,009	268	44	1,233

In 2010, one bank (ZUNO BANK AG), two insurance companies (AVIVA LIFE & PENSIONS EUROPE SE and AEGON Magyarország Általános Biztosító Zrt.) and one investment firm (European Investment Centre, o.c.p., a.s. – organizační složka) provided notification of the provision of services in the Czech Republic in the form of establishment.

No bank discontinued its activities under the right of establishment in the Czech Republic in 2010, while two insurance companies discontinued them (Niederösterreichische Versicherung AG and Skandia Lebensversicherungs AG). One third-country insurance company moved to an EU country under the right of establishment in the Czech Republic.

The CNB received 131 prospectus notifications from foreign regulators.

In 2010, the CNB received notifications of the intention to carry on business in the Czech Republic from 221 insurance intermediaries having a home Member State other than the Czech Republic (74 of them from Slovakia). In all, 194 insurance intermediaries residing or having their registered office in the Czech Republic notified the CNB of their intention to commence business in host Member States.

3.3 REGISTRATIONS OF REPRESENTATIONS OF BANKS AND FINANCIAL INSTITUTIONS

Table A.XII – Numbers of registered and listed entities

	As of 31 Dec. 2009	Entries	Exits	As of 31 Dec. 2010
Registered representations of foreign banks ¹⁵	24	2	2	24
Investment intermediaries	9,112	245	293	9,064
Tied agents	9,123	5,302	3,181	11,244
Small-scale payment services providers	0	22	0	22
Small-scale electronic money issuers	55	1	2	54

In 2010, a total of 20,143 intermediaries were entered in the register of insurance intermediaries and independent loss adjusters, 128 of which were insurance agents and 56 insurance brokers¹⁶. At the end of 2010, a total of 126,123 insurance intermediaries were entered in the register, 8,370 of them foreign. 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 or higher level of competence). In all, 504 candidates took these examinations and 471 passed.

¹⁴ Of which 163 are branches of these insurance companies in the EU/EEA.

¹⁵ Registration of a representation of a foreign bank in accordance with Article 39 of Act No. 6/1993 Coll., on the CNB, does not entitle it to carry on business in the Czech banking sector, but only entitles it to intermediate and promote the services of its head office in the Czech Republic.

¹⁶ The register of insurance intermediaries is available on the CNB website – *The lists of insurance intermediaries and independent loss adjusters*.

There were no major changes in the area of small-scale electronic money issuance in 2010. All electronic money issuers with a valid permit were entered as small-scale electronic money issuers in the CNB's unified register of regulated and registered financial market entities.

A total of 54 small-scale electronic money issuers were registered with the CNB at the end of 2010. These entities issued electronic money totalling CZK 814.2 million in 2010. Two issuers merged during 2010. A newly established entity (a transport company) was entered in the register of small-scale electronic money issuers in the second half of 2010 on the basis of a written request.

The Czech Republic holds a leading position among the EU Member States in terms of the number of electronic money institutions. Most of these electronic money issuers are bus transport companies which issue chip cards that can be used to pay fares between regions to other transport companies. As regards the use of electronic money for other purposes in 2010, four companies were issuing electronic money for internet payments and one other company was intermediating "micro-payments" for third-party services using a mobile application.

3.4 ENFORCEMENT¹⁷

Activity in the penalty proceedings area remained an integral part of financial market supervision in 2010 and consisted in the investigation of petitions for the opening of administrative proceedings, decision-making on the opening of administrative proceedings or the deferral of cases, and the conduct of first-instance administrative proceedings, within which fines and remedial measures were imposed, licences revoked and registrations cancelled. Administrative proceedings are conducted with both regulated entities and entities that provide services on the financial market without the relevant licence.

The work also includes communication with law enforcement authorities, including the preparation of documents and opinions, and communication with the Finance Ministry's Financial Analytical Unit (FAU) as regards money laundering and terrorist financing. International cooperation with other supervisory authorities, particularly in the area of unauthorised business in the financial market, also deserves mention.

Table A.XIII – Numbers of penalty administrative proceedings

Continuing from 2009	Opened in 2010	Completed in 2010 (by final and conclusive ruling)	Continuing into 2011
34	104	106	32 + 2 ¹⁸

Where the law permits, the CNB publishes information on enforcement and administrative proceedings on its website.

Five penalty administrative proceedings were opened in the area of supervision of credit institutions in 2010. Five decisions became final and conclusive (two decisions to revoke a licence, one to impose a remedial measure, one to discontinue the proceeding and one to impose a fine). The total fines imposed amounted to CZK 100,000.

A total of 33 penalty or offence proceedings were opened in the capital market area in 2010. Among the main proceedings were those on market manipulation, conflicts of interest and breach of rules of conduct towards clients. In all, 44 decisions in the capital market area became final and conclusive. The cases closed by a final and conclusive ruling included:

¹⁷ Statements of final decisions in the capital market area (see www.cnb.cz: *Financial market supervision – Conduct of supervision – Final administrative decisions*) and sanctions imposed on insurance intermediaries, which are entered in the Register of Insurance Intermediaries.

¹⁸ Two proceedings were re-opened during 2010.

- market manipulation by performing opposite sale/buy transactions (two companies);
- a breach of the rules of conduct towards clients in repurchase operations (one company);
- a breach of obligations when determining clients' investment profile and excessive trading (one company).

In all, the CNB imposed fines totalling CZK 33,050,000 in the capital market area in 2010.

Nine administrative proceedings were opened in the area of supervision of the insurance industry in 2010. Nine decisions became final and conclusive. A procedural fine was imposed on an insurance intermediary, an insurance company was ordered to submit a recovery plan, a fine and remedial measures were imposed on an insurance company, and an insurance intermediary had its entry in the register deleted. In all, fines totalling CZK 1,522,000 were imposed in 2010.

A total of 53 administrative proceedings were opened due to violation of foreign exchange regulations. The CNB issued final decisions (by issuing a decision or an order) in 47 administrative penalty proceedings – licences were revoked in two cases and fines were imposed in the remaining cases. The fines amounted to CZK 775,000 in all.

Three administrative proceedings were opened and one administrative decision was issued in the consumer protection area in 2010. The fines imposed amounted to CZK 3,000,000.

One administrative proceeding was opened in the payment system area in 2010. No final decision was taken.

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 of entities in liquidation and ad-hoc requested information. In 2010, the CNB conducted oral proceedings with liquidators, provided consultations and opinions on liquidation processes and on the requests of courts and law enforcement agencies, and provided requested information and documentation.

The number of financial market entities in liquidation, which is monitored by the CNB, declined by 12 year on year. Sixteen companies in liquidation ceased to be subject to supervision by the CNB as a result of the completion of liquidation and the subsequent deletion of the company from the Companies Register, and one company ceased to be subject to supervision by the CNB because liquidation was terminated by payment of all shares in the assets of the mutual fund and by settlement of all claims and obligations of the mutual fund's unit holders. By contrast, management company Fortius a.s., credit unions Fio, Úvěrní družstvo PDW and Vojenská družstevní záložna and, after the completion of bankruptcy proceedings, management company Futurum a.s. went into liquidation in 2010.

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

	As of 31 Dec. 2009	Entries	Exits	As of 31 Dec. 2010
Banks	3	0	0	3
Credit unions	33	3	8	28
Management companies	9	2	2	9
Investment funds	24	0	6	18
Mutual funds	4	0	1	3
Pension funds	1	0	0	1
Investment firms	0	0	0	0
Total	74	5	17	62

3.5 OFF-SITE SURVEILLANCE

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

Information is obtained mainly from the statements and reports regularly submitted by individual entities on a solo and consolidated basis. Where more intensive monitoring of the economic situation is needed, an extraordinary reporting duty is imposed on financial institutions.

In addition to the regular reports, all available information from various sources is used for continuous monitoring of entities and the market. These sources include financial statements, annual reports, auditors' reports, information from on-site inspections and information-gathering visits, public presentations and press releases. Where additional information is needed, meetings with representatives of the supervised entities are organised.

Off-site surveillance forms a comprehensive picture of the financial condition of the supervised financial market entities and allows the CNB to identify potential problems and risks, which provide a starting signal for conducting on-site examinations or making decisions on further action to be taken against a supervised entity.

Owing to the global financial market situation, increased attention was paid to performance of financial institutions subject to off-site surveillance by the CNB in 2010.¹⁹ In this context, the portfolios of the supervised institutions were analysed in more detail and their exposure to risky entities or instruments was determined. The risk exposure was relatively low and its impacts on institutions' financial results were only limited.

3.5.1 Supervision of credit institutions

Supervision of credit institutions involves supervision of banks, foreign bank branches, building societies and credit unions. The main analytical instrument employed in off-site surveillance is regular comprehensive analyses to assess the financial condition of individual entities and the credit institution sector as a whole. An analysis of the financial condition of each bank and credit union and the risks it undertakes is prepared quarterly. This serves as a basis for decisions on the intensity and manner of their supervision. The observance of prudential limits (e.g. credit exposure limits) and other prudential rules for banks is monitored on a monthly basis for all credit institutions. Early warning information is also assessed every month; this comes from an automatic system which helps supervisors to identify potential negative tendencies in the financial indicators of individual banks. Branches of foreign banks from EU countries are assessed under a simpler regime, as the CNB's powers of supervision of these entities are limited.²⁰

Ratings dividing banks into five categories according to their financial condition and management quality are prepared for internal CNB supervisory purposes twice a year

Auditors' reports on banks' and credit unions' internal control systems are an important source of information for supervision of credit institutions. These reports are requested from banks or credit unions particularly in periods when no on-site examination covering the given area is conducted. In 2010, CNB Banking Supervision obtained auditors' reports on control system areas in nine banks, evaluating these banks' condition as of 31 December 2009. For 2010, requests for such audits were made with regard to one bank and four credit unions.

¹⁹ Namely banks, foreign bank branches, insurance companies, pension funds, building societies, credit unions, payment institutions, electronic money institutions and issuers, management companies, investment funds and investment firms.

²⁰ Primary responsibility for supervision of foreign bank branches lies with home country supervisors. In the case of branches of foreign banks from EU Member States, the CNB monitors their liquidity and compliance with the obligations in the Act on Banks.

In 2010, banks were supervised under the completely standard regime. Owing to persisting problems in the global economy, attention was devoted primarily to the quality of banks' loan portfolios, sufficiency of provisioning, sufficiency of capital to cover potential losses, and banks' overall performance. In this context, the CNB again conducted a series of meetings and information-gathering visits in credit institutions in 2010.

In 2010, the CNB continued its regular half-yearly stress testing of banks' loan portfolios that started in 2009. The stress test methodology is gradually being refined as experience is gained. Some aspects of the tests were extended (for example to include other types of exposures). Two rounds of stress tests were conducted in 2010, assessing banks' resilience to adverse economic developments using data as of 31 December 2009 and 30 June 2010. Six selected banks (eight as of mid-2010) which have received approval to use the special IRB²¹ approach for calculating the capital requirement for credit risk, or which are in the process of IRB pre-validation by the CNB, took part in the testing. The loan portfolio stress-testing project consists in assessing the impact of pre-defined economic scenarios on the loan portfolios of individual banks and the entire Czech banking sector. Two economic scenarios were drawn up in both rounds of stress tests, namely a baseline scenario corresponding to the official CNB macroeconomic forecast and an adverse scenario simulating a strong double-dip recession. These scenarios were then transformed into average percentage increases in the probability of default in the most important segments of the loan portfolio. The aggregated results of the two rounds confirmed that domestic banks are relatively resilient to the potential adverse economic developments tested.

In the second half of 2010, supervisory attention was focused on the liquidity situation of building societies linked with changes in the conditions for building saving schemes. This attention was due to the increased risk of a run, as a significant proportion of building societies' deposits exceeded the obligatory minimum saving time set for the payment of state support (six years, or five years for older contracts) and clients could therefore terminate them at virtually any time without incurring any penalty. The extraordinary monthly reporting introduced to monitor the liquidity situation of individual building societies showed that there was no major outflow of clients in this sector despite the approved changes in building saving schemes. In spite of a higher number of notices of withdrawal, relating mainly to deposits with entitlement to "preferential interest", the volume of notices was not large enough to endanger building societies' liquidity. The changes in the building saving scheme rules did not discourage clients from signing new building savings contracts.

Supervision of the credit union sector proceeded in 2010 in compliance with the approved plan of activity under the standard regime. It focused in particular on assessing the current situation and developments in individual credit unions and on resolving their regulatory problems.

The CNB revoked the licence of Úvěrní družstvo PDW, Praha in March 2010 and that of Vojenská družstevní záložna in December 2010. This was due to persisting serious shortcomings in the activities of these credit unions. There was a substantial decline in the total assets of the credit unions sector in the second half of 2010 due to the transfer of activities from DZ Fio to Fio Banka.

A total of 69 decisions were issued in 2010, relating, among other things, to the assessment of the competence and integrity of proposed senior officers in banks, the approval of external auditors of banks and credit unions, the approval of lists of shareholders prior to general meetings, and the inclusion of subordinated debt in a bank's capital.

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

3.5.2 Supervision of capital market undertakings

In the capital market area, the CNB supervises investment firms, investment instrument markets, collective investment entities, pension funds and other entities operating in the capital market. Capital market supervision relates both to entities and to transactions.

Fulfilment of the information duty and the disclosure duty were continuously assessed in the investment firms sector as part of off-site surveillance. Compliance with exposure limits, the correctness of reporting thereof in the CNB's information system and the calculation of capital adequacy were examined in 2010. Investment firms were called on to submit detailed documents on the basis of which compliance with exposure limits and the calculation of capital adequacy were inspected on an ongoing basis.

In connection with an amendment to Decree No. 123/2007 Coll., on prudential rules for banks, credit unions and investment firms, as amended, which now also stipulates exposure rules for investment firms (especially as regards exposures to financial institutions, which will be subject to stricter limits), non-bank investment firms were asked to submit detailed information on client assets on current accounts with commercial banks.

The activities of the exchange chamber, exchange committees and bodies of the Exchange Guarantee Fund were monitored. Information sent by regulated market operators under their disclosure duty was regularly evaluated.

In the area of private pension schemes, testing of a prudential mechanism for maintaining the financial stability of pension funds was completed in 2010 and the mechanism went into routine operation. Off-site surveillance in the collective investment area focused on statutory disclosure duties. Formal shortcomings in compliance with disclosure duties were communicated to individual entities and subsequently remedied.

The CNB conducted an across-the-board inspection of compliance with the duties relating to assessment of the adequacy and appropriateness of investment services provided to clients and of the investment instruments that are the subject of these services. All management companies and investment firms providing client asset management services (five management companies, 12 investment firms and four banks) were inspected. The inspection concerned the duty to obtain information from clients about their investment expertise and experience, financial background and investment goals. The assessment was focused on the completeness of questionnaires and the logicity of evaluation thereof. Based on the documents submitted, shortcomings were found in four entities (two banks and two investment firms). These shortcomings were immediately eliminated by the entities concerned, i.e. suitable remedial measures were taken. In only in one case did it seem appropriate to carry out a follow-up check of the introduction of remedial measures after the expiry of the period during which the entity undertook to take action (by 31 December 2010).

Turning to international supervisory cooperation, assistance was rendered in several investigations being conducted by foreign supervisory authorities. In one case, the suspicion that a domestic investment firm had inadmissibly affected the course of an auction when trading on a foreign regulated market was examined in cooperation with a foreign supervisory authority. Another case concerned the involvement of a domestic company not subject to supervision in the dissemination of misleading information about a company listed on a foreign market. The other cases related mainly to establishing the identity of investors who had carried out trades on foreign markets through domestic traders; foreign supervisors were interested in these trades most frequently in connection with the investigation of the possible use of insider information.

3.5.3 Supervision of insurance companies and insurance intermediaries

Off-site surveillance of insurance companies is based on regular assessments of their financial condition, including compliance with prudential rules, as well as imposing remedial measures where shortcomings are detected. Key economic indicators of insurance companies are assessed on the basis of regularly submitted reports. In insurance companies that belong to an insurance group, data obtained from supplementary supervision of insurance companies in groups are also evaluated.

The financial situation of insurance companies is also analysed using an early warning system. This uses financial indicators obtained from regular statements to assess the current trends in an insurance company's development at a quarterly frequency and enables supervisors to identify potential weaknesses in its finances. In 2010 work was completed on the implementation of a system of comprehensive internal ratings of insurance companies.

Information-gathering visits to all Czech insurance companies, focusing in particular on obtaining information on their current financial and business situation and their other plans and strategies, were an integral part of supervision in 2010. Besides the standard information-gathering visits, thematic information-gathering visits took place in selected insurance companies, each focusing on a specific segments of life or non-life insurance (for example motor third party liability insurance). More thematic information-gathering visits are planned for 2011.

Given the financial market developments, significant supervisory attention in 2010 was paid to insurance companies' solvency and ability to cover technical provisions. The extraordinary reporting duty was maintained for selected insurance companies. Investment and financial placement by insurance companies will remain a key issue in 2011.

A pilot round of joint CNB stress testing of selected insurance companies took place in 2010. Stress testing allows us to quantify the impact of predefined scenarios of major changes in economic factors on insurance companies' assets and liabilities. The assessed variable is solvency of the insurance company determined on the basis of the Solvency I principles. The testing covered interest rate risk of assets and liabilities, equity risk, real estate risk, credit spread risk and the risk of a decline in price of government bonds. The stress testing used scenarios derived from the adverse macroeconomic scenarios that the CNB used to test the resilience of the banking sector, with risk factors relevant to insurance companies. The stress tests are used to assess the stability of the insurance sector as a whole, and the individual stress tests results are used in supervisory work. The tests confirmed that the sector as a whole has sufficient capital to withstand relatively significant changes in selected risk factors. The next round of stress testing is scheduled for the second half of 2011.

Cooperation with foreign supervisory authorities (for example in the form of attendance at coordination meetings relating to the supervision of insurance companies in groups) was stepped up during 2010.

Supervision of compliance with the rules of conduct and professional care of insurance companies and insurance intermediaries vis-à-vis clients was an important part of supervision. There were 126,123 insurance intermediaries active in the market as of the end of 2010 (see details see Part C, Annex 28). The importance of this area is confirmed by the fact that out of all the financial market sectors the largest number of complaints related to insurance companies.²²

²² The CNB received 1,059 enquiries and complaints relating to off-site surveillance of the entire financial market, of which 517 concerned insurance companies and insurance intermediaries and 305 – the second largest number – concerned investment services providers.

3.5.4 Supplementary supervision of financial conglomerates

The CNB performs supplementary supervision of these groups under Act No. 377/2005 Coll. and Decree No. 347/2006 Coll. Supplementary supervision of financial conglomerates focuses on capital adequacy, intra-group transactions, risk concentrations, internal control systems and risk management systems. Since entities subject to financial market supervision by various supervisory authorities are active within financial conglomerates, the role of “coordinator” has been established under criteria specified in the aforementioned act for the purposes of supplementary supervision. Its role consists mainly in coordinating the collection and provision of significant information at financial conglomerate level, monitoring defined indicators, including compliance with the requirements for capital adequacy and risk management systems, and coordinating supervisory authorities’ practices in the performance of supplementary supervision at financial conglomerate level. In 2010, the CNB acted as a coordinator in one case. In other cases, the role of coordinator was entrusted to foreign supervisory authorities, with which the CNB cooperates during supervision on an ongoing basis.

3.5.5 Supervision of other regulated entities

In connection with the transposition of the payment services directive and the e-money directive, the CNB’s supervisory responsibilities were extended to include non-bank payment services providers and non-bank electronic money issuers. The newly supervised entities comprise payment institutions, electronic money institutions, small-scale payment services providers and small-scale electronic money issuers.

The transition period for entities that provide payment services or issue electronic money based on previous authorisations (e.g. entities with foreign exchange licences, credit card credit providers, entities carrying on the business of company savings banks, and mobile operators) ends on 30 April 2011. As from this date, these entities will be authorised to continue providing payment services or issuing electronic money only if they are holders of the relevant authorisation or are registered with the CNB.

The supervisory work focuses mainly on compliance with the prudential rules and private law as laid down by the Payment System Act. The scope of supervision differs depending on the type of supervised institution. The supervisory remit is broadest in the case of payment institutions and electronic money institutions. The supervisory work is tailored to the specific type of supervised institution, i.e. whether it is a hybrid institution that carries on other activities in addition to electronic money issuance or the provision of payment services, or an institution of a financial or non-financial nature.

Organisational, personnel and methodological measures were taken in 2010 in order to provide for these new supervisory responsibilities of the CNB.

In the foreign exchange area, the CNB supervises almost 900 non-bank foreign exchange entities (a total of 873 entities with around 1,500 establishments were registered by the CNB as of 31 December 2010). These consist of entities offering cash purchases or sales of foreign currency as well as holders of foreign exchange licences for non-cash foreign currency transactions and holders of foreign exchange licences for the provision of financial services. The CNB’s foreign exchange supervisory work involves checking compliance with the foreign exchange regulations, examining anti-money-laundering and anti-terrorist-financing measures and also inspecting measures relating to international sanctions.

The CNB extended its activity in the field of payment system oversight to include supervision of Clearstream Operations Prague s.r.o., (COP) under a Memorandum of Understanding between the Banque Centrale du Luxembourg and the Czech National Bank concerning the oversight of Clearstream Operations Prague s.r.o, signed in July 2009.

In monitoring COP’s activities the CNB focuses on potential operational risk, measures to mitigate such risk, and the adequacy of the internal inspections conducted in COP. Information on investigation results is provided to the Banque Centrale du Luxembourg.

3.6 ON-SITE EXAMINATIONS

On-site examinations are performed in compliance with the legislation in force and focus on checking compliance with the regulatory rules laid down in legal and implementing regulations. The individual examinations focus either on verifying all the relevant activities of the examined entity (comprehensive examinations) or on verifying selected areas thereof (partial examinations).

The on-site examination work is based on an annual plan of activity reflecting the internal requirements of the CNB and foreign regulators and especially the current global financial market situation, at the moment particularly with regard to the financial crisis.

In addition to on-site examinations, the supervisory work includes approving advanced methods for calculating capital requirements. Owing to the links between financial markets, cooperation with foreign regulators is also being stepped up systematically and mainly takes the form of intensive exchange of information, cooperation during the validations of internal models applied within financial groups, and direct participation of CNB staff in examinations abroad and of foreign supervisory staff in examinations in the Czech Republic.

The examined entities' managements are notified of the findings of examinations by means a report, on the basis of which remedial measures are imposed. The implementation and observance of such measures are systematically monitored. In justified cases, the CNB opens administrative proceedings with the relevant entities based on the inspection results.

3.6.1 On-site examinations in credit institutions

Eight on-site examinations of credit institutions were performed in 2010.

Six examinations were performed in banks. Comprehensive examinations were carried out in two large banks. These examinations concerned most areas of risk management (credit, market, liquidity and operational risks, prevention of money laundering, regulatory reporting, the internally set capital system, compliance with rules of conduct and professional care in the provision of investment services, etc.). In addition, two examinations were performed in credit unions in 2010.

Examinations of credit risk management

In the credit area, banking institutions went to greater lengths in 2010 to monitor as quickly as possible, preferably in an automated manner, the creditworthiness and repayment discipline of borrowers in an effort to capture indicators of potential default as early as possible. Certain shortcomings, such as insufficient monitoring and deferral of maturity without an impact on categorisation, were visible in credit portfolios with balloon repayments (e.g. project financing). A related issue is the different interpretation of "debt service restructuring" applied by banks in some cases compared to the interpretation of the regulatory rules. Owing to the increased number of loan defaults due to the crisis, a higher number of individual errors are also coming to light in collateral records (out-of-date information, late entry into information systems). When inspecting credit risk management the CNB therefore focused on risky portfolios (e.g. commercial property financing) and the effectiveness of internal control systems in banking institutions.

The inspection in one of the two credit unions examined was focused specifically on the credit union's credit exposure to economically linked entities (its clients) and on the assessment of their creditworthiness by the credit union. The on-site examinations confirmed the CNB's suspicions and led it to call on the credit union to immediately remove the shortcomings detected.

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

In 2010, on-site examinations were also conducted focusing on evaluating the internal capital systems (ICAAP) being put in place by credit institutions under Pillar 2 of the Basel II framework.

The first ICAAP examination was carried out as part of an assessment of a group approach to the allocation of internal capital organised by a home supervisory authority, during which CNB representatives also participated in an on-site examination in the parent bank. The most important findings were the credit institution's poor familiarity with the methods used and insufficient consideration of local conditions in these methods. Under an agreement with the home regulator, the institution will in future be required to enhance its knowledge of the models used and to tailor them to local conditions.

The other examination focused on the overall framework of the internal capital system. The shortcomings detected were having a negative impact on the adequacy of the institution's internal capital reserve. The institution was called upon to take appropriate steps to strengthen its capital to cover unexpected losses.

As regards management of market risk and liquidity risk, shortcomings were detected last year mainly in the form of insufficient liquidity scenarios and incorrectly set limits. The degree of market risk undertaken was distorted by shortcomings consisting mainly in incorrect VaR calculations, failure to include some positions in the model, and a failure to account for back-testing results.

Examinations of operational risk management, including IS/IT risks

Two examinations focusing on operational risk management systems, including IS/IT risks, and one examination focusing on operational risks were conducted in the credit institution sector in 2010. The on-site supervision capacity in these examinations was also used to inspect compliance with the conditions set for advanced capital requirement calculation methods. Supervisors worked in cooperation with foreign home regulators in this area.

In connection with the expansion of IS/IT outsourcing and distribution networks and the increasing influence of IT on the overall risk profiles of regulated entities, the CNB in 2010 enhanced its checks of compliance with the regulatory requirements for activities outsourced by institutions. Attention was focused mainly on assessing information security management systems.

The deficiencies identified in the operational risk management area included shortcomings in collecting data on the occurrence of operational risk events and evaluating their impacts, in using other operational risk management instruments, in setting responsibilities for operational and IS/IT risk management, in segregating conflicting duties, in managing outsourcing risks, in testing and updating contingency plans, in identifying and assessing information system risks, in ensuring secure access to information systems, in ensuring the functionality of information systems, and in IS risk auditing.

Examinations of the operation and effectiveness of internal control systems

The specific findings in the internal control system area have long included in particular insufficient prudence in certain activities, insufficient traceability of certain decision-making and control activities and inconsistencies between certain activities and internal and legal rules. There are also shortcomings in the system for eliminating shortcomings and in the monitoring and control of certain significant compliance risks.

The state of internal control systems in the credit union sector as ascertained by on-site examinations points to the presence of more serious and more frequent shortcomings. In 2010, major shortcomings were detected in capital management and capitalisation, in the governance area (in particular shortcomings in the activities of corporate bodies, unclear and incomplete organisational arrangements, insufficient segregation of responsibilities with a risk of conflicts of interest, insufficient traceability and imprudent performance of certain activities), in overall risk management, in internal control systems (in particular insufficiently effective internal audit and compliance functions) and in the system for detecting and rectifying shortcomings.

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

The CNB conducts examinations in the AML/CFT area based on a mandate laid down in particular in Act No. 253/2008 Coll., on Certain Measures against Money Laundering and Terrorist Financing. These examinations are focused mainly on verifying the operation and effectiveness of the system that the examined entity has introduced and maintains in order to prevent it being used for money laundering and terrorist financing, and also on verifying the conditions created for detecting such conduct.

Supervisors check the compliance of the examined entity's activities with the legislative requirements, in particular client identification and vetting, the identification of client risk factors and creation of client risk profiles, the application of stipulated procedures to risky clients, and the entity's ability to identify, assess and report suspicious transactions to the Finance Ministry's Financial Analytical Unit.

The CNB continued to work closely with the Ministry of Finance's Financial Analytical Unit in 2010. The CNB was also involved in the evaluation being conducted by the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), which is continuing in 2011.

The most important AML/CFT shortcomings detected in 2010 included insufficient vetting of clients, failure to identify risk factors, failure to apply relevant procedures to risky clients, and shortcomings in the monitoring of transactions and the detection of suspicious transactions.

Basel II implementation as regards advanced methods for determining capital requirements

Under the capital adequacy framework (Basel II) in the wording of EU Directives 2006/48/EC and 2006/49/EC as transposed into CNB Decree No. 123/2007 Coll., banks are allowed to use advanced approaches based on mathematical models in order to calculate capital requirements.

In 2010, the CNB teams set up in order to examine advanced methods continued their intensive consultations with all regulated institutions that had shown an interest in using the IRB approach for credit risk or the AMA approach for operational risk. The two teams communicated with foreign supervisors on an ongoing basis.

In 2010, pre-validation and validation negotiations took place in one bank which had applied for consent to use the IRB approach by means of a joint application from its parent bank. Consent to use the IRB approach for the capital requirement calculation was granted to this bank as of 1 January 2011.

CNB staff dealt with validation of the AMA approach in two bank groups in the Czech Republic in 2010.

The CNB considered and subsequently granted authorisation to one bank to use a new allocation mechanism for the allocation of the capital requirement for operational risk determined by the AMA model approved in 2008.

In addition, an application was submitted to extend the AMA approach to another member of a bank group. The CNB detected shortcomings during the validation process. For this reason, it was agreed with the competent home regulator not to approve the extension of the AMA approach until the shortcomings were removed. The competent home regulator also asked the CNB to assess material changes to the AMA approach approved in 2009 and to assess the progress of the approved AMA approach in the same bank group. The CNB commenced relevant investigations in this regard in 2010, which will be completed in 2011.

3.6.2 On-site examinations in capital market institutions

In the collective investment sector, on-site examinations were completed in three management companies and one non-autonomous investment fund in 2010, focusing on prudential rules and on the rules of conduct and professional care in the management of collective investment fund assets.

From the perspective of internal operations, shortcomings were identified, for example, as regards communication with the fund depository, the internal control system (compliance, internal audit) and risk management, and reporting of personal transactions. In addition, the examinations revealed possible circumvention of the law in some transactions of the funds, non-compliance with their statutes, incorrect calculation of the current value of fund units, incorrect securities valuation, non-compliance with the duty of professional care by not executing OTC market transactions under the best conditions or executing them in contravention of the fund investment strategy, and the risk of increased exposure to a single entity from the group. Supervisors also communicated with all examined entities regarding the implementation of remedial measures.

One on-site examination was performed in 2010 in the area of private pension schemes, focusing on prudential rules and professional care in the management of pension fund assets.

In 2010 one on-site examination was terminated in a depository, concentrating on the verification of compliance with remedial measures stemming from the conclusions of the previous examination.

In line with the examination plan, a prudential on-site examination was conducted in 2010 in an asset management company, focusing on financial market transaction settlement, payments, compliance with legal regulations and prudential rules in the areas of financial placement of assets and the risk management system, as well as the rules of conduct and professional care. No serious shortcomings were detected during this examination. The shortcomings detected concerned simultaneous performance of conflicting duties by the same person, the absence of contractual provisions ensuring consistent segregation of conflicting duties, and the fact that the management company was not performing its own valuation of some less liquid instruments.

An on-site examination was also carried out in a regulated market operator, focusing on compliance with legal rules and prudential rules in the area of information system and technology risk management. The examination detected shortcomings consisting mainly in the absence of segregation of conflicting duties and insufficient definition of responsibility for managing IS/IT risks and auditing IS risks.

As regards investment service providers, ten on-site examinations were completed in 2010, of which six focused on investment firms, one on an investment intermediary and three on tied agents cooperating with that investment intermediary. Nine of these examinations were comprehensive, pertaining to compliance with the rules for prudent provision of investment services (in particular, administrative and accounting principles, internal control systems, financial risk management systems and liquidity management systems), rules of conduct towards clients and maintenance of registers. One examination in an investment firm was more specific and concerned the rules of conduct and professional care in the provision of investment advice, procurement of OTC trades in bonds and the investment service of safekeeping and administration of investment instruments.

The examinations revealed no acute problems relating to the capital market sector as a whole. However, serious violations of legal rules were detected in one case, consisting in churning, providing misleading information to clients, and a non-functioning internal control system in relation to investment intermediaries. Numerous formal shortcomings were identified, often caused by non-compliance with the internal regulations of an investment firm by its employees and by wrongly configured – and therefore ineffective – internal control systems. Shortcomings in the keeping of a transactions and orders book, obtaining information about clients and the extent and form of provision of information to clients were frequently identified. Less frequent shortcomings pertained to the performance of conflicting duties by the same person, failure to record telephone communications and shortcomings in the management and protection of information systems. In the event of errors, shortcomings are eliminated by means of remedial measures, including penalties. In the case of shortcomings which the examined entities promised to remedy, the sufficiency of the measures adopted will be examined.

3.6.3 On-site examinations in insurance companies and insurance intermediaries

Three examinations were carried out in the area of prudential supervision of insurance companies in 2010. One of them examined only a partial topic, namely the IS/IT risk management system. The other examinations, relating to non-life insurance, focused on insurance risk management, administration and price-setting of insurance policies, loss adjustment, financial market settlement processes, payments, reinsurance and procedures for conducting passive legal disputes, determination of the level and use of technical reserves, IS/IT risk management systems (including outsourcing and contracts in this area), financial placement and risk management connected therewith, conditions for sound corporate governance and internal control systems.

Recurring shortcomings were identified in the areas of technical provisions and loss adjustment, specifically in the treatment of IBNR and RBNS provisions (setting their amount, updates, etc.). Loss adjustment was not performed within the statutory time limit, and in some cases the institution failed to determine whether the loss was associated with liability insurance, or liability insurance claims were paid to the policyholder instead of the injured party, and so on. Increased risks were also identified stemming from shortcomings in the IS/IT area (security policy, outsourcing, contingency planning, development strategy), the internal control system (personnel stability, organisational arrangements) and the absence of "four-eyes" checking in transaction settlement and payment system processes.

In 2010, one on-site examination was in progress in one insurance intermediary and such examinations were completed in three insurance intermediaries. The shortcomings detected consisted above all in (i) the making of intermediaries' commissions conditional on bringing further persons into the system and charging an entry fee into the system, (ii) breach of duties connected with the conclusion of insurance contracts, with the performance of preparatory work on the conclusion of insurance contracts without registration with the CNB, with incomplete or misleading information used in the presentation of insurance products, with inappropriate contracts with intermediaries and with entry of data in the register, and (iii) unauthorised provision of payment services. The findings under (i) and (ii) were identified as serious and sanctions were proposed. Less serious shortcomings are eliminated by communicating with the examined entities outside the administrative proceedings system.

To clarify the CNB's position on issues that were not specified entirely clearly in the law, an official information document was issued in the period under review regarding certain obligations of insurance intermediaries. This should serve as a supervisory benchmark and simultaneously provide intermediaries with information on how to adapt their activities to the CNB's requirements.

3.6.4. On-site examinations in other regulated entities

The CNB conducts on-site foreign exchange examinations through its branches. The aim of these examinations is to verify all activities performed by the non-bank foreign exchange entity and its individual establishments and thereby contribute to enforcing and strengthening discipline in the supervised areas. The CNB carried out 363 on-site examinations and inspected a total of 553 establishments in the foreign exchange area in 2010. Where it found that the foreign exchange regulations had been contravened, it opened administrative proceedings or imposed measures to remedy the shortcomings outside the framework of administrative proceedings. CNB branches are also involved in examinations of investment intermediaries.

3.7 CENTRAL CREDIT REGISTER

The Central Credit Register (CCR) is an information system administered by the CNB since 2002 which enables banks and foreign bank branches operating in the Czech Republic (hereinafter referred to as banks) to exchange information on the credit commitments and payment discipline of businesses. Its purpose is to provide data to verify the creditworthiness of individual clients applying for new bank loans and to enable banks to access the register's entire database in the form of aggregated statistical and analytical outputs.

The next development phase of the "CCR Optimisation and Stabilisation" project was approved and commenced in 2010. This phase is focused mainly on the construction of a new data warehouse and involvement in international data sharing. The new data warehouse will enable the data contained in the CCR to be used more efficiently for supervisory and analytical purposes.

In April 2010 the CNB signed a Memorandum of Understanding on the Exchange of Information among National Central Credit Registers for the Purpose of Passing it on to Reporting Institutions. Within approximately two years, the technical prerequisites for integration into the international data exchange system will have been created on the basis of the Memorandum. Seven countries (Austria, Germany, Belgium, France, Italy, Spain and Portugal) are currently involved in the data sharing. Romania is also preparing to join along with the Czech Republic, and Slovakia is also among the countries interested in participating. The data sharing only concerns information on non-resident and resident legal entities that have obtained loans in the listed countries and whose credit commitments exceed EUR 25,000. For banks operating in the Czech Republic, the information on credit commitments will automatically be extended to include information obtained in the framework of international data exchange with these countries. The additional data will comprise aggregate information on loans and guarantees provided to Czech or foreign clients who have obtained loans both in the Czech Republic and abroad.

As in previous years, an increase was recorded in the number of banks' enquiries and clients' applications for extracts from the CCR database. The number of CCR extracts handled through data boxes is also rising.

Table A.XV – Main operational characteristics of the CCR

	31 Dec. 2007	31 Dec. 2008	31 Dec. 2009	31 Dec. 2010
Number of registered borrowers	403,417	461,277	497,726	539,540
of which: individual entrepreneurs	237,703	271,770	291,458	313,129
legal entities	165,714	189,507	206,268	226,411
Total loans outstanding (CZK billions)	1,141	1,265	1,200	1,219
Number of CCR users	2,422	2,516	2,245	2,362
Ad hoc enquiries about credit commitments (thousands/year)	148	180	205	213
Number of enquiries about client credit commitments in monthly reports (thousands/year)	2,390	2,800	3,038	3,640
Number of extracts made for clients in year	225	278	453	492

4. SUPERVISION OF COMPLIANCE WITH CONSUMER PROTECTION REGULATIONS

Since 2008 the Czech National Bank has been entrusted with supervising compliance with the consumer protection rules on the basis of an amendment to the Consumer Protection Act and the Act on the Czech National Bank.²³ Supervision in this area is performed reactively on the basis of complaints received and aims to identify shortcomings, especially those of a systemic nature, and to ensure remedy either on a voluntary basis by the supervised entities or through the imposition of remedial measures or sanctions.

4.1 SUMMARY OF CONSUMERS' COMPLAINTS

The CNB received 704 consumer complaints in the consumer protection area in 2010. The largest number of complaints pertained to insurance product providers, followed by credit institutions. By contrast, the capital market segment recorded a decline in the number of complaints.

A total of 112 complaints concerned insurance companies and 106 concerned insurance intermediaries. Consumers most often complained about shortcomings in product information, especially in life insurance, followed by claim settlement, with shortcomings being identified in information provided by insurance companies and their representatives during loss adjustment. A frequent complaint in the non-life insurance area related to claim settlement amounts arising from motor third party liability insurance and vehicle accident insurance. One on-site examination was performed in an insurance company in this regard. One of the most serious problems detected in insurance intermediaries in 2010 was a tendency to secure commissions by concluding additional innominate contracts containing fines and sanctions vis-à-vis the consumer. This is regarded as an aggressive commercial practice and the CNB opened penalty proceedings with some investment intermediaries.

A total of 166 complaints in the area of credit institutions were investigated in 2010.²⁴ As regards fees, the problems related to contractual fines upon early repayment of mortgage loans and "fiction of delivery". Some complaints concerned the entry of negative information in the credit register by a bank. Shortcomings in product information pertained to the conditions for closing current accounts, changes in interest rates on loan products and the conditions of insurance against the inability to repay debts. A problem in dealing with complaints is non-compliance with the time limits and conditions specified in the complaint rules.

Seven complaints concerning investment firms and ten complaints concerning investment intermediaries were investigated in the consumer protection area in 2010. These related mainly to insufficient provision of information and unwanted offers of services by telephone. Another 78 submissions fell in the miscellaneous category (enquiries and requests for opinions of a general nature) or the category of other entities supervised or not supervised by the CNB.²⁵

The CNB's branches investigated 225 consumer protection submissions²⁶ in 2010, of which 144 were dealt with by the branches alone and 81 were forwarded to the CNB's Consumer Protection Department after investigation at the branches.

On the basis of its findings, the CNB also addressed the issues of transparency of presentation of insurance products linked with capital market investments and above all risks for consumers.

²³ Act No. 634/1992 Coll., the Consumer Protection Act, as amended.
Article 54a et seq. of Act No. 40/1964 Coll., the Civil Code, as amended.
Articles 78–85, 89, 92 and 93 of Act No. 284/2009 Coll., the Payment System Act, as amended.
Act No. 145/2010 Coll., on Consumer Credit.

²⁴ See Part C, Annex 26 for the detailed breakdown and results of the investigations.

²⁵ Article 44(1) of Act No. 6/1993 Coll., on the Czech National Bank.

²⁶ For more details, see Part C, Annex 27.

4. SUPERVISION OF COMPLIANCE WITH CONSUMER PROTECTION REGULATIONS

4.2 LEGAL AND METHODOLOGICAL ACTIVITIES

The CNB issued two official information documents in the consumer protection area in 2010. In August 2010 it issued an official information document on the aggressive commercial practice of charging fees for consumer complaints assessed by the seller as unjustified. In late 2010 it issued an official information document on the application of some provisions of the Consumer Credit Act. As part of the preparations for performing supervision in this new area, discussions on unifying approaches are also under way with the Czech Trade Inspectorate.

In response to complaints from foreign tourists, an information document called *Ten Golden Rules* was prepared in May 2010 containing information on money exchange and potential complications connected therewith. The document was sent to representatives of professional associations and institutions for further use.

In mid-2010 the CNB processed two recommendations from the Ombudsman relating to the financial market. The first case was dealt with by issuing a CNB recommendation to professional associations and their members regarding disabled access to branches, while the second was discussed with the specific entities concerned, which adopted recommended changes to their business terms so that no suspicion of discrimination against certain groups of people could arise.

Monitoring and commenting the European Commission's legislative proposals and consultation documents on consumer protection issues is an important activity in this area. Methodological work primarily involves providing methodological guidance to consumer protection inspectors at CNB branches in the form of training, issuing internal guidelines and providing advice.

4.3 FINANCIAL EDUCATION

The CNB considers financial education to be a part of consumer protection in the financial market. A National Financial Education Strategy was completed in partnership with the Ministry of Finance and the Ministry of Education, Youth and Sports. The strategy was approved by the Government on 10 May 2010. It includes a project to measure the financial literacy of the adult Czech population, implemented jointly by the Ministry of Finance and the CNB. Its results are available on the CNB website.²⁷

Seminars for second-level primary school teachers continued in 2010, with around 360 teachers participating. Interest in these seminars fell markedly in the final quarter of 2010 Q4 after funding for further training of teachers was cut. October 2010 saw the launch of a cycle of lectures entitled *The Financial Market and Us* for Universities of the Third Age (held at Hradec Králové University and the University of South Bohemia). Around 480 people attended.

²⁷ For details, see www.cnb.cz – *Ochrana spotřebitele – Finanční gramotnost – Zvyšování finanční gramotnosti – Společná tisková konference MFČR a ČNB (in Czech only)*.

5. INTERNATIONAL COOPERATION

5.1 CHANGES IN THE FINANCIAL MARKET SUPERVISORY SET-UP IN THE EU

To a great extent, 2010 marked a turning point in financial market regulation and supervision in the EU, as legislative changes in the institutional set-up of EU financial market regulation and supervision, including the definition of the responsibilities of new European supervisory authorities, were discussed and approved. This completed the legislative conversion of the Level 3 committees, i.e. CEBS, CESR and CEIOPS, into European supervisory authorities.

The European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) were established by Regulations of the European Parliament and of the Council of 24 November 2010. All three authorities started work on 1 January 2011.

During 2010 the Level 3 committees gave their opinions on the negotiations between the Council and the European Parliament. They contributed to the preparations for the conversion and worked to influence the budgets of the new authorities. The CNB was actively involved in these activities.

Committee of European Banking Supervisors (CEBS)

In 2010 the main activities of CEBS included intensive preparations for its conversion into the EBA, drawing up standpoints for the European Commission and preparing guidance for achieving convergence of regulatory approaches and supervisory practices across the EU. Significant attention was paid to the activities of supervisory colleges with the aim of enhancing cooperation and the exchange of information in the supervision of cross-border bank groups and the second EU-wide stress test exercise. CNB representatives were involved in CEBS's plenary meeting as well as in its six standing working groups and actively contributed to its outputs.

CEBS prepared two opinions for the Commission in 2010, one on the European framework for cross-border crisis management in the banking sector and the other on credit scoring.

CEBS issued 14 sets of guidelines in 2010. These included, for example, guidelines on the revised framework for Common Reporting (COREP), guidelines on the revised framework for supervisory disclosure, guidelines on capital instruments that may be included in an institution's original capital, guidelines for the operational functioning of supervisory colleges, guidelines on stress testing, guidelines on the management of concentration risk, guidelines on liquidity cost benefit allocation, guidelines on the recognition of external rating agencies, guidelines for the joint assessment and joint decision regarding the capital adequacy of cross-border groups, guidelines on the management of operational risks in market-related activities, and guidelines on remuneration policies and practices, and guidelines on the application of Article 122a of the CRD, which concerns the rules for risk transfer in securitisation transactions.

As regards the functioning of supervisory colleges, CEBS focused on evaluating the CEBS action plan for 2010, according to which the existing colleges were to concentrate on joint assessment of bank groups' risk profiles, and on establishing another 13 colleges. CEBS approved a new action plan for 2011, which consists in evaluating the degree of application of the guidelines for the functioning of supervisory colleges²⁸ and the guidelines for the joint assessment and joint decision regarding the capital adequacy of cross-border banking groups²⁹ by the college members.

²⁸ Guidelines for the Operational Functioning of Colleges.

²⁹ Guidelines for the Joint Assessment and Joint Decision Regarding the Capital Adequacy of Cross-Border Banking Groups.

On the basis of a mandate from ECOFIN, CEBS in 2010 performed the second EU-wide stress testing exercise, which included a sample of 91 credit institutions representing 65% of the assets of the EU banking sector. The objective of the exercise was to assess the resilience of the EU banking sector, the ability of banks to absorb possible further losses and the dependence of the banking sector on public support measures. Towards the end of 2010 CEBS launched preparations for the next EU-wide stress testing exercise.

Committee of European Securities Regulators (CESR)

In 2010 CESR continued with the activities by which it responded to the financial crisis. At the same time, preparations were under way for its conversion into the ESMA. The Commission's increased regulatory activity had a significant impact on CESR's activities. CNB representatives were involved in CEBS's plenary meeting as well as in all its twelve standing working groups and thus actively contributed to its outputs.

In the *collective investment* sector, CESR was involved in the preparation of the UCITS IV directive. CESR prepared guidelines on the definition of European money market funds and guidelines on risk measurement and the calculation of counterparty risk for OTC (over-the-counter) derivatives and global exposure for UCITS (and a proposal for specific guidelines for structured UCITS). The CNB was involved in the preparation of the guidelines on the definition of European money market funds. In connection with the introduction of electronic notification of UCITS products as from 1 July 2011, a survey was conducted regarding the technical and IT parameters for smooth data transfer. CESR started work on the preparation of technical advice for the Commission on the future implementing measures the Alternative Investment Fund Managers Directive. At CESR's request, the CNB mapped the alternative fund industry according to specified criteria, including basic information on private equity in the Czech Republic. CESR mapped the legal frameworks for UCITS depositaries in Member States.

In the *credit rating agencies area*, CESR addressed tasks stemming from the EU Regulation on Credit Rating Agencies. CESR received 23 applications for registration and one application for certification. During the year, supervisory colleges were established for individual credit rating agencies. The equivalence of regulatory frameworks in third countries was assessed and memoranda of understanding were signed with foreign supervisory authorities. In the Czech Republic, one agency applied for registration as part of a group application but it withdrew its application prior to the decision.

Another CESR priority in 2010 was the preparation of sets of technical advice for the Commission on the *review of MiFID*, covering secondary trading and transparency for equity and non-equity investment instruments, rules of conduct towards clients, the system for reporting investment instruments transactions, standardisation of OTC derivatives and OTC derivatives trading on organised markets, and client categorisation, as well as responses to Commission requests for information on transaction and position reporting, including the extension of reporting to include OTC derivatives and financial instruments traded only on MTFs (multilateral trading facilities) and entities that are not subject to MiFID.

In 2010 CESR *mapped the powers and measures of its members* in crisis situations, their procedures for approving prospectuses, and the use of national discretions as defined in MAD, MiFID and the Transparency Directive.

CESR addressed the issue of *accounting standards*, especially with regard to the gradual adoption of the new IFRS 9 – Financial Instruments. It elaborated an opinion on the Commission's consultation document on *auditing* and an assessment of the equivalence of third country national accounting standards with IFRS.

CESR examined the issue of potential *regulation of short selling and trading in credit default swaps (CDS)*. It prepared technical advice for the Commission regarding the introduction of EU-wide regulation of short selling, a response to the Commission as part of a consultation on short selling and a report on the technical details of the proposed short selling disclosure regime for government bonds and short CDS positions. CESR also focused on the planned review of MAD, and a fourth set of interpretative guidelines on MAD was drawn up.

CESR prepared an opinion as part of the Commission's consultation on the *review of the Transparency Directive* and continued discussing topical issues regarding the application of this directive. The Committee addressed practical issues in the area of prospectus approval and public offerings, defined a general procedure for assessing the equivalence of third country legal frameworks on prospectuses, including an opinion on the equivalence of Israel's legal framework, and updated its Q&As on the Prospectus Directive.

CESR sent the Commission its position on a proposal for a regulation on *OTC derivatives and European market infrastructure*. The Committee also discussed information regarding technical standards under preparation under the planned EMIR regulation. It focused on selected aspects of TARGET2-Securities (T2S) and prepared technical advice for the Commission on selected legal issues related to central depositories participating in T2S.

CESR continued to exchange information and experience on the application of national legislation harmonised in accordance with the *Takeover Bids Directive*. The CNB was actively involved in questionnaire exercises comparing national legal frameworks.

CESR monitored *capital market trends and risks* on a continuous basis. The CNB prepared opinions on regular reports on risks and trends in financial markets.

In the *IT solutions area*, work continued on TREM 3.0 (the Transaction Reporting Exchange Mechanism). The project involves modifying the system to improve data quality, accommodating OTC derivatives transaction reporting and creating reference databases at the central level. The project was launched on 1 December 2010. As regards supervision of credit rating agencies, work continued on the implementation of the Central Repository (CEREP), a system for the collection and presentation of data from rating agencies. The project will be launched on 1 July 2011. In the UCITS area, which covers, among other things, notifications, data sharing and a repository for collective investment undertakings, it was decided that communication would take place through a central repository, which should imply minimum requirements for IT solutions. As regards the sharing of regulated data in the network of national databases provided by securities issuers, a discussion was launched regarding the IT solutions for the individual variants. A unified format for data collection at the national level is foreseen for accounting statements only.

Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

CNB representatives were involved in the activities of all eight standing working groups of CEIOPS and thus actively contributed to its outputs. The focus of activity of most of the working groups in 2010 was the preparation of expert proposals and advice for the Commission on the planned Solvency II implementing measures. CNB experts contributed to opinions on regulatory capital requirements, technical provisions, treatment of capital, internal models, internal control system requirements, the extent and frequency of disclosure of information for the purposes of supervision and consumer protection and awareness, and special treatment of insurance groups.

A fifth quantitative impact study (QIS 5) was conducted in the second half of 2010 to verify the calibration of the capital requirement risk modules and their corresponding correlations. A total of 24 Czech insurance companies with a combined market share of over 95% (measured by premiums written) participated in the study.

In 2010, CEIOPS drew up expert opinions and advice regarding consumer protection³⁰ and auditing.

³⁰ A proposal to unify consumer protection rules across the financial market (packaged retail investment products – “PRIPIs”); a proposal for a revision of the Insurance Mediation Directive (“IMD”); and the Commission's White Paper on Insurance Guarantee Schemes.

Within the Financial Stability Committee, the CNB contributed to aggregate analyses of the impacts of the financial crisis on the insurance sector. In the first half of 2010, CEIOPS published the results of stress tests simulating three scenarios – adverse financial market developments, a deep recession and an increase in inflation. The European insurance market proved stable in all three tests, as the aggregate available solvency ratio fell below the required minimum in none of the three scenarios.

To evaluate the impacts of the financial crisis on the insurance sector, CEIOPS conducted analyses of the exposures of national insurance markets to the banking sector and to the debt instruments of EEA countries (in particular Portugal, Italy, Ireland, Greece and Spain), Japan, the United States and Switzerland. The Czech insurance market proved to be conservative and stable in both cases.

Joint Committee on Financial Conglomerates (JCFC)

The JCFC discussed recommendations of the Joint Forum that were relevant to the area of financial conglomerates as well as proposals for the Omnibus Directive, which amends a number of sectoral directives in connection with the new structure of financial market supervision. The Committee prepared recommendations on affiliates in financial conglomerates and on the interpretation of “durable link” (i.e. the time limit relevant to determining whether or not a person is affiliated). In addition, it updated the list of financial conglomerates, which was sent to the Commission for publication.

5.2 COOPERATION WITHIN EUROPEAN CENTRAL BANK STRUCTURES

Banking Supervision Committee (BSC)

In 2010, the Banking Supervision Committee (BSC) discussed above all the ECB's half-yearly Financial Stability Reviews. During the year, it concerned itself with, among other things, anticyclical capital buffers, deleveraging in the financial system and liquidity stress testing. It also discussed efforts to improve consolidated data reporting, the impact of SEPA (the Single Euro Payment Area) on financial institutions and the financial infrastructure, and macroprudential oversight in the EU, including foreign currency loans.

The CNB is actively involved in both the BSC itself and its three working groups. The first is the Working Group on Macroprudential Analysis (WGMA). In 2010, it focused on commenting on selected ECB publications (EU Banking Stability Report, ECB Financial Stability Review), preparing contributions for half-yearly EFC meetings, and the issues of deleveraging, anticyclical capital buffers and systemic risk.

The Working Group on Developments in Banking (WGDB) submitted its regular EU Banking Structures Report, discussed future developments in the EU banking sector and submitted a document on securitisation. Increased attention was paid to monitoring the impacts of the economic crisis and the financial market crisis, especially in EU countries whose banking sectors had been hardest hit by these crises.

The Working Group on Credit Registers (WGCR) expanded the exchange of data owing to an increase in the frequency of data transmission from quarterly to monthly, and expanded the number of clients to whom the exchange of data applies. In this respect, the CNB signed an amended MoU and will become actively involved in international data exchange within two years.

In addition to these regular working groups, BSC has working groups for specific projects. The joint expert group of the BSC, CEBS and the ECB Statistics Committee (STC) on harmonisation of reporting by EU credit institutions (JEGR) continued its work in 2010. The JEGR focused above all on the updating and technical development of the classification system created during the first stage of its work in 2008/2009. This system is an aid to identifying links between statistical and supervisory financial instruments.

Payment and Settlement Systems Committee (PSSC)

In 2010, the activities of the PSSC in its extended composition, where the CNB is represented, consisted mainly in discussing SEPA, general payment system issues, supervision of payment and settlement systems, and the development of the TARGET (Trans-European Automated Real-time Gross Settlement Express Transfer) system. The Committee monitors the development and implementation of the SEPA project and draws up reports on the progress made. An important topic was the SEPA migration end-date, which is aimed at making sure that all credit institutions only use payment transactions that conform to the SEPA standards created by the European Payments Council (EPC). The main topics discussed as regards the development of TARGET were the completion of the implementation of internet-based access (access for small banks, for which access via SWIFT is too expensive), the contingency network (an alternative to SWIFT), links to the planned T2S (TARGET2-Securities) settlement system, and some specific requirements such as Denmark's access to intraday credit during night processing and a new statistical module.

The PSSC has standing working groups on Payment Systems Policy, Oversight and TARGET2, in which the CNB has representatives.

5.3 COOPERATION WITHIN THE BASEL COMMITTEE ON BANKING SUPERVISION (BCBS)

The CNB was represented in the BCBS in the Basel Consultative Group (BCG), which succeeded the International Liaison Group (ILG). In 2010 the BCG discussed changes in the regulatory capital framework, the results of a comprehensive quantitative impact study focused on Basel III and potential alternative parameter settings within Basel III. The Committee also discussed developments in the international accounting standards for financial instruments and leasing, the preparation of Basel standards and the methodology for assessing their implementation, and the issue of moral hazard in systemically important institutions.

5.4 COOPERATION WITHIN OTHER INTERNATIONAL ORGANISATIONS

Cooperation within the International Organization of Securities Commissions (IOSCO)

In 2010, IOSCO continued its activities responding to the financial crisis and the regulatory proposals discussed within the Financial Stability Board (FSB) and G20. It published a report on OTC derivatives trading, an updated report on the aims and principles of capital market regulation and a report on the transparency of structured investment products.

The CNB was actively involved in the work of IOSCO through cooperation in a survey of impacts and measures relating to the financial crisis, IFRS implementation, OTC market trading, practical application of the Multilateral Memorandum of Understanding (MMoU) and through drafting opinions on IOSCO proposals regarding the focus of future activity and financing of IOSCO.

Cooperation within the International Organisation of Pension Supervisors (IOPS)

In 2010, IOPS completed its long-running project to develop a toolkit for risk-based pensions supervision. The CNB contributed to the creation of this toolkit, which contains a summary of internationally recognised recommendations and standards for pension funds and examples of their application in specific cases.

5.5 COOPERATION WITH PARTNER SUPERVISORY AUTHORITIES

In 2010, CNB representatives regularly participated in meetings of supervisory colleges for the most important banking groups in the Czech banking sector. The CNB is actively involved in seven colleges (Erste, Raiffeisenbank, Volksbank, UniCredit, KBC, Société Générale and ING).

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

In the supplementary supervision of insurance companies in groups, the CNB regularly attends the meetings of coordination committees of supervisors of specific insurance groups operating in the Czech Republic. Within these committees, the CNB contributed to the assessment of preliminary applications for the approval of internal models for the Solvency II prudential regime.

At the close of the year the CNB forged closer ties with financial market supervisors from Central and Eastern Europe. The main purpose of this initiative is to exchange information and coordinate opinions between national supervisory authorities in the region, especially from the perspective of host supervisors of subsidiaries of foreign financial groups.

Cooperation was launched not only at the level of the members of the new European supervisory authorities, but above all at the level of experts in individual areas of regulation and supervision.

In future, the members of the group will voice opinions on topics concerning regulation in the EU and internationally that could have a significant impact on the financial market and financial entities in the region.

PART B
THE FINANCIAL MARKET IN 2010

The Czech National Bank is responsible for supervision of the financial market in the Czech Republic. The CNB supervises the banking sector, the capital market, the insurance industry, pension funds, credit unions, bureaux-de-change and payment system institutions.

As of 31 December 2010, the Czech banking sector consisted of 41 banks and foreign bank branches. The structure of the banking sector is stable.

The Czech banking sector was sound and well capitalised in 2010 and continued to generate profit.

Banking intermediation saw a recovery. The assets of the banking sector increased by 2.4% to CZK 4,192.3 billion in 2010.

The recovery in bank transactions was reflected in an increase in the claims of the banking sector, which make up a substantial part of its balance-sheet assets. Lending to individuals expanded the fastest, although its year-on-year rate of growth decreased to 7.0% at the end of 2010. The total value of such loans exceeded CZK 960 billion. Loans for house purchase, which rose by 6.4% year on year and amounted to almost CZK 730 billion, accounted for more than 75% of all loans provided to individuals. Of this, mortgage loans for house purchase recorded year-on-year growth of 9.1% as of the end of 2010, accounting for almost 63% of all loans to individuals. The year-on-year growth rate of consumer credit, which amounted to CZK 199.2 billion, slowed to 7.3%. Loans to resident non-financial corporations fell by 0.3% to CZK 780.0 billion.

The banking sector was profitable in 2010. It generated net profit of CZK 55.5 billion, down by 7.0% from a year earlier. The main source of net profit was profit from financial activities of CZK 157.4 billion, in particular interest profit, which rose by 2.1% year on year and accounted for more than 66% of profit from financial activities. Profit from fees and commissions, which rose by 5.2% to CZK 38.3 billion, was another source. Total administrative expenses rose by 3.1% to CZK 62.4 billion. At CZK 10.1 billion, aggregate income tax decreased by 8.1% year on year.

Credit risk has been the most significant risk undertaken by the Czech banking sector over the last ten years. Non-default loans made up 94.6% of the investment portfolio at the end of 2010. The total value of default receivables rose by CZK 27.0 billion (23.4%) to CZK 142.4 billion owing to a reduced ability of non-financial corporations and individuals to repay their obligations. The share of default receivables in total investment portfolio receivables was 5.4% at the end of 2010.

Domestic banks' activities are mostly focused on domestic clients. The shares of transactions with non-residents and foreign currency activities are relatively small. As in previous years, the exposure of the banking sector to territorial and foreign exchange risk in 2010 was

assessed as limited. Operations in foreign markets are usually executed by other units from the financial group to which the domestic bank belongs. Transactions with non-residents are significant mainly in the interbank market, particularly as regards derivatives transactions.

As usual, the Czech banking sector had enough liquid funds and the liquidity sub-indicators were stable during 2010. Quick assets increased by 5.6% year on year to CZK 1,093.8 billion. Sufficient primary funds are available to finance the loans of the banking sector.

The capitalisation of the banking sector was sufficient at the end of 2010. The capital ratio increased to 15.51% as a result of a 9.3% rise in the regulatory capital of the banking sector to CZK 289.4 billion. Tier 1 increased to CZK 263.4 billion, thanks mainly to retained earnings. The partial repayment of subordinated debt in several banks led to a decline in supplementary capital (Tier 2). Tier 1 traditionally has a dominant position in the banking sector's capital, accounting for roughly 91% of total regulatory capital. The capital requirements of the banking sector were flat at CZK 149.2 billion at the end of 2010, declining by just CZK 840.5 million year on year.

All banks were compliant with the set minimum capital ratio of 8% during 2010.

A total of 14 credit unions were operating in the Czech market as of 31 December 2010, down by three from January 2010. One credit union exited the market and licences of two others were revoked by the CNB in 2010. The credit union sector shrank, but the aforementioned 14 credit unions saw dynamic expansion in 2010 – as of the end of the year their assets were up by 66.2% year on year, loans to clients grew by 90.9% and members' deposits rose by almost 69.4%. The share of client default loans in total loans to credit union members increased from 7.2% to 10.3%. In 2010, credit unions generated net profit of almost CZK 32 million, representing an improvement on the loss of CZK 16 million recorded a year earlier. Owing to the sharp growth in lending, the sector's capital adequacy ratio fell by 2.2 percentage points to 12.59% as of 31 December 2010.

At the end of 2010, a total of 58 licensed investment firms were operating on the capital market (12 banks, 25 non-bank investment firms, 11 foreign bank branches, five organisational units of foreign investment firms and five domestic asset management companies). Total client funds managed by investment firms increased by 14.8% year on year to CZK 583.2 billion.

The total assets of investment firms' clients rose by 17.5% year on year to CZK 2,265.1 billion as of the end of 2010. Of this amount, the assets of clients of domestic non-bank investment firms totalled CZK 485.7 billion, those of domestic banks CZK 1,259.1 billion and those of asset management companies CZK 205.4 billion.

The investment firm sector had sufficient capital in 2010. The capital of domestic non-bank investment firms totalled CZK 3.9 billion (up by 8.5% on a year earlier) and that of asset management companies CZK 257.8 million at the end of 2010. The capital adequacy ratios of domestic non-bank investment firms and asset management companies were 26.4% and 26.3% respectively at the end of 2010. The net profit of the domestic investment firm sector (excluding banks and bank branches) rose by 80.9% year on year to CZK 1.6 billion in 2010.

The assets of collective investment funds open to the public amounted to CZK 123.7 billion at the end of 2010, up by 4.0% on the end of 2009. The biggest increases in the funds' assets were recorded in Q1 (CZK 4.5 billion) and Q3 (CZK 3.8 billion). By contrast, Q2 saw a decrease in the sector's total assets (of CZK 4.3 billion).

As regards fund type, the largest volume of assets (35% of the sector's total assets) is managed by money market funds, whose assets amounted to CZK 43.7 billion at the end of 2010 (down by 7.5% from a year earlier). Mixed funds managed assets amounting to CZK 26.0 billion at the end of the year (i.e. 21.0% of the sector's assets). The total assets of bond funds ran to CZK 18.4 billion (14.9% of the sector's total assets). CZK 17.2 billion (13.9%) was invested in funds of funds and CZK 16.4 billion (13.3%) in equity funds. Real estate funds account for a minimal share of total assets (1.6%).

About one-third of the total assets of domestic mutual funds (CZK 40.8 billion) were invested in long-term bonds at the end of 2010. Another 20.5% (CZK 25.4 billion) of the sector's assets was invested in shares and similar investment securities. Domestic mutual funds had 16.0% of their assets (CZK 19.8 billion) invested in deposits and other receivables and 15.1% (CZK 18.7 billion) invested in money market instruments. Collective investment fund securities (13.9%) and other investment had the smallest shares.

Investments in money market instruments recorded the largest decline in value in 2010, falling by 18.5% compared to the end of 2009. By contrast, investments in shares and similar investment securities increased (by 20.4% compared to the end of 2009), as did investments in long-term bonds (7.7%).

The economic condition of pension funds continued improving during 2010. This was reflected above all in a marked improvement in their profits and a rise in their own funds.

The total assets managed by pension funds rose by more than CZK 16 billion (7.7%), reaching CZK 232.4 billion at the end of 2010. Owing to pension funds' conservative investment policies, the bulk of their assets (84.5%) were invested in debt securities, while 4.5% were in shares and units and 6.8% were in time deposits and on term accounts.

The funds of pension planholders also increased compared to the end of 2009 (by 7.7%), reaching CZK 216.1 billion at the end of 2010.

The own capital of pension funds increased by 8.3% year on year to CZK 14.4 billion at the end of 2010, indicating further stabilisation of the sector. The sector recorded a net profit of CZK 4.6 billion as of 31 December 2010 (up by CZK 2.0 billion year on year). The income was mostly due to interest and similar income, which increased by 1.7% year on year to CZK 7.1 billion at the end of 2010.

The PSE's PX index closed 2010 at 1,224.8 points, compared to 1,117.3 points at the end of 2009. This represented a year-on-year rise of 9.6%.

Total share trading on the Prague Stock Exchange (PSE) decreased by almost 16% in 2010 compared to 2009, to CZK 389.9 billion. About 81% of the total volume of transactions was traded in the SPAD system. The total volume of bond trades on the PSE declined by 9.5% compared to 2009, from CZK 585.7 billion to CZK 529.9 billion. Trading in government bonds accounted for 96.3% of the total volume of bond trades. Derivatives trading on the PSE again recorded a small volume of CZK 359.8 million in 2010, a decline of 22.3% from 2009.

A total of 27 share issues were being traded on the PSE at the end of 2010, i.e. two issues more than at the end of 2009. The market capitalisation of shares traded on the PSE was CZK 1,388.0 billion as of 31 December 2010, up by 7.3% year on year. Domestic share issues accounted for 58.0% (CZK 805.2 billion) of the market capitalisation. The number of bond issues traded on the PSE in 2010 decreased to 106 from 116 a year earlier.

The total annual trading on the other domestic regulated market, RM-SYSTÉM, česká burza cenných papírů a.s., fell by 12.4% year on year to CZK 9.2 billion in 2010. The RM index rose by 7.6% year on year to 2,518.2 points.

A total of 35 domestic insurance undertakings and 17 branches of foreign insurance undertakings (all from the EU countries) were operating in the Czech market as of the end of 2010. Along with an economic recovery, 2010 saw a higher rate of growth of gross premiums written, which increased by 5.1 percentage points year on year to 8.2%. This increased growth was largely due to a high rate of growth in the area of life insurance, which rose from 5.8% to 19.2%. Total gross premiums written amounted to CZK 156.0 billion in 2010.

Premiums written in life insurance increased by CZK 11.5 billion year on year to CZK 71.7 billion at the end of 2010. The rate of growth in non-life insurance moderated slightly further compared to 2009, falling by 0.9 percentage point to 0.3%. Total gross premiums written in non-life insurance reached CZK 84.2 billion. Life insurance accounts for 46.0% of total premiums written, a year-on-year rise of 4.2 percentage points. However, the share of life insurance is still below the usual level in advanced EU insurance markets.

Claim settlement costs totalled CZK 82.7 billion in 2010, rising by 9.2% year on year. The total assets of insurance undertakings stood at CZK 370.0 billion as of 31 December 2010. This represents a year-on-year rise of 7.6%. Financial placement is the largest asset item in the balance sheet of domestic insurance undertakings. However, its share is gradually falling. As of 31 December 2010, financial placement accounted for 78.7% of total assets. Debt securities are the largest financial placement item. Their value increased by 4.4% compared to 2009, but their share in total assets fell by 2.2 percentage points to 61.1%. The largest item in insurance undertakings' liability structure is technical provisions. The share of net technical provisions (excluding provisions for unit-linked life insurance) in the total liabilities of domestic insurance undertakings fell by 2.7 percentage points year on year to 60.8% as of the end of 2010.

Insurance undertakings operating on the Czech insurance market (including branches of foreign insurers) recorded net profit of CZK 21.5 billion, up by 39.0% on a year earlier. The better financial results of domestic insurance undertakings than in previous years were reflected in better profitability and efficiency indicators.

1. THE ECONOMIC ENVIRONMENT IN 2010³¹

Economic growth in the Czech Republic rebounded in 2010. A modest year-on-year rise in GDP was recorded already at the start of the year. The economy picked up pace as the year progressed, and growth of 2.2% was recorded for the year as a whole. However, the previous year's adverse economic trends continued to affect the financial performance of institutions operating on the domestic financial market and the ability of businesses and individuals to repay their obligations in 2010.

The economy recovered thanks to improved export opportunities as world trade also emerged from the recession and financial crisis. In 2010 H1, net exports were the dominant source of domestic economic growth, while in 2010 H2 the growth was driven mainly by a pronounced upswing in additions to inventories. Real foreign trade turnover grew significantly for 2010 as a whole. Exports and imports both rose by 18% for the entire year. For most of 2010, growth was also fostered – to a lesser extent – by household consumption. A recovery in gross value added formation occurred in industry, trade and banking.

Inflation rose compared to the previous year. The average inflation rate in 2010 was 1.5%, up by 0.4 percentage point on a year earlier. The rise in inflation was due to an increase in indirect taxes at the start of the year, higher growth in administered prices and a pick-up in food and fuel price inflation owing to growth in global commodity prices.

The koruna appreciated against the euro and stabilised against the dollar in 2010. The average CZK/EUR exchange rate appreciated from 26.5 in 2009 to 25.3 in 2010. The average CZK/USD exchange rate was unchanged at 19.1 in 2010 compared to 2009.

The current account deficit increased to 3.8% of GDP, amounting to CZK 139.2 billion in absolute terms. The current account deficit reflected an income deficit, whereas the goods and services balance remained in surplus. As in previous years, the financial account showed a surplus in 2010. The surplus reached CZK 182.1 billion, up by almost CZK 28 billion on a year earlier.

The labour market situation still deteriorated on average during 2010, as labour market developments copy changes in economic activity with the usual lag and the economic recovery was only modest. The number of vacancies remained at very low levels and the number of unemployed persons³² was still rising in early 2010. Compared to 2009, the average registered unemployment rate thus rose by 1.0 percentage point on average to 9.3% under current Ministry of Labour and Social Affairs methodology. Nominal wage growth in the organisations under review slowed gradually during 2010 and was only 2% on average for the entire year, half the figure recorded in 2009. Average real

³¹ The data in this section are based on CZSO data available up to 10 May 2011.

³² Seasonally adjusted.

wages rose by only 0.5% year on year, which means that their growth rate was 2.5 percentage point lower than in 2009. Aggregate labour productivity increased by 3.1% year on year, compared to a decline of 3.0% in 2009.

Despite the efforts made to limit the state finance deficit and the measures taken to reduce the state debt, public finance showed a sizeable deficit in 2010. The deficit under ESA95 methodology amounted to CZK 172.8 billion, or 4.7% of GDP, in 2010. The government debt-to-GDP ratio increased in 2010, reaching 38.5% at the end of the year.

The Czech National Bank responded to the economic situation by lowering its key interest rates in May 2010. The two-week repo rate was reduced from 1.00% to 0.75%, the discount rate was left unchanged at 0.25%, and the Lombard rate was lowered from 2.00% to 1.75%. In the remainder of 2010, the monetary policy rates stayed unchanged (in line with the CNB's forecasts for the Czech economy).

2. CREDIT INSTITUTION SECTORS³³

2.1 THE STRUCTURE OF THE BANKING SECTOR

As of 31 December 2010, the Czech banking sector consisted of 41 banks and foreign bank branches. During 2010, Fio banka, a. s. started operating and a foreign bank branch, ZUNO BANK AG, organizační složka, was registered. No bank or branch closed down in this period.

The structure of the banking sector in the Czech Republic has long been stable. In 2010 the sector consisted of 17 banks (four large banks, four medium-sized banks and nine small banks), five building societies and 19 foreign bank branches.³⁴ The distribution of banks into these five basic groups also remained broadly unchanged in 2010.³⁵ The group of four large banks is still the largest component of the domestic banking market. Their share in total banking sector assets was almost 58% in 2010.

Since EU accession the Czech financial market has been part of the EU single financial market and has been open to other institutions, which may carry on business on this market and benefit from the free movement of services under the single licence. A total of 295 banks from EU Member States that had notified the Czech National Bank via their regulators of this activity were prepared to provide banking services on this basis at the end of 2010. They can offer banking services without establishing a branch in the Czech Republic pursuant to Directive 2006/48/EC of the European Parliament and of the Council. Under the notification framework, the CNB is informed in detail about the range of such activities. As in other EU Member States, banks are not subject to a reporting duty in this area and their operations in the domestic banking sector are not subject to CNB supervision and regulation.

Six banks whose registered offices are in the Czech Republic are operating in EU countries under the single licence without establishing a branch (i.e. are not carrying permanent economic activity). The banks concentrate chiefly on Slovakia, where notifications have been submitted by Komerční banka, GE Money Bank and PPF banka. LBBW Bank is operating in Greece and Česká exportní banka in France. Foreign activities are not significant for these banks. In 2010, the above banks were joined by Česká spořitelna, which has given notification in Austria. J&T Banka and newly also Fio banka each had a foreign branch in Slovakia at the end of 2010.

³³ The data on credit institutions refer to those with licences as of 31 December 2010 unless stated otherwise in this report.

³⁴ ZUNO BANK AG had not started operating by 31 December 2010, so it is not included in this report.

³⁵ The breakdown into groups is provided in Annex 3. For analytical purposes, groups of banks are defined in terms of asset size. Large banks administer total assets of more than CZK 200 billion, medium-sized banks have assets of between CZK 50 billion and CZK 200 billion, and small banks' total assets amount to less than CZK 50 billion. The other two groups are building societies and foreign bank branches. For more details, see <http://www.cnb.cz> – Financial market supervision – Aggregate financial market information – Basic indicators of the banking sector – Banks – Methodology.

TABLE II.1

Number of banks

(for banks with licences as of the given date)

	2008	2009	2010
BANKS, TOTAL	37	39	41
of which:			
banks	16	16	17
foreign bank branches	16	18	19
building societies	5	5	5

TABLE II.2

Shares of bank groups in total assets

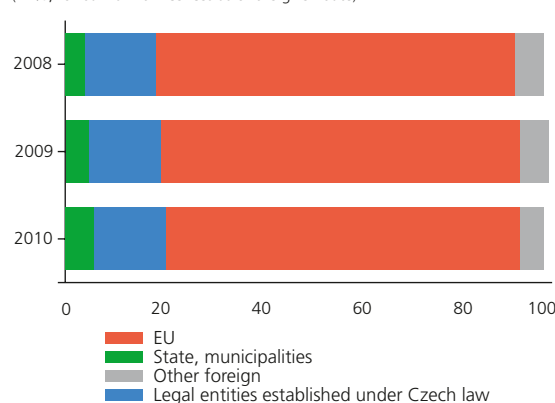
(in %, for banks with licences as of the given date)

	2008	2009	2010
BANKS, TOTAL	100.0	100.0	100.0
of which:			
large banks	57.5	57.7	58.0
medium-sized banks	12.2	13.6	13.1
small banks	5.3	5.5	6.4
foreign bank branches	14.1	12.1	11.4
building societies	10.8	11.2	11.2

CHART II.1

Bank ownership structure

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

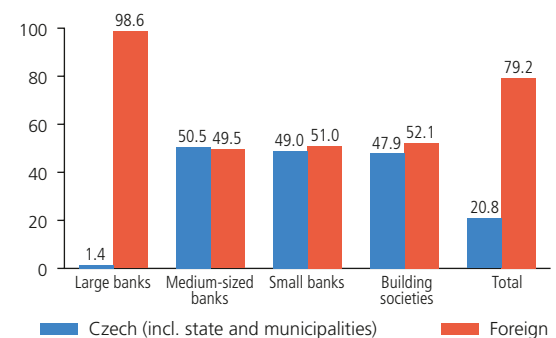


Note: Shares in capital

CHART II.2

Capital origin

(in %; for banks with licences as of 31 December 2010)

**2.1.1 Ownership structure**

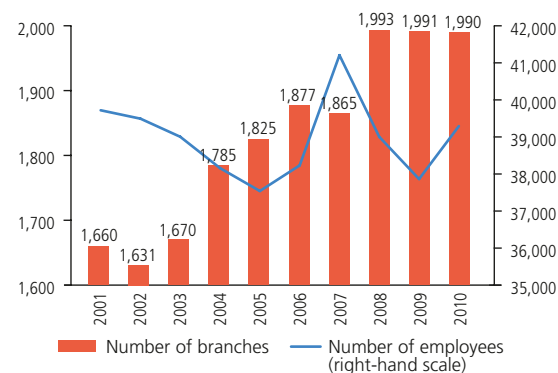
The Czech banking sector has a stable ownership structure. Foreign capital has long dominated the sector's capital. At the end of 2010, its direct share was 79.2% (i.e. direct shareholders holding shares directly, not through other entities). Foreign capital predominates in 14 banks, nine of them being wholly owned by foreign capital. By contrast, eight banks were majority owned by Czech shareholders. Six banks were wholly Czech-owned (Hypoteční banka, Fio banka, J&T Banka and Modrá pyramida stavební spořitelna plus two state-controlled banks specialising mainly in export and business promotion – Českomoravská záruční a rozvojová banka and Česká exportní banka).

A total of 96.9% of the sector's total assets were directly or indirectly controlled by foreign owners at the end of 2010.³⁶ Owners from EU countries dominate. Their share in the banking sector's foreign capital amounted to 93.3% at the end of 2010. All the owners of the "Big Four" come from EU countries. Shareholders from other territories have minority representation. The breakdown of ownership by EU country remains diverse.

CHART II.3

Number of employees and number of branches

(as of given date)

**2.1.2 Employees and banking units**

The number of employees³⁷ in the Czech banking sector increased by 3.8% to 39,292 as of the end of 2010. Banks are taking a selective approach to expanding the range of services they offer through their branch networks. New client-service employees were taken on by those large, medium-sized and small banks whose strategies are based on developing branch networks and focusing on consultancy-related banking services. Large banks are the largest employer in the banking sector, accounting for almost 68%. They increased their workforce by 259 people year on year.

Unlike the number of employees, the total number of banking units serving clients was almost unchanged in 2010, totalling 1,990 (excluding their headquarters). New banking units are being established in locations where maximum efficiency of sales of products and services can be achieved. By contrast, organisational changes associated with the streamlining of banking activities usually result in the closure of units.

The availability of banking services in the Czech Republic was unchanged. As in the previous year, there were around 5,300 citizens per banking unit in the Czech Republic at the end of 2010. The productivity of the banking sector as measured by total assets administered per employee decreased slightly in year-on-year comparison. It stood at CZK 106.8 million at the end of 2010.

³⁶ This refers to the share of total bank assets controlled by foreign entities (i.e. foreign owners holding directly or indirectly at least 50% of the bank's shares) in the total assets of the banking sector.

³⁷ The total number of banking sector employees (full-time and part-time).

TABLE II.3

Number of employees and banking units in Czech banking sector

(for banks with licences as of the given date)

	2008	2009	2010
Number of employees (in CZ and abroad)	39,003	37,864	39,292
Number of banking units (in CZ)	1,993	1,991	1,993
Number of employees			
per bank	1,083	996	982
per banking unit	19.6	18.7	19.3
Number of citizens			
per bank (thous.)	282.9	269.4	250.8
per banking unit (thous.)	5.3	5.3	5.3
per employee	268.2	277.5	268.1

2.1.3 Electronic banking

Bank clients are increasingly using various forms of electronic banking and accessing their bank accounts by card, PC or phone. Banks are trying to encourage the expansion of electronic banking by means of fee policies.

The number of current accounts of households (individuals) was up by 6.7% year on year at the end of 2010. The share of accounts enabling access by card was almost 69% of the total number of accounts. The number of accounts accessible via a PC is regularly increasing and currently stands at almost 59%. By contrast, the number of accounts without electronic access is falling in both absolute and relative terms (to less than 11% at the end of 2010). Banks are responding to client needs, expanding the range of electronic banking products and focusing on products requiring one-on-one client service and consulting services in their brick-and-mortar branches.

The number and availability of ATMs continue to increase in the Czech Republic. The number of newly installed ATMs was 5.1% higher in 2010 than a year earlier. Banks are focusing on self-service zones, where almost 21% of the total number of ATMs are located. Clients are increasingly using payment cards – both credit and debit cards – for non-cash payments.

2.2 ACTIVITIES OF THE BANKING SECTOR

The total assets of the banking sector rose by CZK 97.7 billion (2.4%) during 2010, to CZK 4,192.3 billion as of 31 December 2010. The higher rate of growth of assets compared to 2009 is consistent with the renewed domestic economic growth. Large banks, whose assets rose by 3.0% (CZK 70.0 billion), contributed the most (72%) to the growth in total assets. All the "Big Four" banks contributed to this growth. The increases in the assets of small banks and building societies were also higher than the banking sector average (19.5%, or CZK 43.5 billion, and 2.9%, or CZK 13.1 billion, respectively). Only medium-sized banks and foreign

TABLE II.4

Electronic banking

(for banks with licences as of the given date)

	2008	2009	2010
Number of ATMs	3,406	3,573	3,754
Number of cards issued (thous.)			
total	9,605	9,348	9,406
debit cards	7,474	7,812	7,867
credit cards	2,131	1,537	1,540
Current accounts (households; thous.)			
total	7,940	8,433	9,001
with cards issued	5,771	5,984	6,199
with PC access	3,588	4,393	5,282
with telephone access	3,247	3,658	4,072
without electronic access	1,097	1,046	974

CHART II.4

Herfindahl indices of market competition

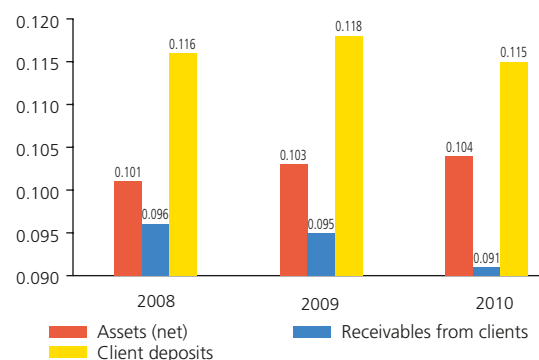


TABLE II.5

Banking sector assets

(at net value; in CZK billions)

	2008	2009	2010	Structure 2010 in %
TOTAL NET ASSETS	4,044	4,095	4,192	100.0
Cash	40	40	40	1.0
Cash balances with central banks	311	385	396	9.4
Financial assets held for trading	360	250	225	5.4
Financial assets designated at fair value through profit or loss	62	47	45	1.1
Available-for-sale financial assets	335	395	400	9.5
Loans and receivables	2,472	2,487	2,575	61.4
Held to maturity investments	287	315	338	8.1
Derivatives – hedge accounting (positive fair value)	21	22	25	0.6
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0.0
Tangible and intangible assets	46	45	45	1.1
Investments in associates, subsidiaries and joint ventures	71	68	72	1.7
Other assets	39	42	30	0.7

CHART II.5

Concentration of banking sector

(as of 31 December 2010; in %)

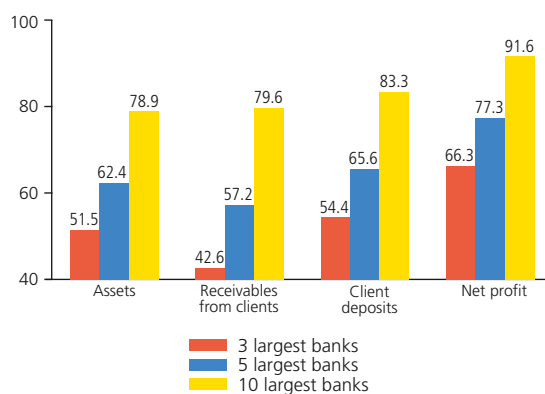


CHART II.6

Receivables in 2010

(in CZK billions)

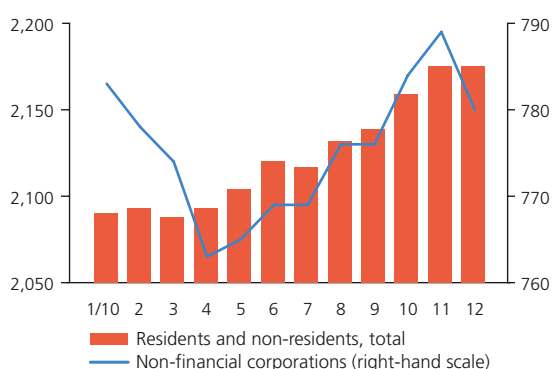
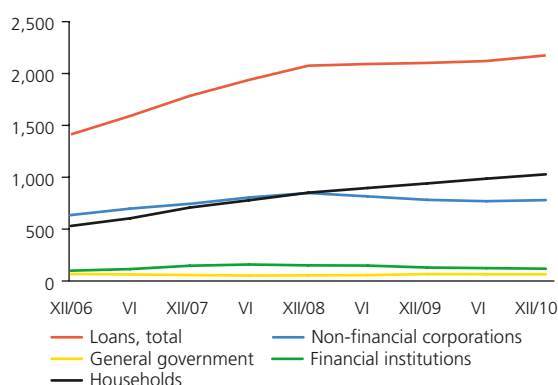


CHART II.7

Sector structure of loan portfolio

(in CZK billions)



bank branches recorded declines in total assets – of CZK 8.5 billion (less than 1.5%) and CZK 18.3 billion (3.7%) respectively. Owing to the higher asset growth in large banks, their share in banking sector assets increased by 0.3 percentage point to 58.0% as of the end of 2010. The degree of concentration of the banking sector, as measured by the Herfindahl index, increased to 0.104, while client deposits (0.115), and client loans (0.091) showed the opposite trend.³⁸

The concentration of the domestic banking sector, as measured by the shares of the three, five or ten largest entities in the market, decreased slightly in 2010 compared to the previous year in the case of total assets, client loans and deposits and profit indicators. The greatest concentration is traditionally recorded for net profit. The three largest banks generated more than 66% of the total net profit of the domestic banking sector.

The banking sector's credit exposure started to rise again in 2010. Loans and receivables, which increased by 3.5% year on year, have long accounted for the largest share in the asset structure.³⁹ The increase in the sector's assets was due mainly to client receivables, which account for more than half of total assets; they increased by 3.0%. Receivables from credit institutions rose by 10.2%. By contrast, the year-on-year increase in banks' exposure to the Czech National Bank was 2.9%.

2.2.1 The loan portfolio (sectoral breakdown)⁴⁰

The total receivables of the banking sector started increasing during 2010, particularly in the second half of the year. Domestic banks' total loans to clients rose by CZK 72.7 billion (3.5%) to CZK 2,174.8 billion. The annual rate of growth of loans at the end of 2010 was 2.2 percentage points higher than at the end of 2009.

Loans provided to households (individuals and trades), individuals in particular, became the driver of growth in lending in 2010, although their year-on-year increase of 9.3% represented a lower growth rate than in previous years⁴¹. Growth was also recorded by mortgage loans for house purchase (9.1%) and housing loans (6.4%) in 2010. Receivables from households rose by CZK 87.7 billion to CZK 1,028.2 billion as

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

39 The assets of the banking sector comprise cash, receivables, securities, tangible and intangible assets and other assets.

40 Data from the monetary statistics reporting statements submitted by banks were used to prepare this section. These comprise loans provided to residents in the Czech Republic only. These statements use a different methodology than the banking supervision statements, so some of the resulting values (e.g. the total volume of loans provided) are not fully comparable with the data in other parts of the text. For details see www.cnb.cz – *Statistics – Monetary and financial statistics – FAQs*. The quality (degree of risk) of the loan portfolio is dealt with in section 2.3.1 *Credit risk*.

41 Starting from 2010, other households – owners' associations are given separately. The year-on-year changes are therefore modified.

of 31 December 2010. Their share in the sector's total loans is rising constantly and reached 47.3% at the end of 2010. The share of loans to households is the highest in the banking sector, exceeding that of loans to corporations (35.9%) by 11.4 percentage points. The share of loans to non-financial corporations has been declining since mid-2006. It recorded a year-on-year decrease of 1.4 percentage points at the end of 2010. The volume of loans to non-financial corporations fell by CZK 2.5 billion (0.3%) to CZK 779.7 billion in 2010. The banking sector increased its exposure to private non-financial corporations with domestic owners, to which it granted 1.2% more in loans in 2010 than in 2009. Their share of total loans reached 24.6%.

The share of loans to financial institutions in total bank loans fell from 6.2% to 5.5% in 2010, and the volume of such loans declined by 8.8% (CZK 11.4 billion) year on year.

Banks' exposure to general government decreased as well (by 2.0% year on year) and the share of these loans in the total loans of the banking sector fell to 3.0%. Total receivables from these institutions decreased by CZK 1.4 billion to CZK 64.9 billion. This decrease was due mainly to loans to central government (down by CZK 1.0 billion), which account for more than 32% of the total volume of such loans.

2.2.2 Loans to individuals⁴²

Loans to individuals (excluding trades) account for the largest share of domestic bank lending. Private individuals' debt with domestic banks continued rising in 2010, although the rate growth continued to fall. As of 31 December 2010, bank loans to individuals totalled CZK 960.8 billion, up by 7.0% on a year earlier.

Loans for house purchase accounted for 75.8% of all loans to individuals⁴³ at the end of 2010. This more than three-quarter share has been stable over the past few years. Loans for house purchase provided in the Czech Republic in 2010 were CZK 43.8 billion higher than in the previous year, but the growth rate decreased.

Mortgage loans⁴⁴ for house purchase rose by a further CZK 50.3 billion (9.1%) in 2010 to CZK 604.7 billion, making up 62.9% of total loans to individuals at the end of the year.⁴⁵ Loan financing of housing needs represents the lion's share of long-term loans, which accounted for more than 91% of all loans to individuals.

⁴² This section describes loans to individuals who are residents of the Czech Republic. Individuals are a subcategory of the household sector. In addition to individuals, households include trades and, since 2010, also other households – owners' associations.

⁴³ In addition to mortgage loans, housing loans include building society loans (standard and bridging) and consumer credit for real estate purchase or reconstruction.

⁴⁴ Total mortgage loans (residents and non-residents) are given for all sectors.

⁴⁵ A year-on-year comparison, or a comparison with the end of 2008, is misleading on the mortgage market owing to the new (wider) definition of mortgage loans laid down Act No. 190/2004, on Bonds.

TABLE II.6

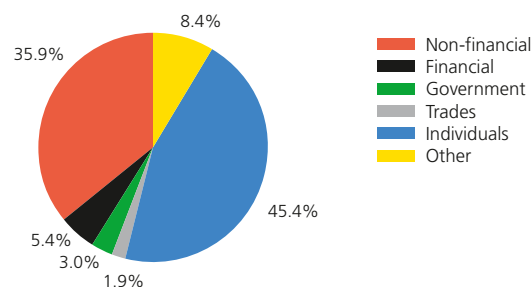
Receivables by sector

	Volume in CZK bn			Change in % from 2009
	2008	2009	2010	
TOTAL	2,076	2,102	2,175	3.5
A. RESIDENTS	1,927	1,953	2,007	2.8
non-financial corporations	848	782	780	-0.3
financial institutions	151	130	118	-8.8
general government	54	66	65	-2.0
households	851	940	1,028	9.3
trades	43	43	40	-5.4
individuals	808	898	961	7.0
other - owners' associations	0	0	27	n.a.
non-profit institutions serving households	22	34	16	-53.5
B. NON-RESIDENTS	149	149	168	12.4

CHART II.8

Structure of loans by economic sector

(as of 31 December 2010)



Note: Only loans granted in the Czech Republic

CHART II.9

Receivables in 2010

(in CZK billions)

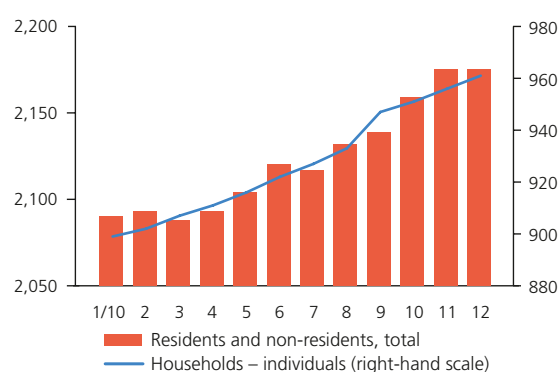


TABLE II.7

	Volume in CZK bn			Change in % from 2009
	2008	2009	2010	
TOTAL LOANS AND RECEIVABLES	808	898	961	7.0
of which:				
short-term	30	32	39	23.4
medium-term	40	39	47	21.1
long-term	738	828	875	5.7
of which:				
housing loans	614	684	728	6.4
of which mortgage loans for housing purposes	397	554	605	9.1
consumer credit, including current account overdrafts	169	186	199	7.3
other	26	28	33	19.1

Building societies participated in both co-financing of housing and financing of home modernisation and maintenance. At the end of 2010, building societies provided loans amounting to CZK 293.4 billion, up by CZK 25.9 billion on a year earlier⁴⁶. Nonetheless, the 8.5% increase in building society loans was about half that recorded at the end of 2009. This growth was reflected in the loans-to-savings ratio, which rose to 68.2%. Changes in the conditions in the building saving scheme market are affecting the numbers of new building savings contracts. In 2010, building societies' customers signed 7.4% new contracts less than in 2009. A total of 532,800 new contracts were thus concluded in 2010.

The continuing rise in private individuals' debt was also due to consumer credit (including current account overdrafts), which rose by a further CZK 13.6 billion year on year. As of 31 December 2010, consumer credit provided to households totalled CZK 199.2 billion. The consumer credit repayable by households at the end of 2010 was 7.3% higher than a year earlier.

TABLE II.8

Basic indicators of building savings schemes

(in CZK billions)

	2008	2009	2010	Change in % from 2009
No. of new schemes (thous.)	705	575	533	-7.3
No. of schemes in saving phase (thous.)	5,071	4,926	4,845	-1.6
Amount saved (CZK billions)	401	415	430	3.6
Total loans (CZK billions)	227	268	293	9.7
of which:				
building savings loans (CZK billions)	43	49	53	8.5
bridging loans (CZK billions)	184	219	240	9.9
Total loans/amount saved (%)	56.6	64.4	68.2	5.9
State support granted (CZK billions)	14.2	13.3	11.7	-11.7

2.2.3 Other asset items

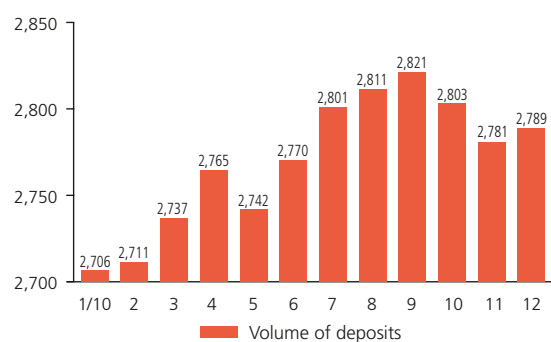
Receivables from the interbank market are a major item of domestic banks' balance sheets. At the end of 2010 they amounted to CZK 471.9 billion, accounting for 11.3% of banking sector assets. This market expanded by 10.2% compared to the end of 2009, exceeding the end-2007 figure, i.e. the pre-financial market crisis level, by 1.8%. At CZK 385.8 billion, receivables from central banks are also significant; their value rose by 2.9% compared to the end of 2009. They consist chiefly of receivables arising from repo operations with the CNB.

Securities were also strongly represented in bank assets, with debt securities predominating strongly. The value of the securities held by banks in the period under review was CZK 965.9 billion, of which debt securities totalled CZK 880.5 billion. The value of debt securities held by banks increased by 2.3% year on year. Banks' portfolios recorded an increase in debt securities issued by government institutions, which accounted for 64.7% of all securities issued (CZK 625.1 billion, 92.5% of which were domestic). Debt securities are both held to maturity (36.4%) and held for trading (12.3%). Available-for-sale securities had the largest share (44.8%).⁴⁷ Their value amounted to CZK 400.4 billion at the end of 2010, up by 1.5% on the end of 2009.

CHART II.10

Client deposits in 2010

(in CZK billions)



46 Table II.8 also includes loans provided by building societies which are of a mortgage loan nature (i.e. secured with a lien on property).

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

TABLE II.9

Banking sector liabilities

	Volume in CZK billions			Structure 2010 in %
	2008	2009	2010	
TOTAL LIABILITIES	4,044	4,095	4,193	100.0
Deposits, loans and other financial liabilities vis-à-vis central banks	38	3	2	0.0
Financial liabilities held for trading	216	138	122	2.9
Financial liabilities designated at fair value through profit or loss	67	116	132	3.2
Financial liabilities measured at amortised cost	3,357	3,451	3,524	84.0
Derivatives - hedge accounting (negative fair value)	13	18	19	0.5
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0.0
Provisions	11	11	9	0.2
Other liabilities	49	38	41	1.0
Equity, total	292	320	343	8.2
of which:				
issued capital	74	75	79	1.9
retained earnings	97	106	126	3.0
profit for accounting period	46	60	56	1.3

The value of equity instruments⁴⁸ rose to CZK 8.3 billion year on year, up by CZK 1.1 billion on a year earlier. Their share in the securities of the banking sector fell below 1%. The value of ownership interests changes depending on the evolution and structure of financial groups. In 2010, banks increased the value of their ownership interests by 7.2% to CZK 72.4 billion. Of this total, 97.3% (CZK 70.4 billion) were controlling shares.

The majority of securities are still held by large banks (73.7%) and building societies (12.0%). Ownership interests are even more concentrated, the bulk of them (89.8%) being held by large banks (CZK 65.5 billion).

2.2.4 Banking sector funds

The Czech banking sector has long had sufficient funds. Clients' confidence in the domestic banking sector manifested itself in a year-on-year increase in client deposits of CZK 91.5 billion (3.4%) to CZK 2,819.5 billion as of 31 December 2010. Deposits of other clients⁴⁹ increased, whereas general government deposits declined. Deposits of credit institutions on the interbank market increased.

TABLE II.10

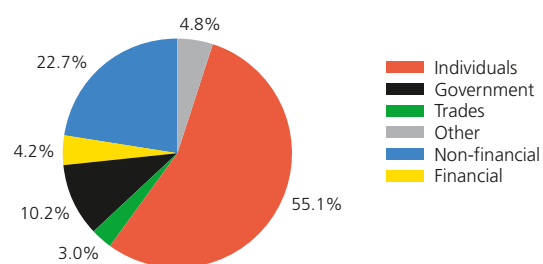
Client deposits by sector

	Volume in CZK bn			Change in % from 2009
	2008	2009	2010	
TOTAL	2,567	2,698	2,789	3.4
A. RESIDENTS	2,474	2,624	2,700	2.9
non-financial corporations	591	611	633	3.6
financial institutions	116	118	117	-1.2
general government	293	306	285	-6.9
households	1,440	1,551	1,642	5.8
trades	94	86	85	-1.3
individuals	1,346	1,465	1,536	4.9
other - owners' associations	0	0	20	n.a.
non-profit institutions serving households	34	38	23	-38.4
B. NON-RESIDENTS	93	74	89	20.1

CHART II.11

Structure of deposits by economic sector

(as of 31 December 2010)



Note: Only deposits accepted in the Czech Republic

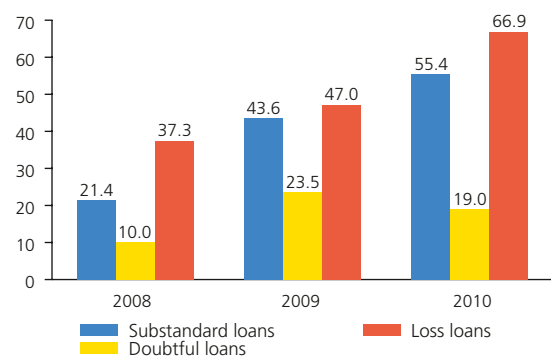
48 This indicator expresses the total volume of equity instruments regardless of the portfolio where the instrument is placed or of the issuer. It includes shares, units and other equity instruments.

49 The breakdown by sector includes central banks.

CHART II.12

Loan portfolio quality

(client loans assessed individually; in CZK billions)



Following an increase in loans provided by the central bank to CZK 38 billion in 2008 to support the stability and confidence of the Czech interbank market, such loans decreased in 2009 and the decline continued to CZK 1.5 billion in 2010. Non-government client accounts with domestic banks recorded an inflow of CZK 108.9 billion in 2010. Clients are still seeking safe deposits on bank accounts and prefer current account deposits. Demand deposits accounted for 57.8% of client deposits at the end of 2010. Time deposits were dominated by short-term deposits up to one year (76.1%).

The banking sector increased its liabilities to credit institutions by 4.9% to CZK 448.1 billion in 2010. Liabilities from debt securities issued fell by 1.4% year on year, totalling CZK 366.8 billion at the end of 2010.

Banks again retained a major part of their profits in their balance sheets as retained earnings and reserves. The year-on-year increase in retained earnings, serving to strengthen capital, was CZK 20.0 billion in 2010. Reserves were increased in line with legal requirements.⁵⁰

The sector structure of deposits saw no major changes in 2010.⁵¹ Household deposits rose slightly (by 4.9%) and account for more than 55% of total deposits. The share of non-financial corporations decreased

TABLE II.11

Banking sector off-balance sheet

	Volume in CZK billions			Change in % from 2009
	2008	2009	2010	
SELECTED OFF-BALANCE SHEET ASSETS	10,791	6,942	6,342	-8.6
of which:				
commitments and guarantees given	834	725	731	0.9
pledges given	2	3	8	170.0
receivables from spot transactions	44	48	36	-24.1
receivables from futures, forwards, swaps etc.	8,801	5,533	5,137	-7.2
receivables from options transactions	1,031	563	366	-35.0
write-off receivables	29	31	35	12.0
values given to custody	50	39	29	-24.6
SELECTED OFF-BALANCE SHEET LIABILITIES	13,236	9,852	9,731	-1.2
of which:				
commitments and guarantees received	493	464	525	13.1
pledges received	1,475	1,722	1,736	0.8
liabilities from spot transactions	44	51	40	-21.7
liabilities from futures, forwards, swaps etc.	8,797	5,527	5,136	-7.1
liabilities from options transactions	1,029	562	366	-34.8
values received to asset management	41	46	58	26.7
values received to custody	1,357	1,480	1,871	26.4
NET POSITION FROM SPOT TRANSACTIONS	-0.9	-2.9	-3.5	19.1
NET POSITION FROM FUTURES, FORWARDS, SWAPS ETC.	4.4	6.0	1.3	-78.5
NET POSITION FROM OPTIONS	1.8	0.9	-0.3	-131.1

⁵⁰ For more details on own funds, subordinated debt and banking sector reserves, see section 2.4 *Capital adequacy*.

⁵¹ The sector structure of the total deposits of the domestic banking sector is based on the monetary statistics database.

to below 23%. Trades sector deposits also continued declining both in absolute terms and in relative terms within the sector, with their share falling to 3.0% in 2010.

2.2.5 Off-balance sheet transactions

The nominal value of off-balance sheet transactions declined during 2010, mainly because of a lower volume of derivatives transactions. Derivatives transactions comprise transactions for clients, derivatives for banks' own trading purposes and hedging transactions to close banks' open positions vis-à-vis the risks they undertake. Transactions in interest rate instruments (interest rate swaps and forwards) make up the largest share of off-balance sheet assets (67.9%), followed by transactions in currency instruments (31.2%). Banks engage only minimally in commodity, equity and credit derivatives trading.

The decline in derivatives transactions is attributable to receivables from forwards as well as from options transactions, which both recorded

CHART II.13

Structure of loans in default provided to non-financial corporations

(as of 31 December 2010; in %)

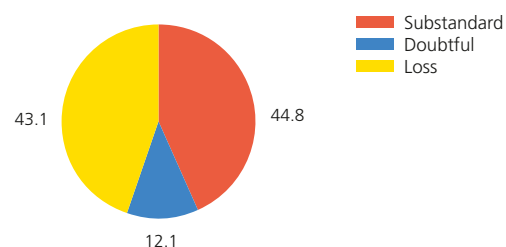


TABLE II.12

Classification of receivables from clients

	Volume in CZK billions			Change in % from 2009
	2008	2009	2010	
INVESTMENT PORTFOLIO RECEIVABLES, TOTAL	2,481	2,520	2,643	4.9
A. RECEIVABLES FROM CLIENTS	2,095	2,118	2,196	3.7
non-default	2,027	2,004	2,054	2.5
standard	1,941	1,893	1,949	2.9
watch	86	111	106	-5.1
default	69	114	141	23.9
substandard	21	44	55	27.2
doubtful	10	23	19	-19.1
loss	37	47	67	42.4
B. RECEIVABLES FROM CREDIT INSTITUTIONS	386	402	447	11.3
non-default	385	401	446	11.4
standard	383	400	446	11.5
watch	2.2	1.0	0.7	-34.5
default	0.9	1.4	1.0	-22.8
substandard	0.4	0.1	0.2	257.4
doubtful	0.5	0.7	0.1	-92.2
loss	0.0	0.6	0.8	35.8
C. ALLOWANCES AND LOSS OF VALUE	46.4	65.1	79.0	21.3
allowances for individually assessed financial assets	40.1	56.2	67.0	19.2
allowances for individually non-impaired assets	1.7	2.2	2.4	9.7
allowances for portfolio of individually immaterial assets	4.6	6.7	9.5	43.0
Allowances and loss of value by sector	46.4	65.1	79.0	21.3
allowances and loss of value for credit institutions	0.1	0.2	0.3	21.3
allowances and loss of value for clients	46.3	64.9	78.7	18.3
Allowances and loss of value/investment portfolio receivables (%)	1.87	2.58	2.99	15.9
D. RECEIVABLES IN DEFAULT (%)				
Share of receivables in default in total investment portfolio	2.8	4.6	5.4	17.6
Share of receivables in default from clients in total receivables from clients	3.3	5.4	6.4	19.5

CHART II.14

Structure of loans in default provided to individuals

(as of 31 December 2010; in %)

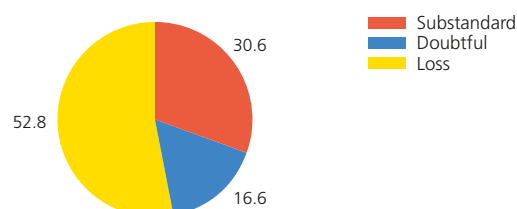


TABLE II.13

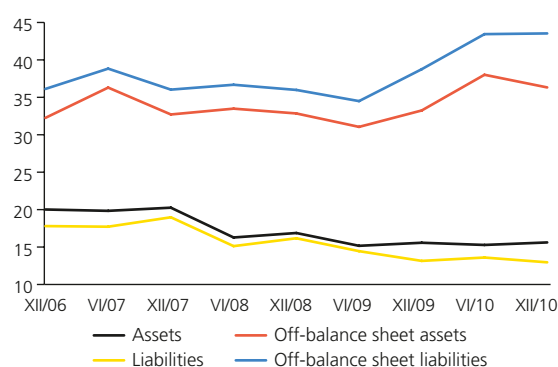
Receivables in default by sector

	Volume in CZK bn			Change in % from 2009
	2008	2009	2010	
RECEIVABLES IN DEFAULT, TOTAL	65.7	110.1	134.8	22.4
non-financial corporations	35.3	61.9	69.1	11.6
financial institutions	0.6	0.8	0.6	-23.3
general government	0.15	0.22	0.35	64.2
households	25.6	38.6	53.3	38.1
of which:				
trades	3.5	4.6	5.0	8.8
individuals	22.0	34.0	48.3	42.0
of which:				
housing loans	10.0	17.4	23.4	34.5
mortgage loans	6.1	13.5	18.9	40.3
consumer credit	10.9	15.0	20.6	37.1
non-profit institutions serving households	0.04	0.08	0.07	-22.1
non-residents	4.1	8.4	11.3	34.2

CHART II.15

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

(in %)



a fall of more than 20% year on year. As regards the instruments used, the largest decrease (of 13.6%) was recorded by receivables from fixed-term transactions in interest rate instruments. The off-balance sheet structure of the banking sector remained broadly unchanged in 2010.

2.3 RISKS IN BANKING

2.3.1 Credit risk

Credit risk has always been by far the most significant risk undertaken by the Czech banking sector. Since 2004, the volume of default loans (formerly referred to as non-performing loans) has been going up owing to rapid growth in banks' loan portfolios. Since 2009, the falling quality of the loan portfolio has also been due to the overall relative deterioration in the macroeconomic situation.

Loan quality is assessed according to whether or not default has taken place.⁵² A debtor is in default at the moment when it is probable that he will not repay his obligations in a proper and timely manner, or when at least one repayment of principal is more than 90 days past due. The categorisation of receivables does not take into account collateral, which is considered only when quantifying impairment and in particular when creating allowances (impaired/non-impaired receivables).

Non-default loans made up 94.6% of the investment portfolio at the end of 2010. This figure comprises standard receivables (90.6%) and watch receivables (4.0%). The share of non-default loans classified as standard loans declined by 0.4 percentage point year on year.

The loan portfolio deteriorated during 2010, albeit less so than in 2009. Non-default receivables accounted for CZK 2,500.7 billion of the total value of investment portfolio receivables of CZK 2,643.0 billion. The total value of default receivables rose by CZK 27.0 billion (23.4%) to CZK 142.4 billion in 2010. They accounted for 5.4% of total receivables at the end of 2010, up by 0.8 percentage point on a year earlier. Loan portfolio quality showed mixed trends across the individual groups of banks, but the values of default receivables increased during 2010 in all groups of banks except foreign bank branches. The largest share of default receivables in the value of total receivables of the investment portfolio (7.6%) was recorded in medium-sized banks at the end of 2010. By contrast, the lowest share was recorded in building societies (2.1%). The increase in the value of default loans in 2010 was due to a continued lower ability of bank clients to meet their obligations.

The banking sector responded to the deterioration in loan quality by increasing allowances. The volume of allowances rose by CZK 13.9 billion (21.3%) year on year to CZK 79.0 billion. Allowances had to be created to a greater extent in 2010. The largest share (87.9%) of the total

⁵² See Decree No. 123/2007 Coll., on prudential rules for banks, credit unions and investment firms.

volume of allowances was created for specific individual receivables.

The value of default receivables in the loan portfolio of the non-financial corporations subsector increased by CZK 7.2 billion year on year (as compared to CZK 26.6 billion in 2009). These default receivables accounted for 8.9% of total loans to non-financial corporations.

Owing mainly to the economic downturn and conditions in the labour market, the volume of default loans in the household sector rose by CZK 14.3 billion and their share in total loans was 5.0%. Loans for house purchase are traditionally higher in quality and record a lower proportion of problem loans (3.2%), although the figure was 0.7 percentage point higher year on year at the end of 2010. The low degree of risk attached to housing loans relative to the other loan types is supported by the higher reliability of bank clients when dwellings are used as collateral. By contrast, the default rate is higher for consumer credit (10.4%), which is provided in a larger numbers and for smaller amounts for various, often unspecified, purposes. The higher degree of risk of such credit is offset by higher interest rates.

2.3.2 Foreign exchange risk

As in previous years, the foreign exchange risk of the domestic banking sector in 2010 was assessed as limited, although the absolute level of foreign currency assets and liabilities of the banking sector edged up by 3.0% and 0.6% respectively during the year. Their shares in the banking sector's total assets was flat at 16.1% for assets and declined by 0.2 percentage point to 13.6% for liabilities. In absolute terms, foreign currency assets and liabilities totalled CZK 700.6 billion and CZK 523.8 billion respectively as of 31 December 2010. Foreign currency off-balance sheet assets and liabilities showed similar developments. In absolute terms, foreign currency off-balance sheet assets declined by CZK 13.4 billion, while foreign currency off-balance sheet liabilities rose by CZK 71.0 billion. Their shares in off-balance sheet assets and liabilities exceeded 35% for assets and 42% for liabilities. The development of foreign currency assets and liabilities (both balance sheet and off-balance sheet) over time is reflected in the net foreign exchange position, which ended 2010 in a surplus of balance sheet assets over liabilities (of CZK 176.8 billion).

Receivables (from clients and credit institutions) had the largest share (almost 76%) in foreign currency assets. The highest-weight item of foreign currency receivables from clients rose by CZK 18.5 billion (6.2%) year on year to CZK 314.2 billion. Foreign currency securities (including ownership interests) held by the banking sector increased by CZK 9.2 billion to CZK 136.9 billion in 2010.

As regards the foreign currency liabilities of the Czech banking sector, the largest absolute increase was recorded by liabilities from securities (CZK 21.8 billion), while the largest decline was recorded by liabilities to credit institutions (CZK 9.4 billion). Liabilities to clients accounted for

CHART II.16

Shares of foreign currencies in banking sector balance sheet and off-balance sheet in 2010

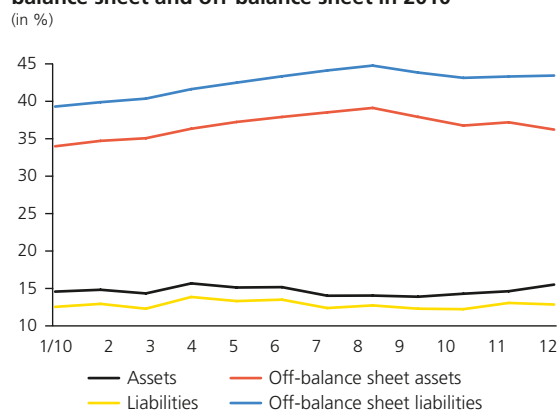


CHART II.17

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

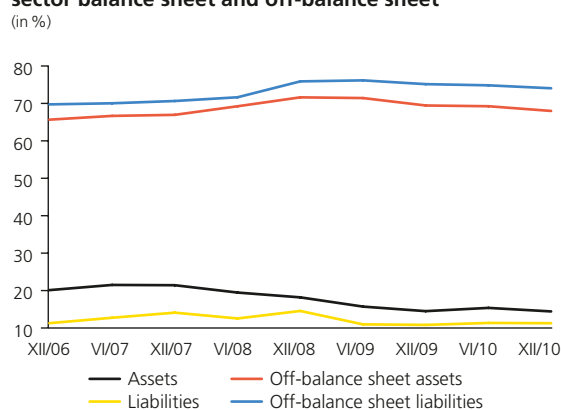


CHART II.18

Shares of non-resident transactions in banking sector balance sheet and off-balance sheet in 2010

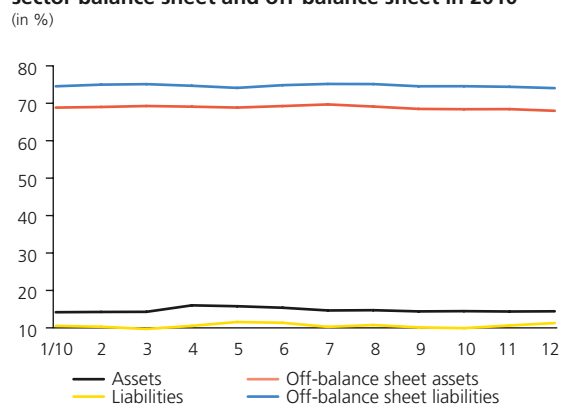


TABLE II.14

The ten countries with the largest exposures of the Czech banking sector as of 31 December 2010
(in CZK billions)

	Assets, total	of which:		Bonds
		Receivables from credit institutions	Receivables from clients	
Netherlands	103.0	76.0	16.7	5.7
Slovakia	74.1	20.1	40.8	8.5
United Kingdom	71.8	25.5	4.1	4.0
Belgium	63.3	39.5	3.6	2.8
Austria	62.8	50.9	1.5	1.6
Germany	62.3	39.4	2.3	6.4
Poland	45.0	0.5	14.9	18.1
Russian Federation	39.7	4.6	33.7	1.2
France	21.5	5.7	1.0	8.3
Cyprus	19.8	0.0	16.3	0.2

TABLE II.15

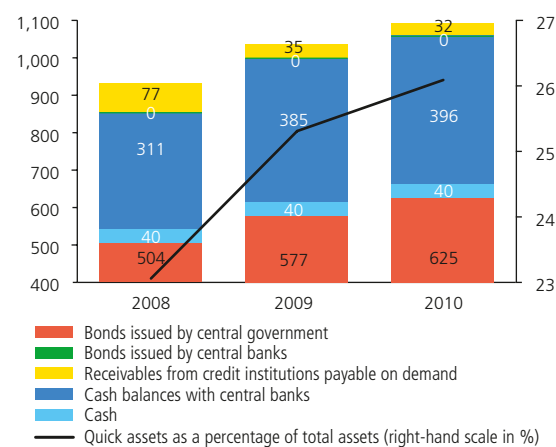
Selected liquidity indicators

	2008	2009	2010
TOTAL QUICK ASSETS	933	1,036	1,094
Total quick assets/total assets (in %)	23.1	25.3	26.1
Total quick assets/total client deposits (in %)	35.9	38.0	38.8
Cumulative net balance sheet position to 3 months net of 80% of demand deposits (in %)	-13.4	-11.1	-8.9
Position on interbank market (in CZK billions)			
receivables from banks	417	428	472
liabilities to banks	428	427	448
Loan coverage by primary funds (in %)	126.4	132.5	133.0
Share of demand deposits in total deposits, including banks (in %)	46.7	48.3	51.0

CHART II.19

Quick assets

(in CZK billions and %)



almost 50% of all foreign currency liabilities, totalling CZK 256.6 billion at the year-end (up by 2.4% year on year).

Roughly 94% and 87% of the growth in the shares of off-balance sheet foreign currency assets and liabilities respectively were due to derivatives transactions.

As of 31 December 2010, the banking sector recorded its largest open foreign exchange position⁵³ vis-à-vis the Swiss franc (a long position of CZK 3.1 billion), representing 1.1% of total regulatory capital (i.e. bank capital adjusted in accordance with the capital adequacy rules – see section 2.4), followed by the euro with CZK 2.8 billion (long). The open position vis-à-vis the US dollar was the third highest (long, CZK 0.9 billion).

2.3.3 Territorial risk (country risk)

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

As of 31 December 2010, non-resident assets amounted to CZK 686.2 billion and their share in the total assets of the banking sector was unchanged. Non-resident liabilities rose by CZK 30.3 billion to CZK 537.1 billion in the same period.

Interbank transactions dominate non-resident assets and liabilities. At the end of 2010, liabilities to banks accounted for 48.4% of all financial liabilities of non-residents (CZK 260.3 billion). Receivables from banks (non-residents) were also predominant on the asset side, accounting for 41.9% and amounting to CZK 288.2 billion. Non-residents' liabilities to and receivables from banks recorded annual increases of 2.2% and 6.0% respectively.

The geographical orientation of the domestic banking sector has long been stable, as shown by the list of ten countries to which the Czech banking sector has the largest exposures as measured by asset holdings. The rankings of the countries in the leading positions changed minimally. Except for the Russian Federation, the ten countries to which the Czech banking sector had the largest exposures were all EU countries. Exposure to these ten countries exceeded 81% of the total international exposure.

⁵³ Foreign exchange assets and liabilities, including off-balance sheet assets and liabilities, based on currency structure data for capital adequacy analysis purposes, i.e. excluding foreign currency promises and guarantees.

The banking sector recorded its largest open net positions (i.e. the difference between assets and liabilities transactions, including off-balance sheet transactions) vis-à-vis the Netherlands (positive, CZK 75.4 billion), Poland (positive, CZK 40.2 billion) and Luxembourg (negative, CZK -37.5 billion) as of 31 December 2010.

2.3.4 Liquidity risk

The liquidity of the Czech banking sector is still good. The sector as a whole has enough liquid funds and the liquidity sub-indicators remained stable during 2010. Quick assets⁵⁴ increased by CZK 57.5 billion (5.6%) year on year to CZK 1,093.8 billion. The share of quick assets in total banking sector assets also recorded an annual increase of 0.8 percentage point. The liquidity position was enhanced mainly by an annual increase of CZK 48.0 billion in holdings of general government bonds.

The domestic banking sector is a net creditor on the interbank market (total receivables from credit institutions exceeded total liabilities to these institutions by CZK 23.9 billion at the end of 2010).

2.4 CAPITAL ADEQUACY

Capital adequacy is one of the principal pillars of banking regulation and supervision. Generally, capital adequacy means the ratio of capital to the risks to which a given entity is exposed. This ratio should be high enough for the capital to cover any losses arising from the entity's activities, so that such losses are borne by the owners of the capital and not by the creditors of the entity. Capital adequacy can theoretically be calculated for any entity. However, it is of practical importance in the regulation of entities that use a large amount of external funds in their activities as compared to their own funds. The most difficult problem in calculating capital adequacy is identifying the extent of the risks to which an entity is exposed. It is easier to determine the size of its capital, although there are sometimes problems deciding whether or not certain items count as capital. The concept of capital adequacy is subject to constant development and revision, with other types of banking risks being included in the calculation and the capital included being revised.

⁵⁴ This indicator expresses the volume of quick assets, i.e. assets that are readily available to cover the bank's liabilities. Quick assets comprise the following items: cash, receivables from central banks, receivables from credit institutions payable on demand and bonds issued by central banks and general government (including securities put into repos). The comparability of the time series is not affected by the current methodology.

CHART II.20

Quick assets in 2010

(in CZK billions)

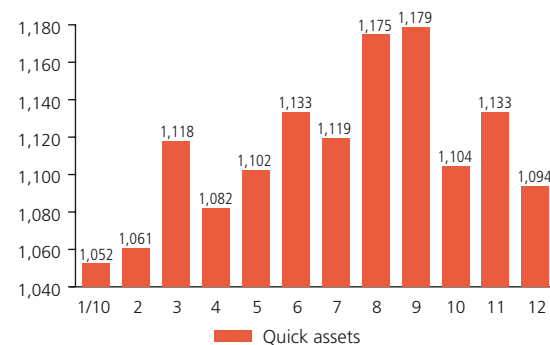


TABLE II.16

Banking sector capital structure

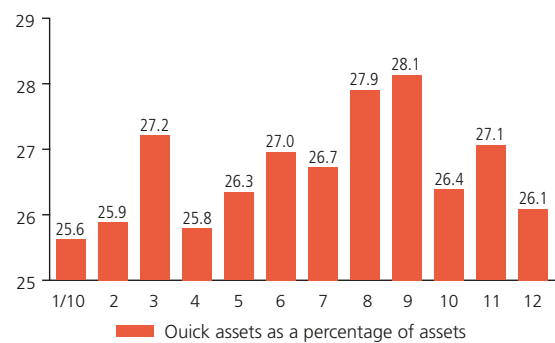
(in CZK billions)

	2008	2009	2010
A. TIER 1	219.9	237.6	263.4
Paid-up share capital registered in Commercial Register	73.6	75.4	79.4
Paid-up share premium	27.0	33.0	33.5
Reserve funds and retained earnings	132.8	143.2	164.3
mandatory reserve funds	29.3	29.8	29.8
other funds created from retained earnings	7.4	8.7	9.9
retained profits	96.2	104.8	124.8
profit for accounting period after tax	0.0	0.0	0.0
accumulated losses	0.1	0.1	0.2
other eligible items	0.0	0.0	0.0
Items deductible from Tier 1	13.5	14.0	13.8
current year loss	0.1	0.9	0.1
goodwill	2.7	2.7	2.7
intangible assets other than goodwill	10.5	10.3	10.7
own shares	0.2	0.2	0.2
others	0.1	0.0	0.1
B. TIER 2	32.1	38.0	35.3
Subordinated debt	31.8	37.9	34.5
Other capital funds	0.4	0.0	0.8
Items deductible from Tier 1 and Tier 2	21.1	10.8	9.4
Cap. invest. > 10% in banks and fin. inst.	13.4	2.8	2.7
Cap. invest. < 10% in banks and fin. inst.	0.0	0.0	0.0
Others	7.7	8.0	6.7
C. TIER 3	0.0	0.0	0.0
CAPITAL, TOTAL	230.9	264.7	289.4

CHART II.21

Quick assets as a percentage of assets in 2010

(in %)



In 2010, regulatory capital (i.e. capital adjusted for the purposes of the capital adequacy calculation) increased by 9.3% (CZK 24.6 billion). Tier 1 is constantly rising; in 2010, it increased by 10.9%. Reserve funds and retained earnings recorded an annual increase of 14.7% as of the end of 2010. Total retained earnings rose by CZK 20.0 billion, or 19.1%. A further increase of CZK 4.0 billion in the capital of some banks had also a relatively significant impact on the rise in regulatory capital.

A decline in supplementary capital (Tier 2) of 7.0% year on year was due mainly to a decrease in subordinated debt⁵⁵ of 9.0% (CZK 3.4 billion). Subordinated debt was repaid in full or in part in five banks in 2010, while in three banks it was increased by a total of CZK 66.4 million. As a result, the share of Tier 2 in the total regulatory capital of the banking sector declined slightly by 2.1 percentage points, amounting to 12.2% at the end of 2010.

Deductible items, which reduce the value of Tier 1 and Tier 2, dropped by CZK 1.5 billion overall in 2010.

Tier 3 was still not used in the domestic banking sector in 2010.⁵⁶

TABLE II.17

Capital requirements and capital adequacy of the banking sector

(in CZK billions and %)

	2008	2009	2010
TOTAL CAPITAL REQUIREMENTS	149.9	150.0	149.2
A. CAPITAL REQUIREMENT FOR CREDIT RISK	130.3	131.9	130.0
STA capital requirement for credit risk	49.8	49.2	51.5
IRB capital requirement for credit risk	80.5	82.8	78.5
B. CAPITAL REQUIREMENT FOR MARKET RISK	5.3	3.3	2.8
Interest rate risk	2.2	2.1	2.1
Capital requirement for equity risk	0.1	0.1	0.1
Capital requirement for forex risk	0.3	0.1	0.1
Capital requirement for commodity risk	0.2	0.1	0.1
Capital requirement for internal models	2.4	0.8	0.5
C. CAPITAL REQUIREMENT FOR OPERATIONAL RISK	14.0	14.7	16.4
BIA method	1.1	1.1	1.3
TSA method	8.7	4.6	5.6
ASA method	0.8	0.8	1.2
AMA method	3.4	8.2	8.2
D. CAPITAL REQUIREMENT FOR OTHER RISKS	0.3	0.0	0.0
Settlement risk	0.0	0.0	0.0
Trading portfolio exposure risk	0.2	0.0	0.0
Other instruments risk	0.0	0.0	0.0
Transitional capital requirement	0.0	0.0	0.0
CAPITAL ADEQUACY	12.3	14.1	15.5

⁵⁵ Subordinated debt A increases the value of the supplementary capital (Tier 2). It can be no more than 50% of the value of Tier 1.

⁵⁶ Tier 3 capital, which is intended to cover market risk, consists of subordinated debt with a minimum fixed maturity of two years.

The capital requirements in the banking sector were almost unchanged in 2010, declining by CZK 840.5 million (0.6%). Credit risk remains the main risk facing the domestic banking sector. For this reason, the capital requirement for credit risk was the largest at the end of 2010, accounting for 87.1% of the total capital requirement of the banking sector. The capital requirements for operational risk and market risk account for 11.0% and 1.9% respectively of the total capital requirement of the banking sector. The capital requirements for other risks are negligible (0.01%) and relate to settlement risk.

Capital requirements are set so as to cover all risks undertaken by the bank. The capital requirements relating to credit risk are determined mainly on the basis of the evolution of the banking sector's investment portfolio and are set depending on the measurement method used. The capital requirements for credit risk, which banks set using either the standardised approach (STA) or the advanced approach (IRB), declined by CZK 2.0 billion (1.5%) in 2010 compared to the end of 2009. Of the total capital requirements for credit risk, the requirements relating to the part of the portfolio using the STA method account for 39.6% and those using the IRB approach account for the remainder. For both methods, the highest capital requirements were applied for exposures to corporations – CZK 42.9 billion (IRB) and CZK 21.9 billion (STA).

The capital requirements for operational risk constitute a risk assessment of the bank's operational activities. These capital requirements increased by 11.2%, or CZK 1.6 billion, in 2010.

The capital requirement for market risk consists of requirements for interest rate risk, equity risk, foreign exchange risk and commodity risk. The largest share of these capital requirements (74.7%) relates to interest rate risk.

The capital ratio of the banking sector increased by 1.40 percentage points to 15.51% in 2010, mainly because of growth in regulatory capital (of 9.2%) amid a fall in capital requirements (of 0.6%).

All banks were compliant with the set minimum capital ratio of 8% during 2010. Two banks recorded a capital ratio of less than 10% at the end of 2010.⁵⁷

⁵⁷ The assets of these two banks accounted only for 0.9% of the total assets of the banking sector at the end of 2010.

TABLE II.18

Banking sector performance

(in CZK millions)

	2008	2009	2010
PROFIT FROM FINANCIAL ACTIVITIES	138,024	168,409	157,411
of which:			
interest profit	98,043	103,273	105,423
dividend income	3,730	9,623	5,885
profit from fees and commissions	36,121	36,442	38,368
gains on financial assets not measured at FV through profit or loss	-943	6,327	-1,451
gains on financial assets held for trading	-2,685	4,399	11,032
gains on financial assets designated at fair value through profit or loss	-11,191	1,683	2,398
gains from hedge accounting	-272	-330	-236
other gains	15,220	6,991	-4,008
ADMINISTRATIVE EXPENSES	61,676	60,455	62,354
DEPRECIATION, PROVISIONS	7,800	7,445	6,664
IMPAIRMENT	15,221	29,792	22,539
PROFIT/LOSS FROM CURRENT ACTIVITIES	76,348	107,954	95,057
other profit/loss	722	61	-157
GROSS PROFIT before tax	54,049	70,778	65,697
tax expense	8,345	11,038	10,148
NET PROFIT	45,705	59,740	55,549

CHART II.22

Interest rate spread

(in percentage points)

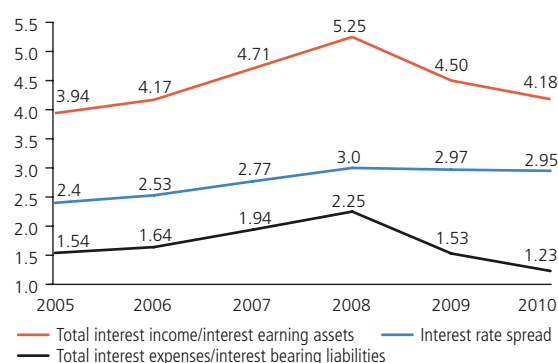


CHART II.23

Structure of profit from financial activities by profit type

(in %)

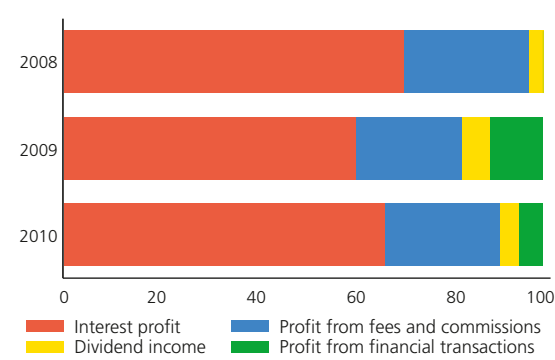


CHART II.24

Interest rate spread in 2010

(in percentage points)

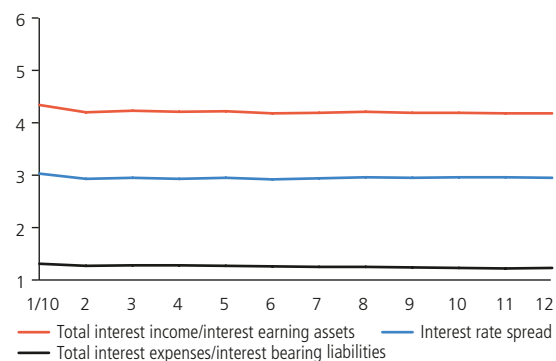


CHART II.25

Interest income and expenses

(in CZK billions)

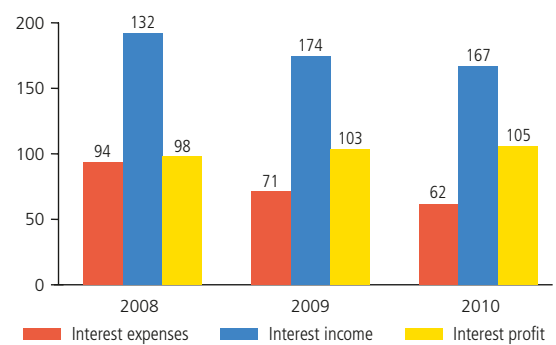
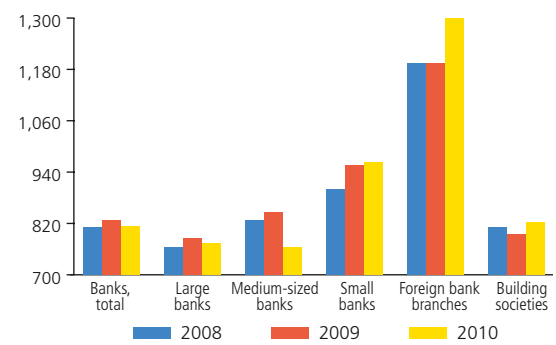


CHART II.26

Personnel expenses per employee

(in CZK thousands; banks with licences as of given date)



2.5 BANKING SECTOR PERFORMANCE

2.5.1 Profit from financial activities and profit from other operating activities

Compared to the previous year, profit from financial activities declined by CZK 11.0 billion (6.5%) to CZK 157.4 billion in 2010. The majority of the banking institutions operating in the domestic market posted profits from financial activities, with only two foreign bank branches recording a loss for this indicator.

Interest profit accounted for almost 67% of total profit from financial activities and rose by 2.1% (CZK 2.1 billion) to CZK 105.4 billion in 2010.

The interest profit was achieved as a result of an increase in interest profit from operations with other clients (i.e. excluding interest profit from banks, the central bank and general government) of CZK 3.6 billion (4.5%) to CZK 83.1 billion. The growth in interest profit at a time of persistently low interest rates was also fostered by a larger decline in annual interest expenses (13.4%) than in interest income (4.2%). Interest income fell by CZK 7.4 billion year on year to CZK 167.1 billion.

Amid low interest rates and a rising volume of client deposits, interest expenses fell by CZK 9.5 billion to CZK 61.7 billion in 2010. Interest paid to other clients (excluding credit institutions, central banks and general government) accounted for the largest share (almost 45% of all interest expenses). The amount paid to clients in this way totalled CZK 27.7 billion as of the end of 2010, down by CZK 4.2 billion (13.3%) from the end of 2009. The interest rate spread declined to 2.95 percentage points at the end of 2010. The net interest margin decreased as well, reaching 2.69%.⁵⁸

Profit from fees and commissions accounts for almost 74% of the non-interest profit of the domestic banking sector. In 2010 it rose by 5.2% (CZK 1.9 billion) to CZK 38.3 billion. Payment system fees and commissions accounted for almost 59% of all profit on fees and commissions in 2010. Banks' total income from payment system fees and commissions was CZK 28.3 billion in 2010.

Gains on financial assets held for trading increased considerably in 2010, amounting to CZK 11.0 billion at the end of the year. This consisted

⁵⁸ These indicators (the interest margin and the interest rate spread) relate to the figures reported for all economic sectors for receivables and liabilities operations.

The interest rate spread is the difference between total interest income/interest earning assets and total interest expenses/income bearing liabilities. Gains and losses from hedging interest rate derivatives are not included. This indicator does not take into account any differences in the structure and volume of the assets and liabilities for which it is calculated.

The net interest margin is a measure of interest profit relative to interest earning assets. Interest profit is the difference between interest income and interest expenses, excluding any gains and losses from hedging interest rate derivatives. Interest earning assets are given at gross book value.

almost exclusively of gains on monetary policy instruments (including currency derivatives), which amounted to CZK 10.2 billion in the period under review. Owing to high concentration in this market segment, just three entities accounted for almost 87% of this figure.

In 2010, banks' dividend income decreased by 38.8%, from CZK 9.6 billion to CZK 5.9 billion. This income consisted mainly of dividends from subsidiaries and associates within financial groups.⁵⁹

2.5.2 Administrative expenses and impairment

The total administrative expenses of the banking sector started to edge up again during 2010. They rose by 3.1% to CZK 62.4 billion. The shares of personnel expenses (50.7%) and other administrative expenses (49.3%) are similar. Personnel expenses increased by 1.6% in 2010, while other administrative expenses grew faster (by 4.8% in total). Social and health insurance contributions rose the most, by 5.2% year on year. As regards other categories of administrative expenses, advertising costs recorded a year-on-year increase of 7.6%. Outsourcing costs rose the most in both absolute and relative terms (by 9.6%, i.e. CZK 703.5 million), amounting to CZK 8.0 billion at the end of 2010.

Asset impairment fell by 24.3% (CZK 7.3 billion) year on year, to CZK 22.5 billion at the end of 2010. Impairment on loans and receivables – the biggest contributor to impairment – totalled CZK 22.3 billion (down by 16.0%, or CZK 4.3 billion, year on year).⁶⁰ Non-financial asset impairment decreased significantly (by 93.2%) to CZK 218.5 million in 2010 (in 2009 a loss had arisen from impairment on investments in associates and subsidiaries).

2.5.3 Net profit

The banking sector as a whole was profitable in 2010. Gross (pre-tax) profit totalled CZK 65.7 billion, a year-on-year decrease of 7.2%.

The net profit of the banking sector also declined by CZK 4.2 billion (7.0%) year on year overall, to CZK 55.5 billion as of 31 December 2010. The year-on-year fall in net profit was due mainly to its high level in 2009, a result, among other things, of one-off income caused by the extraordinary results of one large bank stemming from the sale of an ownership interest.⁶¹

⁵⁹ The sharp fall was due in part to an extraordinary dividend received by one of the large banks in 2009.

⁶⁰ This refers to provisioning. The amount of provisions depends on the quality of the loan portfolio. Default receivables are associated with provisioning (see section 2.3.1 *Credit risk for details*).

⁶¹ See also footnote 59.

CHART II.27

Shares of bank groups in profit of sector

(in %; banks with licences as of 31 December 2010)

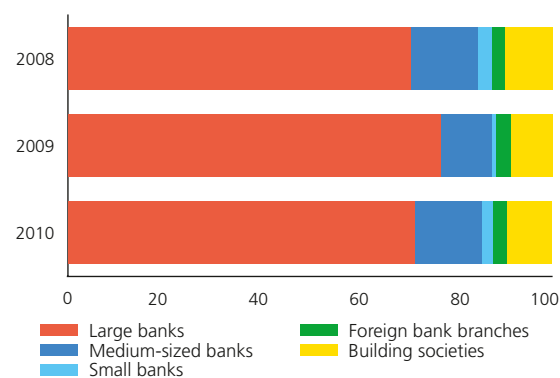


CHART II.28

RoE for bank groups

(in %)

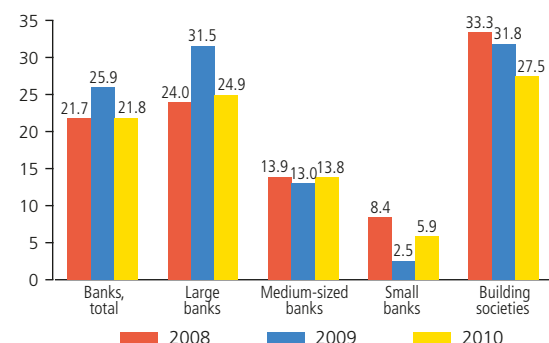


CHART II.29

RoA

(in %)

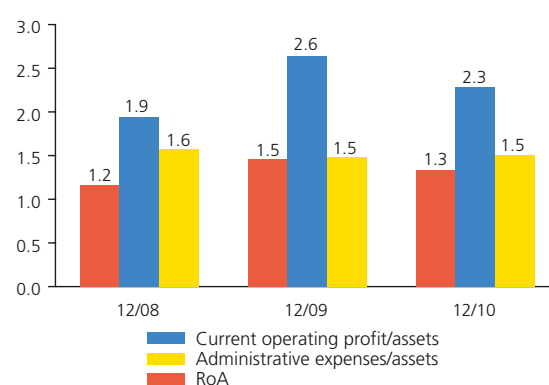


TABLE II.19

Number of CUs and their members

	2008	2009	2010
Number of CUs	17	17	14
Number of members of CUs	35,942	47,952	34,006
Number of members of CUs active as of 31 December 2010	18,678	22,150	34,006
Number of new memberships since start of year	12,736	15,741	12,971
Number of memberships terminated since start of year	13,403	3,731	1,100

TABLE II.20

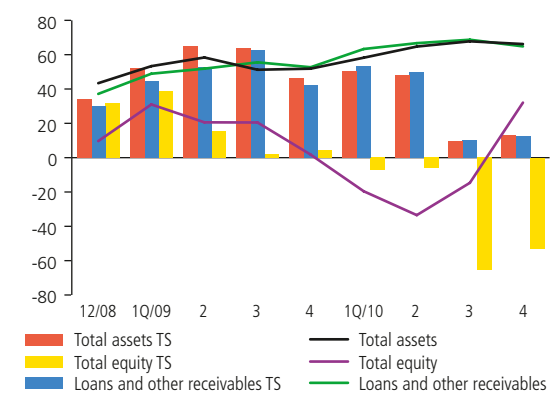
CU assets and liabilities

	Volume in CZK millions			Change in % from 2009
	2008	2009	2010	
TOTAL ASSETS	7,899.4	11,994.2	19,934.2	66.2
Cash and deposits with central banks	312.0	332.6	641.1	92.8
Loans and other receivables	7,076.5	10,804.3	17,809.3	64.8
Receivables from banks and credit unions	1,615.9	4,194.4	5,194.4	23.8
Receivables from clients	5,459.0	6,609.2	12,613.9	90.9
Other receivables	1.6	0.7	1.0	35.2
Tangible assets	423.3	577.9	809.9	40.1
Other assets	87.6	279.4	673.8	141.2
TOTAL LIABILITIES	7,899.4	11,994.2	19,934.2	66.2
Client deposits	6,521.5	10,415.4	17,639.9	69.4
Equity of CUs payable on demand	1,039.6	1,254.4	1,874.7	49.5
Equity, total	94.9	96.6	127.6	32.1
Profit (loss) for accounting period	5.3	-16.1	31.9	x

CHART II.30

Comparison of y-o-y increases in indicators in time series (TS) with indicators for set of credit unions active as of 31 December 2010

(in %)



At CZK 10.1 billion, aggregate income tax decreased by CZK 890 million (8.1%) compared to 2009.

The biggest contributor to the banking sector's net profit was the group of large banks, which generated a net profit of CZK 39.8 billion, accounting for 71.7% of total banking sector net profit. Most banks posted a profit in 2010. Seven banks recorded losses, of which five were foreign bank branches and two small banks

2.5.4 Profitability, efficiency and productivity

The banking sector's profitability as measured by net profit generated per unit of capital decreased in 2010, owing to the extraordinary income of one bank a year earlier. At the end of 2010, return on Tier 1 (RoE) was 21.8% for the entire sector, down by 4.0 percentage points from 2009. The results within the sector were mixed. RoE increased year on year in 11 banks (excluding foreign bank branches). Two banks were in the range of 30%–40%, while the largest group was made up of seven banks having RoE ratios of between 10% and 20%. Five banks had positive RoE ratios of less than 10%. Two banks posted negative values.

Return on assets (RoA) declined by 0.13 percentage point. The banking sector recorded an RoA of 1.33% on 31 December 2010.

The ratio of administrative expenses to assets in the banking sector has been flat at 1.5% over the past three years. This level was recorded at the end of 2010. Net profit per employee, which fell by 10.4% to CZK 1,413.7, was again affected mainly by a decline in net profit as a result of extraordinary operations a year earlier.

2.6 THE CREDIT UNION SECTOR

Fio družstevní záložna left the credit union sector in 2010.⁶² In addition, the CNB revoked the licence of Úvěrní družstvo PDW, Praha in March 2010 and that of Vojenská družstevní záložna in December 2010. As a result, the number of credit unions fell from 17 to 14 and the number of members dropped to 34,006. However, the number of members of the 14 credit unions operating in the sector as of 31 December 2010 increased by 54% year on year. Owing to the exit of Fio družstevní záložna, which had a significant share of the credit union subsector, the following analysis is based only on data for the 14 credit unions licensed as of 31 December 2010.

⁶² Fio, burzovní společnost, a.s. was granted a banking licence in May 2010. It later took over the activities of Fio družstevní záložna. This credit union was dissolved with liquidation in November 2010 on the basis of a decision taken at the credit union's substitute membership meeting.

TABLE II.21

CU sector off-balance sheet

	Volume in CZK millions			Change in % from 2009
	2008	2009	2010	
OFF-BALANCE SHEET ASSETS	130.1	208.5	255.1	22.4
Commitments and guarantees given	130.1	208.5	255.1	22.4
OFF-BALANCE SHEET LIABILITIES	7,617.9	8,650.9	15,071.4	74.2
Commitments and guarantees received	1,376.4	985.0	2,465.6	150.3
Pledges received	6,241.5	7,665.9	12,605.7	64.4

In 2010, as in previous years, the activities of credit unions were based on a business model corresponding to their status as cooperatively owned credit institutions.⁶³ This model is based on collecting deposits from, and providing loans to, credit union members. Based on the data as of 31 December 2010, the deposits and capital of credit union members repayable on demand accounted for 97.9% of total assets, while loans to credit union members accounted for 63.3% of assets. Another basic feature of the credit union sector in 2010 was that it was by far the smallest⁶⁴ and fastest growing part of the financial sector as measured by total assets, loans and deposits. The assets of credit unions recorded a year-on-year increase of CZK 7.9 billion (66.2%) as of 31 December 2010, totalling CZK 19.9 billion. Total receivables rose by CZK 7.0 billion (64.8%) year on year to CZK 17.8 billion. Deposits by members rose by CZK 7.2 billion (69.4%) to CZK 17.6 billion.

The off-balance sheet activities of credit unions continued to display the fast growth observed in previous years. Off-balance sheet assets and liabilities were up by 22.4% and 74.2% respectively year on year as of 31 December 2010. These different growth rates further increased the already large difference between total off-balance sheet assets and liabilities. Such assets totalled CZK 255.1 million at the end of 2010, while liabilities amounted to CZK 15,071.4 million. Pledges received were the largest off-balance sheet item (CZK 12,605.7 million). Credit unions were not involved in futures or options transactions. As of 31 December 2010, profit from the financial and operating activities of the credit union sector rose by 39.9% year on year to CZK 515.7 million. The net profit of CZK 31.9 million represented an improvement (of CZK 48.0 million) compared to 2009, which credit unions ended with a loss of CZK 16.1 million. This significant improvement was due mainly to interest profit, which rose by 21.0% to

⁶³ Like banks, credit unions are credit institutions pursuant to European legislation and they are subject to basically the same set of prudential rules as banks. The rules governing licensing, qualifying holdings and approval of senior officers are also very similar to those applied to banks. However, a credit union is not a bank, as it differs significantly from a bank as regards its legal form (cooperative versus joint-stock company) and membership principle (credit unions carry on activities for their members, although they can also offer their services to the state and its organisational units) and in terms of a lower minimum capital requirement (CZK 35 million in contrast to 500 million for banks).

⁶⁴ As of 31 December 2010, the sum of the assets of all credit unions represented only 0.4% of the total assets of the entire financial system. The banking sector is the basis of the Czech financial system. As measured by the volume of balance sheet assets, the credit union sector was 200 times smaller than the banking sector.

TABLE II.22

CU sector performance

	Volume in CZK millions			Change in % from 2009
	2008	2009	2010	
Financial and operating profit	337	368.6	515.7	39.9
Interest profit	327.2	336.7	407.5	21.0
Profit from fees and commissions	9.7	21.3	55.4	160.2
Other operating profit/loss	0.1	10.6	52.8	398.1
Administrative expenses	301.7	320	392.1	22.5
Depreciation	14.9	18.6	21.9	17.7
Provisions	0.5	0.4	1.5	275.0
Impairment	11.7	40.9	60.5	47.9
Tax expense	2.9	4.8	7.7	60.4
PROFIT OR LOSS AFTER TAXATION	5.3	-16.1	31.9	x

TABLE II.23

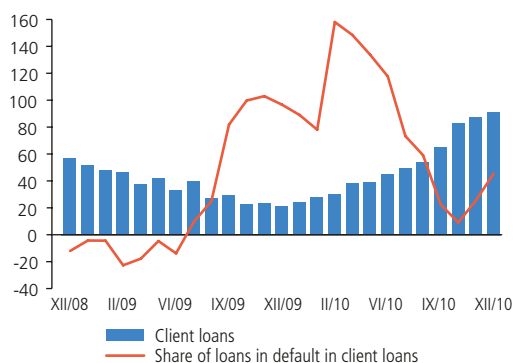
CU sector profitability

	Volume in CZK millions or share in %		
	2008	2009	2010
Profit or loss after taxation/ Average assets	0.08	-0.16	0.20
Profit or loss after taxation/Tier 1	0.47	-1.34	2.07
Administrative expenses/Average assets	4.64	3.22	2.43
Total assets per employee	37	43	51
Net profit per employee	0.03	-0.06	0.08
Administrative expenses per employee	1.4	1.2	1.0

CHART II.31

Y-o-y increases in volume of client loans and share of loans in default in client loans

(in %)



CZK 407.5 million, and to profit from fees and commissions, which rose by 160% to CZK 55.4 million. The high year-on-year growth in assets fostered growth in labour productivity and cost efficiency. The volume of assets per credit union employee rose by 16.7% to CZK 50.7 million, while the ratio of administrative expenses to average assets declined by 24.5% to CZK 2.45 per CZK 100 of assets. On the other hand, the ratio of net profit to assets was only 0.2% and the ratio of net profit to Tier 1 only 2.1%. The low returns on assets and equity can be increased in the future among other things by improving the loan portfolios of credit unions. Loan impairment increased by 48.1% to CZK 60.5 million.

2010 was a year of credit expansion for credit unions. Receivables from credit union members increased by CZK 6.0 billion. The year-on-year growth rate of these receivables rose from just over 24% in January to 90.0% in December 2010. However, the buoyant credit expansion was accompanied by a continued deterioration in loan portfolio quality, which had started in the second half of 2009 and continued throughout 2010 with positive year-on-year increases in the share of default loans in loans to credit union members. This share rose from 7.2% in January to 10.3% in December 2010.

The global financial market crisis underlined the importance of liquidity resilience for the competitiveness, profitability and stability of credit institutions. As in previous years, the credit union sector was very resilient to liquidity shocks in 2010. In 2010, the three-month cumulative net position of receivables and payables due in up to three months, which assumes a theoretical 20% outflow of demand deposits, showed an excess of receivables over payables of almost 25% on average. This position recorded its highest level (31%) in May and its lowest level (14.5%) in December 2010. The share of quick assets in assets was also high, peaking in February 2010 (21%) and recording a yearly low of 15.8% in October. As regards long-term liquidity, the credit union sector had more than enough funds to lend to its members, although the ratio of loans to deposits increased from 62% in January to 71.5% in December 2010 on account of the credit expansion. This yearly maximum represents safe coverage of loans by deposits.

The capital adequacy ratio of the credit union sector fell by 2.2 percentage points year on year to 12.6% at the end of 2010, while capital requirements increased by 80.7% as a result of the credit expansion. Regulatory capital consisted exclusively of Tier 1 capital. The largest proportion (96.3%) of the capital requirements was allocated to credit risk. The capital requirements for operational risk accounted for 3.7% of regulatory capital, and the capital requirements for market risks were very low. All credit unions were compliant with the prescribed capital adequacy ratio of 8% at the end of 2010. Three credit unions, accounting for more than 50% of this sector's assets, had capital adequacy ratios of less than 10%. Leverage in the credit union sector, i.e. the sum of balance sheet and off-balance sheet assets expressed as a multiple of regulatory capital, was a conservative 10.7, mainly because the relevant law limits the ability of credit unions to trade in derivatives.

CHART II.32

Liquidity resilience of CU sector

(in %)

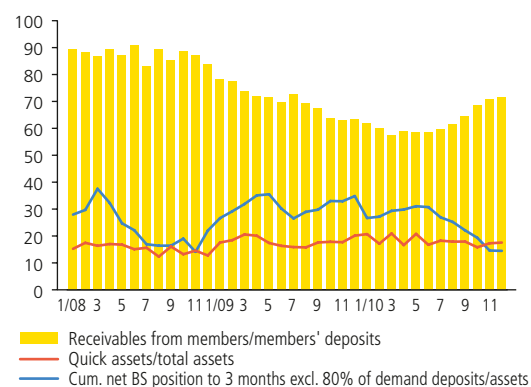


CHART II.33

Capital and capital requirements (left-hand scale)

(CZK millions)

Tier 1 capital adequacy ratio of CU sector – (right-hand scale)

(in %)

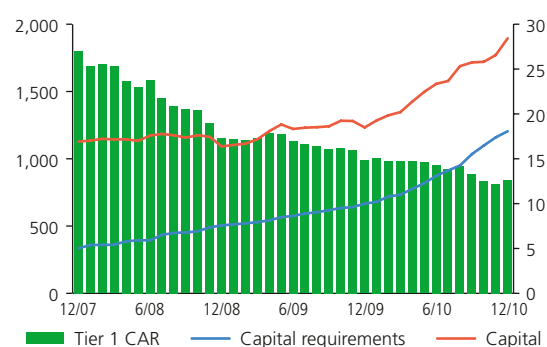


CHART II.34

Capital requirements in CU sector

(in %)

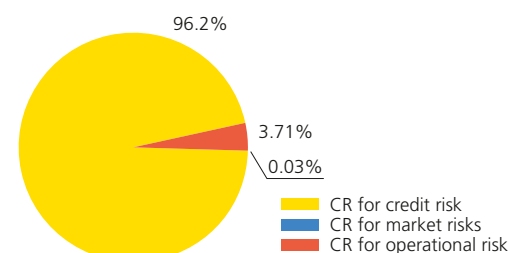
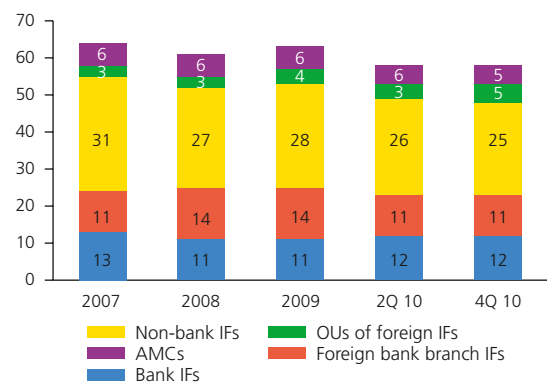


CHART III.1

Total number of investment firms

(at end of period)

**3. THE CAPITAL MARKET****3.1 INVESTMENT FIRMS****3.1.1 Entities licensed as investment firms**

The CNB registered 58 investment firms as of the end of 2010, 12 of them banks, 25 non-banks, 11 foreign bank branches and five organisational units of foreign investment firms. Five domestic management companies managing assets of clients under contract (asset management companies, AMCs) held investment firm licences at the end of 2010.

As of 31 December 2010, entities licensed as investment firms⁶⁵ had 908,900 clients, of which 153,000 were clients of domestic non-bank investment firms, 728,300 were clients of bank investment firms and 1,300 were clients of domestic AMCs. Foreign bank branches and organisational units of foreign investment firms had 23,900 and 2,400 clients respectively at the end of 2010.

3.1.2 Assets of clients and managed funds

At the end of 2010, the assets of clients of investment firms totalled CZK 2,265.1 billion, up by 17.5% on the same period a year earlier. Of this amount, the assets of clients of the 25 non-bank investment firms totalled CZK 485.7 billion (up by 3.0% year on year), the assets of clients of domestic banks and foreign bank branches CZK 1,573.9 billion (up by 24.0%) and the assets of clients of AMCs CZK 205.4 billion (up by 10.2%).

As of 31 December 2010, investment firms managed funds totalling CZK 583.2 billion (up by 14.8% on a year earlier), of which CZK 427.3 billion fell to the 25 non-bank investment firms (up by 17.1% on a year earlier), CZK 47.7 billion to banks (up by 4.3% on a year earlier), CZK 0.7 billion to foreign bank branches (up by 49.9% on a year earlier) and CZK 107.5 billion to AMCs (up by 11.1% on a year earlier).

⁶⁵ Entities licensed by the CNB and branches of entities registered in another Member State of the European Union and authorised to provide investment services in the Czech Republic.

3.1.3 Balance sheet and financial results of the sector⁶⁶

The total assets of non-bank investment firms were flat, standing at CZK 25.0 billion at the end of 2010 (down by 0.8% from a year earlier). Of this, the assets of the 25 non-bank investment firms totalled CZK 24.8 billion at the end of 2010, down by 0.2% from a year earlier. The total assets of non-bank investment firms are dominated by loans and other receivables, with a share of 80.6% (down by 1.8 percentage points from a year earlier). Financial assets held for trading accounted for 5.6%, financial assets at fair value for 3.7% and available-for-sale financial assets for 2.4% of total assets.

The relatively favourable financial market situation affected the performance of non-bank investment firms, whose net profit rose by 80.9% year on year to CZK 1.6 billion. This was largely due to an increase in profit from financial and operational activities of 17.0% year on year, and also to profit from sales of assets.

3.1.4 Capital adequacy of investment firms⁶⁷

The capitalisation of the investment firm sector was sufficient in 2010. The capital of the 25 domestic non-bank investment firms totalled CZK 3.9 billion (up by 8.5% on a year earlier). The highest number of investment firms (seven) had capital of over CZK 250 million. The capital of AMCs totalled CZK 257.8 million.

The capital requirements for the individual types of risks amounted to CZK 1.2 billion for the 25 domestic non-bank investment firms. This means a capital adequacy ratio of 25.3%. The highest capital requirements were set for credit risk (49.1%) and operational risk (34.7%). In the case of AMCs, the capital adequacy ratio was 26.3% and the capital requirements were CZK 78.5 million.

CHART III.2

Breakdown of 25 non-bank IFs by capital

(as of 31 December 2010)

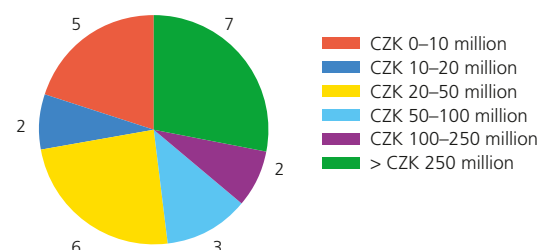


CHART III.3

Capital requirement structure of investment firms

(as of 31 December 2010)

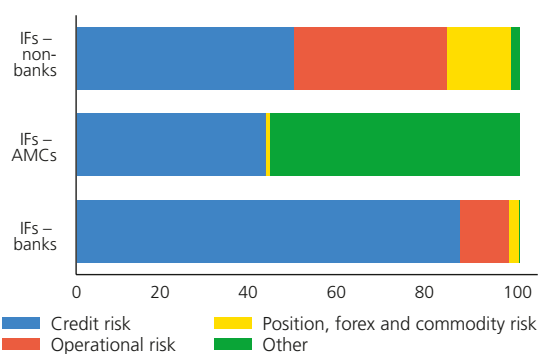
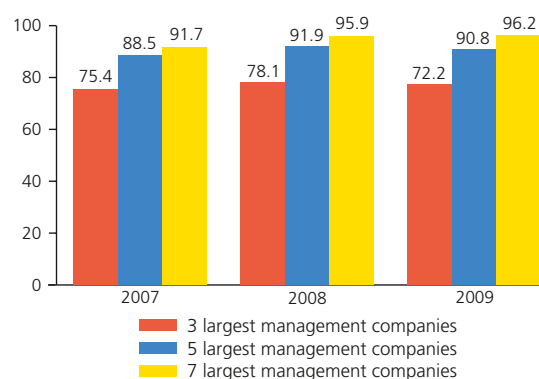


CHART III.4

Market shares in management company sector by volume of assets managed

(in %; at end of period)



⁶⁶ This section analyses the indicators for non-bank investment firms only, i.e. for the 25 domestic non-bank investment firms and the five organisational units of foreign investment firms.

⁶⁷ This section primarily analyses the capital adequacy indicators of domestic non-bank investment firms (25 entities), unless stated otherwise.

CHART III.5

Assets of CIFs open to the public by fund type

(in CZK billions; at end of period)

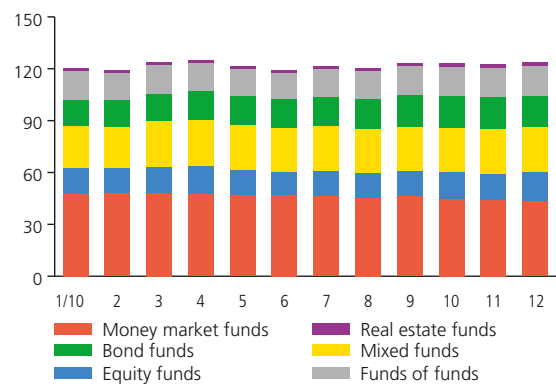


CHART III.6

Quarter-on-quarter changes in assets of CIFs open to the public by fund type

(in CZK billions; at end of period)

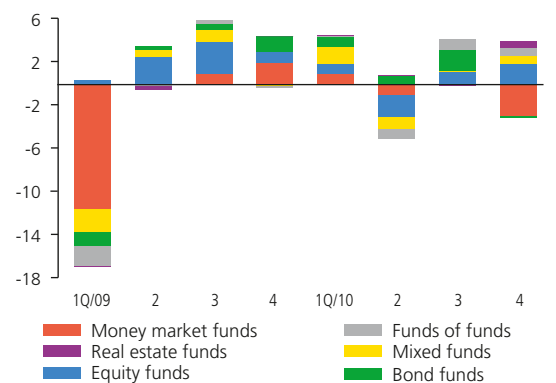
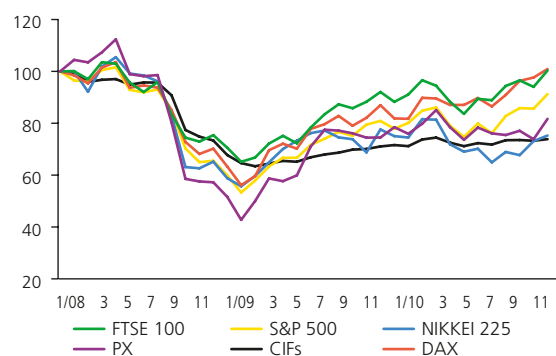


CHART III.7

Assets of CIFs open to the public and selected stock indices

(1/2008 = 100%)



3.2 COLLECTIVE INVESTMENT

3.2.1 Collective investment undertakings

A total of 23 management companies were active on the collective investment market at the end of 2010, up by one on a year earlier. In addition, there were 47 investment funds for qualified investors and 144 mutual funds (of which 117 were mutual funds open to the public). A total of 1,347 collective investment funds for which the CNB has received announcements by foreign regulators of notifications can operate in the Czech Republic on a cross-border basis (under the single licence regime).

Management companies were managing assets totalling CZK 123.7 billion in domestic open-end mutual funds at the end of 2010. The market share of management companies according to assets managed in their collective investment funds open to the public is relatively stable. The three companies with the largest shares of the relevant market manage 77.2% of the assets of domestic mutual funds.

3.2.2 Assets in mutual funds open to the public

The assets of collective investment funds open to the public amounted to CZK 123.7 billion at the end of 2010, up by CZK 4.7 billion on the end of 2009. Domestic mutual funds open to the public thus increased their assets by 4.0% during 2010.

The biggest increases in the funds' assets were recorded in Q1 (CZK 4.5 billion) and Q3 (CZK 3.8 billion). By contrast, Q2 saw a decrease in the sector's total assets (of CZK 4.3 billion). The quarterly changes in the volume of assets by fund type (except money market funds) over the last two years point to a slight increase in the value of mutual funds' assets.

A comparison of the volume of assets in domestic mutual funds with selected stock indices (with the values at the beginning of 2008 taken as the starting levels) shows that assets in mutual funds largely tracked developments in the capital markets. As regards fund type, the largest volume of assets is managed by money market funds, whose assets amounted to CZK 43.7 billion at the end of 2010 (down by CZK 3.5 billion, or 7.5%, from a year earlier), accounting for 35% of the total assets of domestic mutual funds. Mixed funds managed assets amounting to CZK 26.0 billion (up by 5.5% on a year earlier, accounting for 21.0% of the assets of all mutual funds). The total assets of bond funds ran to CZK 18.4 billion (up by 22.8% on a year earlier, accounting for 14.9% of the sector's total assets). They were followed by funds of funds managing CZK 17.2 billion (up by 6.1% on a year earlier, accounting for 13.9% of the sector's assets) and equity funds managing CZK 16.4 billion (13.3% of the total assets of all domestic open-end mutual funds, up by 12.6% on a year earlier). Real estate funds account for a minimal share of total assets (1.6%, or CZK 2.0 billion, up by 48.9% on a year earlier).

Owing to the turmoil in global financial markets, the total assets of domestic open-end mutual funds have been affected in recent years not only by a decline in the value of the assets due to a fall in their market price, but also by a negative net value of unit purchases and sales (especially in the case of money market funds), with mutual funds recording net sales of CZK 7.8 billion in 2009.

Nevertheless, the outflow of funds from domestic open-end mutual funds halted in 2010, as the amount received for units issued (CZK 36.5 billion) exceeded the sum paid for units redeemed (CZK 34.1 billion). The resulting net value of units issued and redeemed was positive in 2010, reaching CZK 2.3 billion (up by around CZK 10 billion on a year earlier).

Domestic open-end mutual funds generated net profit totalling CZK 4.1 billion, a decline of more than 64% (CZK 7.5 billion) from the record-breaking previous year.

3.2.3 Structure of assets in mutual funds

A total of CZK 40.8 billion (a year-on-year increase of 7.7%), i.e. roughly one-third of the total assets of domestic mutual funds, was invested in long-term bonds at the end of 2010. Another CZK 25.4 billion (20.5% of the sector's assets, up by 20.4% year on year) was invested in shares and similar investment securities. Domestic mutual funds had CZK 19.8 billion (16.0% of assets, down by 4.4% year on year) invested in deposits and other receivables and CZK 18.7 billion (15.1% of assets, down by 18.5% year on year) invested in money market instruments. The lowest shares were recorded for collective investment fund securities (CZK 17.2 billion, i.e. 13.9% of the total assets of domestic mutual funds, up by 14.1% on a year earlier) and other investment.

Investments in money market instruments recorded the largest decline in value in the period under review, falling by 18.5% (CZK 4.2 billion) compared to the end of 2009. By contrast, there were increases in the value of investments in shares and similar investment securities (of 20.4%, or CZK 4.3 billion) and investments in long-term bonds (of CZK 2.9 billion, or 7.7%) compared to the end of 2009. The evolution of the structure of financial investments in domestic mutual funds reflects market developments over the last three years.

3.2.4 Funds for qualified investors

The assets managed by funds for qualified investors amounted to CZK 45.5 billion at the end of 2010, up by 59.8% (CZK 17.0 billion) on the same period of 2009 (CZK 28.5 billion). The three largest management companies on the domestic market manage 58.9% of the assets invested in funds for qualified investors.

CHART III.8

Assets of CIFs open to the public by fund type
(1/2008 = 100%)

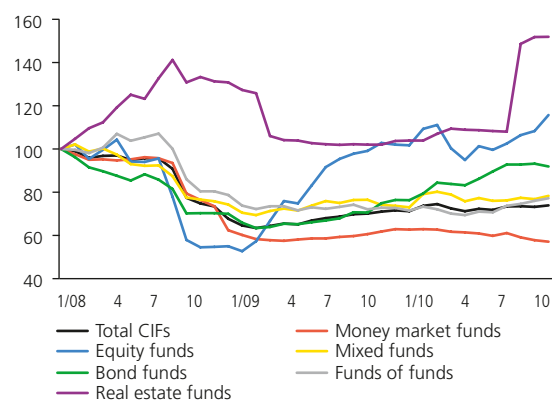


TABLE III.1

Unit sales and purchases in 2010
(in CZK millions)

	Units issued	Units purchased	Balance
Money market	15,035.5	18,905.9	-3,870.4
Equity	4,366.2	3,713.0	653.2
Mixed	4,135.8	3,109.9	1,025.9
Bond	7,597.5	4,708.9	2,888.6
Funds of funds	4,556.1	3,500.0	1,056.1
Real estate	759.5	192.8	566.7
OMFs, total	36,450.6	34,130.5	2,320.1

CHART III.9

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

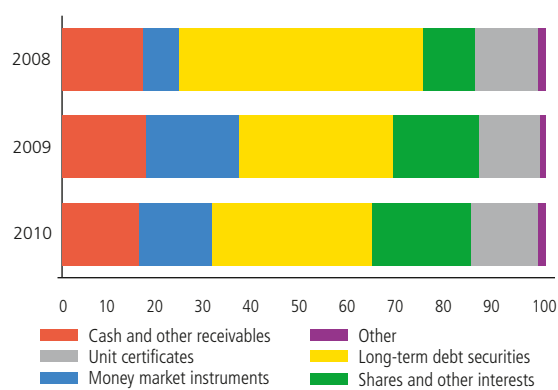


CHART III.10

Total assets and profit of pension funds

(in CZK billions; at end of period)

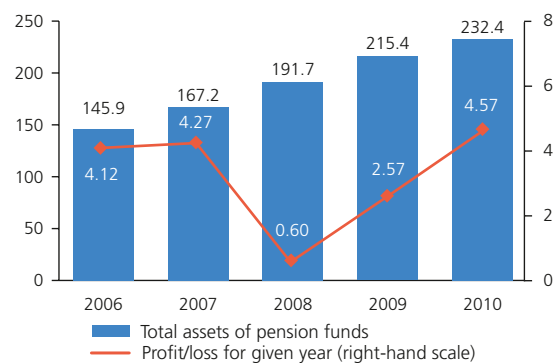


CHART III.11

Market shares in pension fund sector by volume of planholders' funds recorded in liabilities

(in %; at end of period)

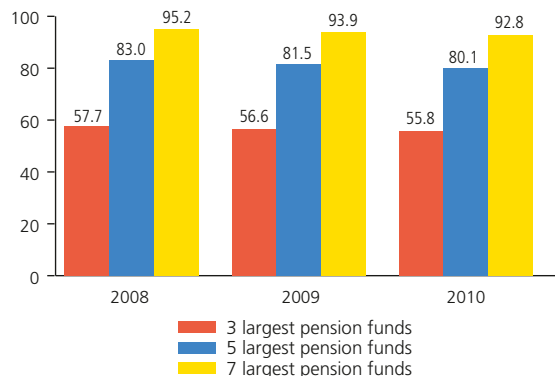
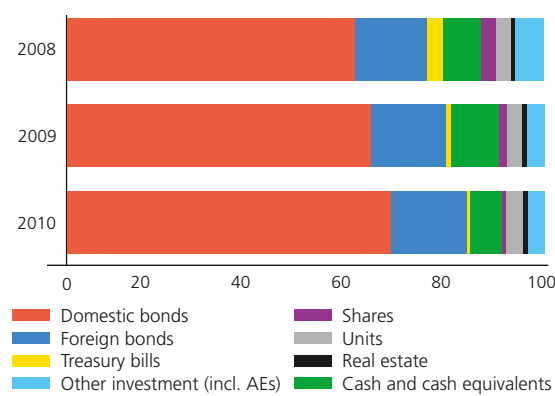


CHART III.12

Structure of placement of pension fund assets

(at end of period)

**3.3 PENSION FUNDS**

The relatively favourable economic situation in stock and bond markets in 2010 helped pension funds to improve their economic condition. This was reflected above all in a marked rise in profit, an increase in own funds, and improvements in other economic indicators.

3.3.1. Number of licensed entities

A total of ten pension funds were active in the private pension scheme market in the Czech Republic as of 31 December 2010, the same number as in the previous two years.

3.3.2 Structure of pension fund assets

The total assets managed by pension funds rose by more than CZK 16 billion (7.7%) in 2010, reaching CZK 232.4 billion as of 31 December 2010. The evolution of pension funds' assets and financial results over the last three years indicates a gradual improvement in their financial condition.

The private pension scheme market is highly concentrated, with the three largest pension funds administering more than 55% of planholders' funds. The ratios expressing concentration in the pension fund sector according to the volume of planholders' funds recorded as pension fund liabilities have been relatively stable, with the share of the three largest funds having decreased only moderately in recent years.

The investment policies of pension funds remained highly conservative in 2010. The bulk of their assets were invested in debt securities (CZK 196.3 billion, i.e. 84.5%), while only 4.5% were in shares and units (CZK 10.6 billion) and 6.8% were in time deposits and on term accounts (less than CZK 16 billion).

3.3.3 Own funds of pension funds

Own funds (consisting of invested capital, share premium, reserve funds and other funds created from profit, capital funds, valuation differences, retained earnings/accumulated losses and profit/loss for the current period) are an important indicator of the financial stability of pension funds. The own capital of the pension fund sector as a whole amounted to CZK 14.4 billion at the end of 2010, up by CZK 1.1 billion (8.3%) on a year earlier, indicating further stabilisation of the sector.

Own funds had been adversely affected in previous years by valuation differences, but this item also stabilised at the end of 2009 thanks to favourable economic conditions as well as legislative changes to bond valuation methods. Valuation differences amounted to CZK +0.81 billion at the end of 2010, up by CZK 1.25 billion year on year, as compared to CZK -0.45 billion in the same period of 2009.

The pension fund sector's net book profit was CZK 4.6 billion as of 31 December 2010, up by CZK 2.0 billion (or 77.7%) year on year. The income was mostly due to interest and similar income, which amounted to CZK 7.1 billion as of 31 December 2010 (a year-on-year rise of 1.7%).

Expenditure on services used by pension funds is a major expenditure item. In 2010 it was broadly flat in year-on-year terms. Total expenditure on services purchased by pension funds was CZK 2.9 billion at the end of 2010 (up by 0.2% year on year). Expenditure on distribution of pension fund products⁶⁸ was the largest item of spending on services, accounting for roughly 55%. In 2010, pension funds' expenditure on compensation for intermediation of private pension policies had a smaller share in total services expenditure than in 2009, when it had reached 62%.

3.3.4 Volume of planholders' funds

The funds of pension planholders, i.e. their deposits including state contributions, employers' contributions and credited returns, amounted to CZK 216.1 billion at the end of 2010. This represents an increase of CZK 15.4 billion (7.7%) on a year earlier. The structure of planholders' funds recorded in pension fund liabilities changes little over time.

The number of pension planholders increased further to 4.5 million during 2010. The upward trend in the number of planholders is thus continuing, although it is slowing compared to previous years. Planholders' funds and assets per planholder are also rising, with assets per planholder amounting to CZK 50,600 and planholders' savings per planholder to CZK 47,000 at the end of 2010.

Pension funds paid a total of CZK 25.3 billion to their clients in 2010 (i.e. CZK 0.79 billion less than in 2009), with lump-sum settlements representing the largest part of this figure (CZK 16.8 billion). Transfers between funds and termination settlements also accounted for a significant share of the money paid (CZK 2.5 billion and CZK 3.3 billion respectively). The volume of funds received by pension funds increased slightly to CZK 43.5 billion in 2010 (up by 2.2% on a year earlier).

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

CHART III.13

Structure of pension funds' own capital

(in CZK billions; at end of period)

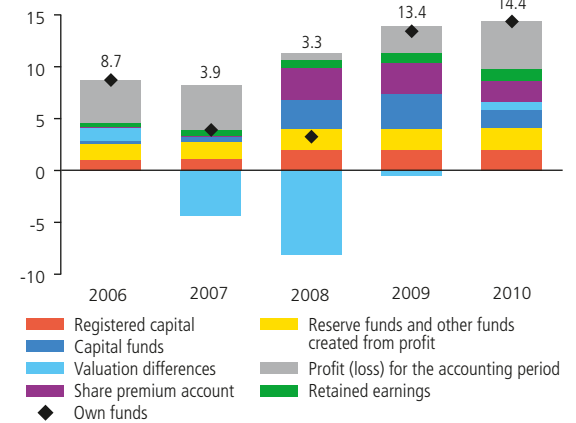


CHART III.14

Planholders' funds

(in CZK billions; at end of period)

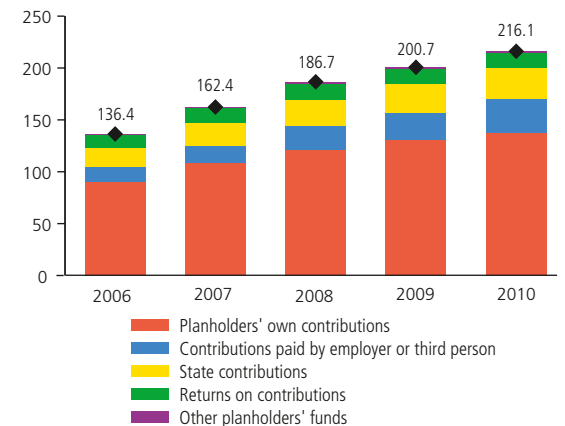


CHART III.15

Number of planholders, funds and assets per planholder

(at end of period; source: APF CR, CNB)

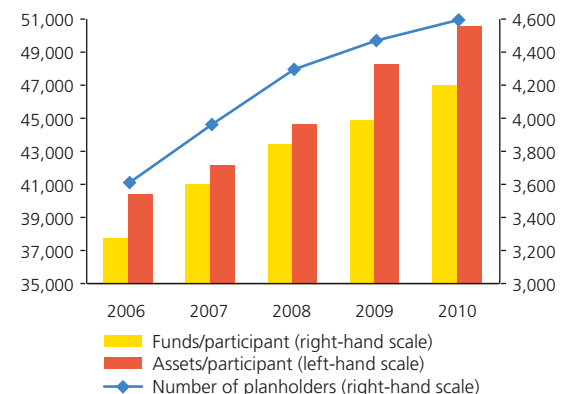


CHART III.16

Monthly trading volumes on PSE and PX index

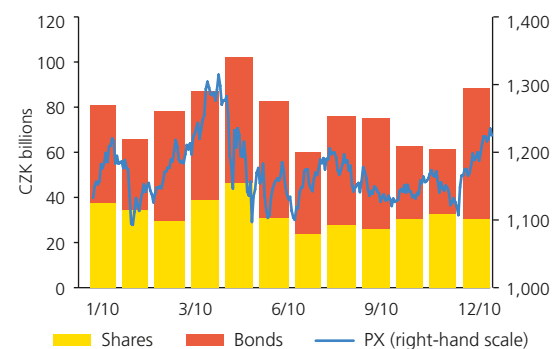


CHART III.17

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

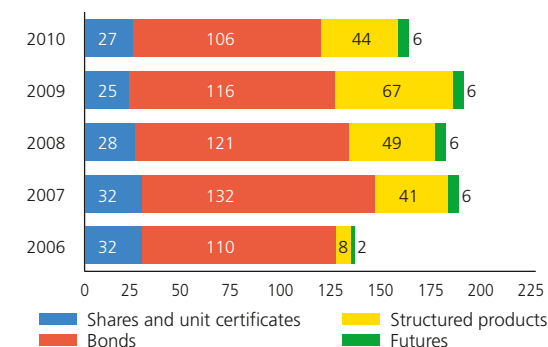
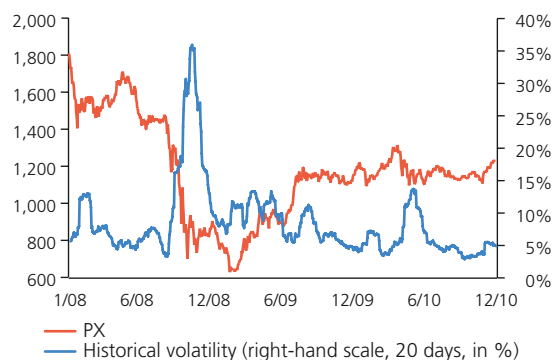


CHART III.18

PX index and its historical volatility (20D) in 2008–2010



3.4 REGULATED MARKETS

3.4.1 Trading on regulated markets

Share trading on the Prague Stock Exchange (PSE)⁶⁹ followed a downward trend for the third consecutive year, falling from CZK 463.9 billion to CZK 389.9 billion. This represents a year-on-year decline of almost 16%. In 2010, the most traded issue (ČEZ) accounted for 33.3%, the five most traded issues for 88.5% and the ten most traded issues for 99.4% of the total volume. About 81% of the total volume was traded in the SPAD system.

The market capitalisation of shares traded on the PSE was CZK 1,388.0 billion as of 31 December 2010, a rise of 7.3% compared to the end of 2009. Foreign issues accounted for 42.0% (CZK 582.8 billion) of the market capitalisation. The ČEZ issue alone represented 30.4% of the total market capitalisation. The five issues with the highest market capitalisation accounted for 84.8% and the ten issues with the highest market capitalisation for 96.9% of the total. The year-on-year changes in the prices of the individual share issues fluctuated within a range of -70% to 67.7%.

The total volume of bond trades on the PSE declined by 9.5% compared to 2009, from CZK 585.7 billion to CZK 529.9 billion. Trading in government bonds accounted for 96.3% of the total volume of bond trades.

A total of 27 share issues were being traded on the PSE at the end of 2010, i.e. two issues more than at the end of 2009. The number of domestic share issues was unchanged in 2010. There were 11 foreign equity issues being traded on the PSE at the end of 2010, i.e. up by two on a year earlier. The number of bond issues traded on the PSE in 2010 decreased to 106 from 116 a year earlier.

Derivatives trading on the PSE again recorded a relatively small volume of CZK 359.8 million in 2010, a decline of 22.3% from 2009. The derivatives traded at the end of 2010 comprised six issues of futures, two issues of warrants and 42 issues of investment certificates.

The PSE's PX index closed 2010 at 1,224.8 points, compared to 1,117.3 points at the end of 2009. This represented a year-on-year rise of 9.6%. The PX index recorded its yearly maximum of 1,314.6 points on 26 April 2010. This represented 67.9% of the all-time high of 1,936.1 points observed on 29 October 2007. The yearly minimum of 1,092.8 points, recorded on 8 February 2010, represented 345.8% of the all-time low of 316.0 points reached on 8 October 1998.

⁶⁹ A member of CEE Stock Exchange Group together with the exchanges in Budapest, Ljubljana and Vienna.

The total annual trading on the other domestic regulated market, RM-SYSTÉM, česká burza cenných papírů a.s., fell by 12.4% year on year to CZK 9.2 billion in 2010 (from CZK 10.5 billion in 2009). Share trading accounted for almost all this figure. Trades in investment certificates were only CZK 2.0 million and involved only one issue. The RM index rose from 2,340.7 points at the end of 2009 to 2,518.2 points at the end of December 2010, i.e. by 7.6%.

4. THE INSURANCE MARKET

4.1 INSURANCE MARKET STRUCTURE

A total of 35 domestic insurance undertakings and 17 branches of foreign insurance undertakings (all from EU countries) were operating in the Czech market as of the end of 2010. This figure does not include the Czech Insurers' Bureau.⁷⁰

The number of domestic insurance undertakings was unchanged in 2010. As in the previous year, only AXA životní pojišťovna a.s., which has branches in Slovakia and Norway, and AXA pojišťovna a.s., which has a branch in Slovakia, provided services through foreign branches.

The number of branches of foreign insurance undertakings operating in the Czech insurance market was the same as in 2009, although there were some changes in structure. Two entities entered the market in 2010 and two entities lost their authorisation to operate in the Czech insurance market. AEGON Hungary Closed Company Ltd., organizační složka, focusing on selected non-life insurance segments, was granted authorisation in April 2010, and AVIVA LIFE & PENSIONS EUROPE SE – organizační složka, operating in the life insurance market, was granted authorisation in July. By contrast, Skandia Lebensversicherungs AG, organizační složka, which was authorised to provide life insurance services, closed down in March 2010. It was followed in December by Niederösterreichische Versicherung AG, organizační složka, which had been the only branch carrying on both life and non-life insurance in the Czech insurance market. Another change in the area of branches of foreign insurers was the relocation of the registered office of the founder of Mondial Assistance International SA – organizační složka from a third country to France. As a result of this change there are currently no branches of insurance companies from non-EU countries operating in the Czech Republic on the basis of notifications. As regards the orientation of insurance activities, branches focusing on non-life insurance prevail among the branches of foreign insurance undertakings (13 of the total of 17). Four branches carry on life insurance activities.

The upward trend in the number of insurance undertakings and branches of insurance undertakings from EU/EEA countries offering insurance in the Czech Republic under the freedom to temporarily provide services without establishing a branch continued in 2010. At the end of 2010 there were 658 such undertakings and branches, most of which were operating in the non-life insurance market. A total of 164 notified entities are based in the United Kingdom. It is followed by Ireland (85) and Germany (62) and France (46).⁷¹

⁷⁰ The Czech Insurers' Bureau (Česká kancelář pojistitelů, ČKP) is a professional organisation of insurers licensed to provide motor third party liability insurance. Its main tasks include providing frontier insurance, guaranteeing and providing compensation for personal injury or death caused by the operation of an unidentified vehicle for which an unidentified person is responsible, and providing compensation for damage caused by the operation of a vehicle without liability insurance and other types of compensation under the aforementioned Act. Detailed information on the activity and financial performance of the Czech Insurers' Bureau is available at www.ckp.cz.

⁷¹ A complete up-to-date list of insurance undertakings authorised to carry on insurance business under the freedom to provide services is available on the CNB website.

TABLE IV.1

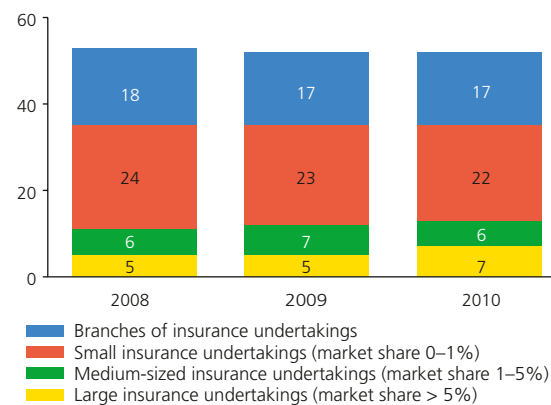
Market structure by type of insurance undertaking

	2008	2009	2010
NUMBER OF DOMESTIC INSURANCE UNDERTAKINGS	35	35	35
of which:			
non-life	17	17	17
life	3	3	3
both life and non-life	15	15	15
NUMBER OF BRANCHES OF INSURANCE UNDERTAKINGS FROM EU AND THIRD COUNTRIES	18	17	17
of which:			
non-life	12	12	13
life	4	4	4
both life and non-life	2	1	0
TOTAL NUMBER OF INSURANCE UNDERTAKINGS ^{a)}	53	52	52
of which:			
non-life	29	29	30
life	7	7	7
both life and non-life	17	16	15

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

CHART IV.1

Number of insurance undertakings by group



As before, only one reinsurance undertaking – VIG RE zajišťovna, a.s. – was active in the Czech insurance market. It opened for business in 2008, becoming the first licensed reinsurer in the Czech Republic. 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.

Insurance undertakings operating in the Czech insurance market are divided into four groups for analytical purposes: large, medium-sized and small insurance undertakings and branches of foreign insurance undertaking.⁷² The division into large, medium-sized and small insurance undertakings is based on the amount of annual gross premiums written.

The criterion for inclusion in the group of large insurance undertakings is a share of 5% or more in total premiums written in the Czech Republic. Seven domestic insurance undertakings met this requirement in 2010. These large insurance undertakings offer a broad range of life and non-life insurance products. Non-life insurance premium collection dominates in four of these insurers as well as in the group of large insurers as a whole.

The group of medium-sized insurance undertakings comprises six entities having market shares in premiums written of between 1% and 5%. Five of these are universal insurers and one is a non-life insurer. As in the group of large insurance undertakings, non-life insurance premium collection is dominant. Four of these insurers focus mainly or fully on non-life insurance products.

The group of small insurance undertakings contains 22 domestic entities with market shares of 1% or less. Most of the small insurance undertakings specialise exclusively in non-life insurance. The range of products offered is narrower in small insurance undertakings. They focus on specialised insurance products such as credit and guarantee insurance, travel insurance, legal protection insurance and investment life insurance.

The final group consists of branches of foreign insurance undertakings. ING Životní pojišťovna N.V., pobočka pro Českou republiku, which specialises exclusively in life insurance, has a specific position among the branches of foreign insurance undertakings. Its premiums written exceed the premiums collected by all other branches combined.

The structure of the groups of domestic insurance undertakings changed by comparison with 2009. Komerční pojišťovna, a. s. and Pojišťovna České spořitelny, a. s., Vienna Insurance Group moved from the group of medium-sized insurers to the group of large insurers. Exportní garanční a pojišťovací společnost, a.s. moved from the group of small insurers to the group of medium-sized insurers.⁷³

CHART IV.2

Ownership structure of domestic insurance undertakings

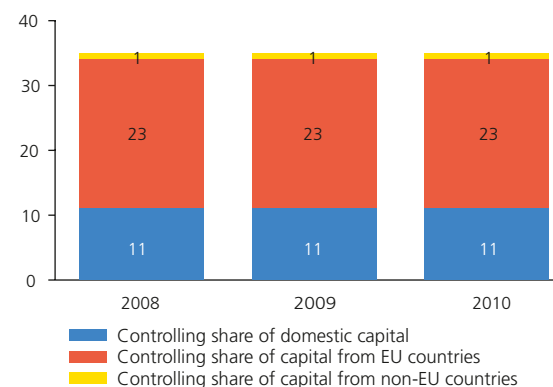


TABLE IV.2

Ownership structure of domestic insurance undertakings by share in registered capital as of 31 December 2010

Country	Amount of participation (CZK thous.)	Share in total registered capital (%)
Czech Republic	5,068,104	22.4%
Austria	5,917,704	26.2%
Netherlands	5,818,000	25.7%
France	2,908,178	12.9%
Belgium	1,284,300	5.7%
Germany	708,080	3.1%
Slovenia	360,000	1.6%
United Kingdom	315,000	1.4%
Denmark	120,000	0.5%
USA	106,000	0.5%
TOTAL CAPITAL	22,605,366	100.0%

⁷² A list of the individual insurers assigned to these groups is given in Annex 8.

⁷³ The indicators relating to the categories of insurance undertakings in 2009 and 2008 in the following sections are based on the numbers of insurance undertakings in these categories in 2010 (except branches).

CHART IV.3

Domestic insurance undertakings by origin of capital as of 31 December 2010

(in %)

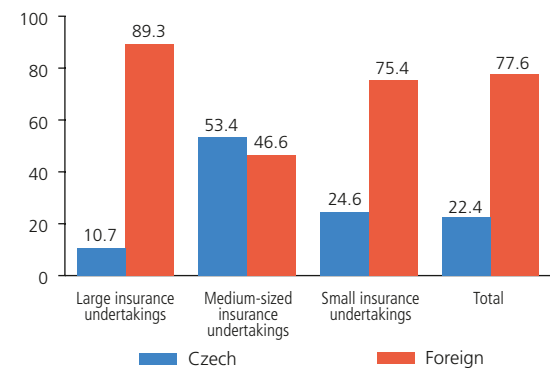


CHART IV.4

Gross premiums written

(in CZK billions)

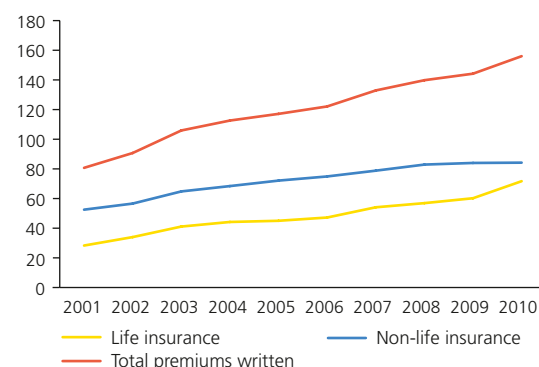
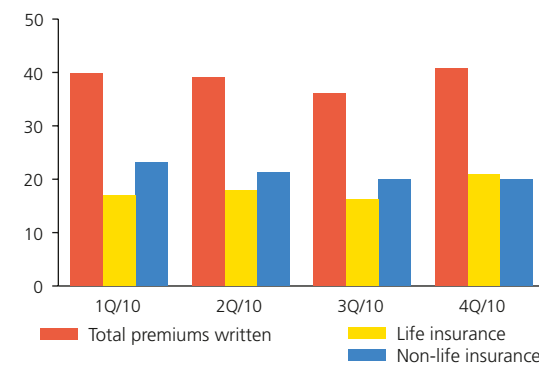


CHART IV.5

Gross premiums written

(in CZK billions)



4.2 OWNERSHIP STRUCTURE OF DOMESTIC INSURANCE UNDERTAKINGS

The total registered capital of domestic insurance undertakings continued to rise and was up by 12.6% on a year earlier as of 31 December 2010. The previous year it had increased by 5.8%. Foreign capital accounts for 77.6% of the total. The Czech share in the total registered capital of domestic insurance undertakings fell by 1.2 percentage points compared to 2009, to 22.4%. Shareholders from Austria and the Netherlands have larger holdings than domestic ones, with shares of 26.2% and 25.7% respectively. The large share of Dutch shareholders is due to the fact that a direct shareholder of Česká pojišťovna a.s. has its registered office in the Netherlands. French shareholders' share in registered capital recorded the biggest increase of all compared to the end of 2009, rising by 4.6 percentage points year on year to 12.9% owing to a rise in the registered capital of the insurance undertakings owned by these shareholders. Shareholders from Belgium also have a significant share of 5.7%.

The groups of large and small insurance undertakings are dominated by foreign shareholders, whose shares at the end of 2010 were 89.3% for large insurers and 75.4% for small insurers. Domestic capital is predominant in the group of medium-sized insurance undertakings, accounting for 53.4%. As of 31 December 2010, a total of 24 out of the 35 domestic insurers were controlled by foreign owners, with 18 being wholly foreign owned. Czech shareholders held 100% of the registered capital in 11 insurance undertakings.

4.3 PREMIUMS WRITTEN

Gross premiums written are one of the basic indicators of the insurance market. Along with an economic recovery, 2010 saw a higher rate of growth of gross premiums written, which increased by 5.1 percentage points year on year to 8.2%. This higher growth was largely due to sizeable growth in the area of life insurance, where the rate of growth increased from 5.8% to 19.2%. Total gross premiums written amounted to CZK 156.0 billion in 2010.

Premiums written in life insurance increased by CZK 11.5 billion year on year to CZK 71.7 billion at the end of 2010. The increase in the rate of growth of premiums written in life insurance of more than 13% was due chiefly to a marked (almost 55%) rise in single premium payments, which reached CZK 28.6 billion in 2010.

The rate of growth in non-life insurance moderated slightly further compared to 2009, falling by 0.9 percentage point to 0.3%. Total gross premiums written in non-life insurance reached CZK 84.2 billion.

Life insurance accounted for 46.0% of total premiums written, a year-on-year rise of 4.2 percentage points. However, the share of life insurance is still below the usual level in advanced EU insurance markets.

A proportion of premiums written is ceded to reinsurers. In 2010, non-life insurance premiums ceded to reinsurers rose by 14.1% year on year to CZK 25.9 billion. This represents 30.8% of total non-life insurance premiums written. The share of life insurance premiums ceded to reinsurers in gross premiums written was significantly lower at 2.2% at the end of 2010. In absolute terms, this represents CZK 1.6 billion.

Insurance market concentration (as measured by shares in total premiums written) is quite high in historical terms in the Czech Republic. However, it is gradually decreasing as a result of growing competition. The total market share of the three largest insurance undertakings declined by 3.7 percentage points year on year in 2010, while the shares of the five and ten largest insurance undertakings decreased by 4.1 and 1.5 percentage points respectively. Of the analysed groups of the three, five and ten largest insurers on the insurance market as a whole, and also separately on the life insurance and non-life insurance markets, only the five and ten largest entities on the life insurance market recorded no decrease in market share. Generally, the non-life insurance market is more concentrated, but concentration there is decreasing at a faster pace.

In 2010, the share of the premiums written of large insurance undertakings in total premiums written declined by 0.8 percentage point year on year to 75.2%. Their shares of the life and non-life markets were identical. While the share of medium-sized insurers increased by 1.7 percentage points to 14.9% in non-life insurance, it decreased by 0.8 percentage point to 12.6% in life insurance. Their overall share of the domestic market was 13.9%. The shares of small insurance undertakings and branches of foreign insurers on the overall insurance market were relatively balanced (5.3% and 5.6% respectively). However, small insurers were stronger on the non-life insurance market (6.7% compared to 3.2% for branches) and branches were stronger in life insurance (8.4% compared to 3.8% for small insurers). In absolute terms, premiums written rose in 2010 in all groups except large insurance undertakings in the non-life insurance market, where they fell by CZK 2.4 billion to CZK 63.3 billion, and branches of foreign insurers in the life insurance market, where insurance premium collection declined marginally.

The most significant category of the non-life insurance market, despite its slightly decreasing share, is still motor third party liability insurance. It accounted for 27.1% of non-life insurance premiums written in 2010. Premiums written in motor third party liability insurance amounted to CZK 22.8 billion in 2010. Other important categories of non-life insurance include insurance against damage to or loss of property and insurance against damage to or loss of land vehicles, which accounted respectively for 23.9% and 18.6% of total non-life insurance

CHART IV.6

Shares of life insurance and non-life insurance in total premiums written

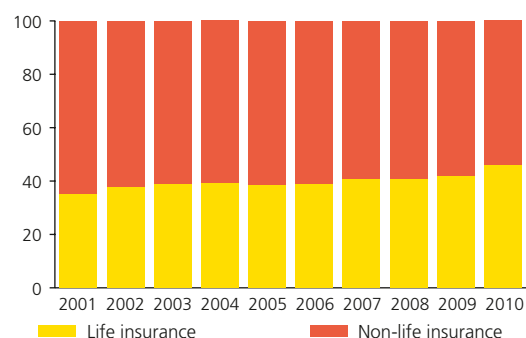


TABLE IV.3

Total insurance penetration in the Czech Republic

	Amount (CZK billions)			Change (%) 2010/2009
	2008	2009	2010	
Premiums written	140	144	156	8.2
GDP (at current prices)	3,689	3,626	3,668	1.2
	in %			
Premiums written/GDP	3.8	4.0	4.3	x

CHART IV.7

Shares of premiums written in GDP

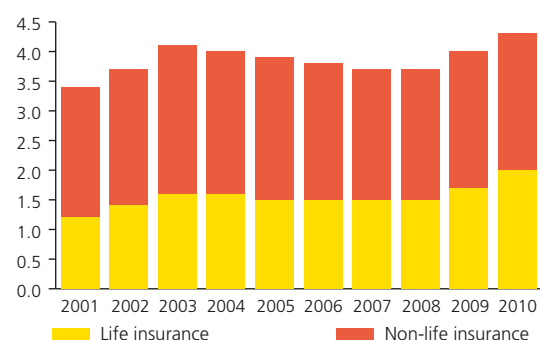
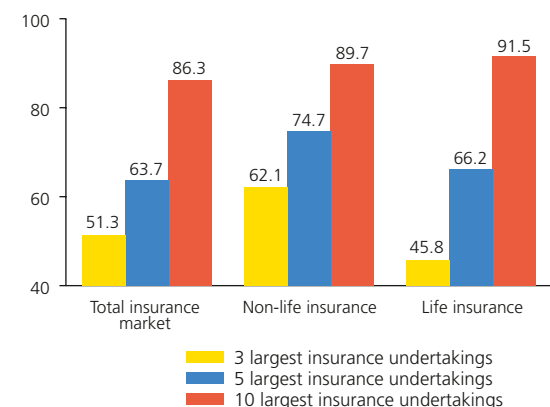


CHART IV.8

Concentration in insurance market by premiums written as of 31 December 2010

(in %)



premiums. In absolute terms, premiums written in motor third party liability insurance fell by CZK 1.5 billion (6.3%) in 2010 and premiums written in insurance against damage to or loss of land vehicles declined by CZK 1.1 billion (6.5%).⁷⁴

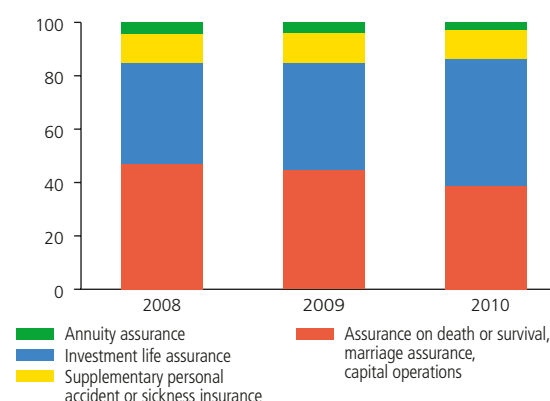
The dynamic growth of investment life insurance continued in the life insurance market. For the first time, the share of investment life insurance in premiums written exceeded the shares of traditional products such as assurance on death, assurance on survival or earlier death and insurance of benefits for child maintenance (marriage assurance). Premiums written in investment life insurance rose by 40.7% in 2010, to CZK 34.0 billion. Their share in total premiums written in life insurance rose by 7.2 percentage points year on year to 47.3%. By contrast, the combined share of assurance on death or survival, marriage assurance and assurance on capital operations decreased by 5.8 percentage points from 44.5% in 2009 to 38.7% in 2010.

TABLE IV.4

Premiums written by insurance group

	Amount (CZK millions)			Share (%)
	2008	2009	2010	2010
TOTAL PREMIUMS WRITTEN	139,841	144,171	155,972	100.0
Large insurance undertakings	107,753	109,583	117,311	75.2
Medium-sized insurance undertakings	16,543	19,174	21,615	13.9
Small insurance undertakings	5,333	6,861	8,323	5.3
Branches of insurance undertakings	10,211	8,553	8,723	5.6
PREMIUMS WRITTEN – NON-LIFE INSURANCE	82,940	83,962	84,222	100.0
Large insurance undertakings	67,287	65,738	63,343	75.2
Medium-sized insurance undertakings	9,774	11,072	12,557	14.9
Small insurance undertakings	3,583	4,768	5,608	6.7
Branches of insurance undertakings	2,296	2,384	2,715	3.2
PREMIUMS WRITTEN – LIFE INSURANCE	56,901	60,209	71,749	100.0
Large insurance undertakings	40,467	43,846	53,969	75.2
Medium-sized insurance undertakings	6,769	8,102	9,058	12.6
Small insurance undertakings	1,750	2,094	2,715	3.8
Branches of insurance undertakings	7,915	6,168	6,008	8.4

CHART IV.9

Shares of classes of life insurance in premiums written


Total insurance penetration, as measured by the ratio of gross premiums written to GDP at current prices, is an important insurance market indicator. Insurance penetration on the Czech market has been rising moderately in recent years, and stood at 4.3% at the end of 2010. Compared to Western European countries (e.g. the Netherlands, the United Kingdom and France), insurance penetration in the Czech Republic remains relatively low.

⁷⁴ Annex 25 contains a breakdown of gross premiums written by individual classes of life and non-life insurance.

TABLE IV.5

Premiums written by insurance class

	Amount (CZK millions)			Change (%) 2010/2009
	2008	2009	2010	
TOTAL LIFE INSURANCE	56,901	60,209	71,749	19.2
Assurance on death or survival, marriage assurance, capital operations	26,701	26,789	27,778	3.7
Annuity assurance	2,439	2,314	2,082	-10.0
Investment life assurance	21,591	24,126	33,956	40.7
Supplementary personal accident and sickness insurance	6,169	6,980	7,934	13.7
TOTAL NON-LIFE INSURANCE	82,940	83,962	84,226	0.3
Liability insurance for damage arising out of use of motor vehicle	24,116	24,376	22,830	-6.3
Insurance against damage to or loss of property	18,835	19,862	20,151	1.5
Insurance against damage to or loss of land vehicles	16,872	16,724	15,637	-6.5
General liability insurance for damage ^{a)}	11,413	11,782	12,128	2.9
Accident and sickness insurance	4,100	4,625	5,488	18.7
Other non-life insurance	7,603	6,594	7,992	21.2

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

4.4 CLAIM SETTLEMENT COSTS

Claim settlement costs totalled CZK 82.7 billion in 2010, rising by 9.2% year on year. In this section, claim settlement costs are given on a gross basis, including the reinsurer's share. In 2010, claim settlement costs increased in both life and non-life insurance – by 9.4% year on year in life insurance and by 9.0% year on year in non-life insurance. The losses caused by natural disasters in 2010 mainly involved losses due to floods in Moravia in May and in North Bohemia in August, amounting to around CZK 1.4 billion and CZK 1.6 billion respectively, and losses due to hail in Prague in August, amounting to around CZK 1.8 billion.⁷⁵

The share of reinsurers in non-life insurance claim settlement costs was CZK 12.6 billion in 2010, up by 22.6% from CZK 10.2 billion in 2009. The share of reinsurers in total non-life insurance claim settlement costs thus reached 27.2% in 2010, which is roughly 3.5% below their share in premiums written. Reinsurers accounted for just 1.1% of life insurance claim settlement costs.

The share of large insurance undertakings in total claim settlement costs fell by 1.3 percentage points year on year to 77.5%. Their share decreased on both the life and non-life insurance markets. The decrease on the non-life insurance market was larger at 1.8 percentage points. The share of medium-sized insurance undertakings in total claim settlement costs rose by 0.8 percentage point compared to 2009, to 11.9%. The shares of the individual groups of insurance undertakings in claim settlement costs roughly correspond to their shares in premiums written. The shares of large insurance undertakings and branches of foreign insurance undertakings in claim settlement

CHART IV.10

Shares of classes of non-life insurance in premiums written

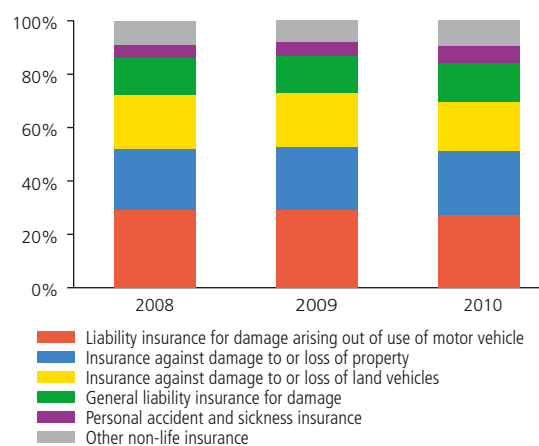
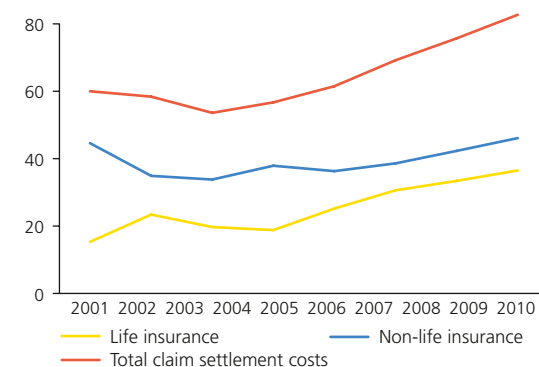


CHART IV.11

Claim settlement costs

(in CZK billions)



75 Source: Czech Insurance Association (www.cap.cz).

TABLE IV.6

Claim settlement costs by insurance group

	Amount (CZK millions)			Share (%)
	2008	2009	2010	2010
TOTAL CLAIM SETTLEMENT COSTS	69,219	75,732	82,685	100.0
Large insurance undertakings	56,879	59,667	64,093	77.5
Medium-sized insurance undertakings	6,569	8,398	9,850	11.9
Small insurance undertakings	1,697	2,910	3,700	4.5
Branches of insurance undertakings	4,074	4,757	5,041	6.1
CLAIM SETTLEMENT COSTS – NON-LIFE INSURANCE	38,643	42,332	46,140	100.0
Large insurance undertakings	32,930	33,677	35,895	77.8
Medium-sized insurance undertakings	3,839	5,412	6,395	13.9
Small insurance undertakings	1,230	2,350	2,850	6.2
Branches of insurance undertakings	644	893	1,001	2.2
CLAIM SETTLEMENT COSTS – LIFE INSURANCE	30,576	33,400	36,544	100.0
Large insurance undertakings	23,949	25,990	28,198	77.2
Medium-sized insurance undertakings	2,730	2,986	3,456	9.5
Small insurance undertakings	467	560	850	2.3
Branches of insurance undertakings	3,429	3,864	4,041	11.1

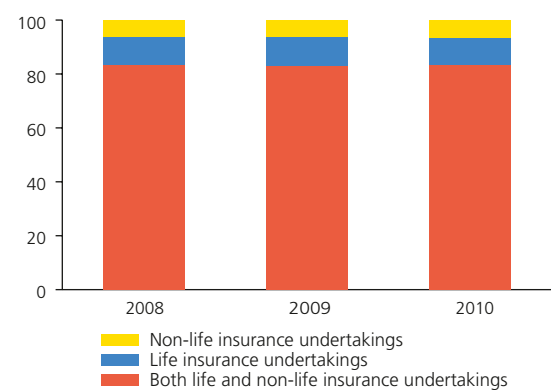
TABLE IV.7

Shares of individual insurance groups in total assets

	Amount (CZK millions)			Share (%)
	2008	2009	2010	2010
TOTAL ASSETS	369,184	396,434	426,437	100.0
Large insurance undertakings	269,905	287,090	306,034	71.8
Medium-sized insurance undertakings	50,257	56,461	64,424	15.1
Small insurance undertakings	11,948	14,713	16,981	4.0
Branches of insurance undertakings	37,074	38,170	38,998	9.1

CHART IV.12

Shares of insurance undertakings in total assets by type



costs were slightly higher than those in premiums written. The opposite was true of medium-sized and small insurers. In absolute terms, none of the monitored groups recorded a decline in claim settlement costs in 2010.

4.5 ASSETS OF INSURANCE UNDERTAKINGS

The total assets of insurance undertakings stood at CZK 370.0 billion as of 31 December 2010. This represents a year-on-year rise of 7.6%. The growth in total assets had been slightly slower in 2009 (7.4%). Of the groups analysed, the assets of branches of foreign insurance undertakings and those of large insurance undertakings grew at a slower pace than the sector's total assets, increasing by just 2.2% and 6.6% respectively. Medium-sized and small insurance undertakings recorded growth in total assets of more than 14% (14.1% and 15.4% respectively). The shares of the individual groups of insurers in the sector's total assets changed little during the year. Large insurance undertakings still have the largest share in total assets, accounting for 71.8% of the insurance sector's total assets.

As regards the types of insurance undertakings, the biggest contributors to total assets were again universal insurers, which slightly increased their share by 0.2 percentage point compared to 2009, to 83.2%. The share of life insurance undertakings in total assets fell to 10.2% over the same period. The share of non-life insurance undertakings remained virtually unchanged at 6.6%. In 2010, the strongest growth in assets was recorded by undertakings carrying on non-life insurance (9.5%). A year earlier their growth had been 11.7%. The growth rates of the assets of entities carrying on both life and non-life insurance and non-life insurance undertakings were little changed compared to 2009. These undertakings increased their total assets by 7.7% and 5.0% respectively.

TABLE IV.8

Assets of domestic insurance undertakings

	Amount (CZK millions)			Share (%) 2010
	2008	2009	2010	
TOTAL ASSETS	332,110	358,264	387,439	100.0
Financial placements (investment)	277,828	294,649	305,007	78.7
of which:				
real estate	5,266	4,785	4,889	1.3
participating interests	13,929	13,396	13,194	3.4
shares, variable-yield securities	22,671	16,923	20,239	5.2
bonds and other fixed-income securities	203,169	226,771	236,841	61.1
deposits at financial institutions	28,110	25,743	26,830	6.9
other financial placements	4,683	7,031	3,014	0.8
Financial placements of unit-linked life insurance	19,736	30,708	44,456	11.5
Debtors (receivables)	20,839	17,656	20,277	5.2
Other assets	13,707	15,251	17,700	4.6

Financial placement (investment)⁷⁶ is the largest asset item in the balance sheet of domestic insurance undertakings. However, its share is gradually falling. As of 31 December 2010, financial placement accounted for 78.7% of total assets. Its share declined by 3.5 percentage points year on year, offset in particular by an increase in the share of financial placement linked with investment life insurance and a rise in the share of receivables and other assets. Debt securities are the largest financial placement item. Their value increased by 4.4% compared to 2009 and their share in total assets fell by 2.2 percentage points to 61.1%. The major financial placement items also include shares and deposits with financial institutions (accounting for 5.2% and 6.9% of total assets respectively). Owing to growing interest in investment life insurance, the volume of financial placement of unit-linked life insurance rose by 44.8% (in 2009 it had increased by almost 56%) and its share in total assets thus increased to 11.5%.

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

The investments of domestic insurance undertakings arising from technical provisions are dominated by bonds. This applies to investments arising from technical provisions for both life insurance and non-life insurance. Bonds account for 70.0% of investments arising from technical provisions for non-life insurance. This share remained unchanged

CHART IV.13

Investments of domestic insurance undertakings arising from technical provisions

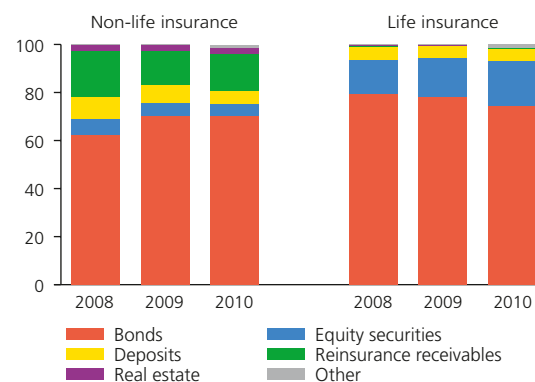


TABLE IV.9

Liabilities of domestic insurance undertakings

	Amount (CZK millions)			Share (%) 2010
	2008	2009	2010	
TOTAL LIABILITIES	332,110	358,264	387,439	100.0
Shareholder's equity	59,203	69,186	78,081	20.2
Technical provisions ^{a)}	222,175	227,528	235,577	60.8
Provision for unit-linked life insurance ^{a)}	19,651	30,696	44,415	11.5
Creditors (liabilities)	22,453	20,466	18,546	4.8
Other liabilities	8,628	10,388	10,820	2.8

a) net amount

⁷⁶ Financial placement (investment) is defined differently than financial placement of assets arising from technical provisions. Financial placement (investment) excludes reinsurance receivables.

from the previous year. Reinsurance receivables are the second-largest investment item arising from technical provisions for non-life insurance, with a share of 15.1%. Deposits are also represented in financial placement (5.4%), and equity securities have the same share.

Bonds are even more dominant in the investments of domestic insurance undertakings arising from technical provisions for life insurance than in the case of non-life insurance, accounting for 74.2%. Equity securities have a significant 18.8% share. Reinsurance receivables have a negligible share of less than 0.5%. Investments arising from technical provisions for life insurance also include items linked with investment life insurance.

TABLE IV.10

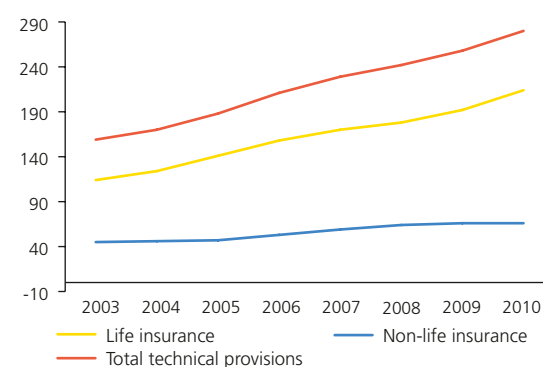
Technical provisions of domestic insurance undertakings				
	Amount (CZK millions)			Change (%) 2010/2009
	2008	2009	2010	
TOTAL GROSS TECHNICAL PROVISIONS	266,022	282,449	307,691	8.9
of which:				
non-life insurance	87,192	89,422	92,598	3.6
life insurance	178,830	193,026	215,093	11.4
TOTAL NET TECHNICAL PROVISIONS	241,825	258,224	279,992	8.4
of which:				
non-life insurance	63,999	66,210	65,903	-0.5
life insurance	177,826	192,015	214,089	11.5

4.6 LIABILITIES OF INSURANCE UNDERTAKINGS

The largest item in insurance undertakings' liability structure is technical provisions, which represent the future obligations of insurance undertakings arising from insurance or reinsurance activities which are either likely to be incurred or certain to be incurred but uncertain as to amount or as to the date on which they will arise. Technical provisions are reported gross and net of reinsurers' share in technical provisions. The technical provision for unit-linked life insurance is a specific item. It is linked with investment life insurance and is the source of financial placement of unit-linked life insurance. The share of net technical provisions (excluding provisions for unit-linked life insurance) in the total liabilities of domestic insurance undertakings fell by 2.7 percentage points year on year to 60.8% as of the end of 2010. In line with the increase in the financial placement item of unit-linked life insurance, the share of net technical provisions for unit-linked life insurance in total liabilities of domestic insurance undertakings also recorded a rise, to 11.5%.

CHART IV.14

Net technical provisions of domestic insurance
(in CZK billions)



Besides technical provisions, equity capital is an important liability item, accounting for 20.2% of the total liabilities of domestic insurance undertakings. This represents a rise of 0.9 percentage point on a year earlier. Equity capital recorded a year-on-year increase of 12.9%. This relatively high rate of growth was due mainly to increases in profit and share capital. Profit increased by 40.8% and share capital by 12.6%. Share capital is the largest component of equity (29.0%). Other important equity items include profit for the current year (26.0%), retained earnings and other capital funds (both of which reach almost 15%).

Compared to 2009, there was a 9.4% increase in the creditors (liabilities) item, the share of which in total liabilities fell to 4.8%. The share of other liabilities in total liabilities was virtually unchanged at 2.8% at the end of 2010.

TABLE IV.11

Net technical provisions by insurance group

	Amount (CZK millions)			Share (%) 2010
	2008	2009	2010	
TOTAL NET TECHNICAL PROVISIONS	241,825	258,224	279,992	100.0
Large insurance undertakings	205,889	213,495	229,665	82.0
Medium-sized insurance undertakings	30,092	36,786	40,753	14.6
Small insurance undertakings	5,845	7,944	9,574	3.4
NET TECHNICAL PROVISIONS – NON-LIFE INSURANCE	63,999	66,210	65,903	100.0
Large insurance undertakings	50,838	48,492	47,040	71.4
Medium-sized insurance undertakings	11,179	14,685	15,258	23.2
Small insurance undertakings	1,982	3,033	3,605	5.5
NET TECHNICAL PROVISIONS – LIFE INSURANCE	177,826	192,015	214,089	100.0
Large insurance undertakings	155,051	165,003	182,625	85.3
Medium-sized insurance undertakings	18,913	22,100	25,495	11.9
Small insurance undertakings	3,862	4,911	5,969	2.8

At the end of 2010, the total gross technical provisions of domestic insurance undertakings, including the provision for unit-linked life insurance, were up by 8.9% year on year to CZK 307.7 billion. The rate of growth of gross technical provisions increased by 2.7 percentage points compared to the previous period. Gross technical provisions for life insurance and non-life insurance increased by 11.4% and 3.6% respectively. The total net technical provisions of domestic insurance undertakings rose by about 8.4% during 2010.

The shares in net technical provisions of domestic insurance undertakings according to their size are relatively stable. The share of large insurers in total net technical provisions is falling gradually. On 31 December 2010, large insurers accounted for 82.0%, down by 0.7 percentage point from a year earlier. Large insurers recorded a decline of almost 2 percentage points to 71.4% on the non-life insurance market, while their share in net technical provisions for life insurance decreased only moderately, by 0.6 percentage point to 85.3%. Almost all groups of insurance undertakings recorded growth in net technical provisions for both life and non-life insurance. Large insurers in the non-life insurance market were the exception, with their net provisions declining in absolute terms.

TABLE IV.12

Profit by insurance group

	Amount (CZK millions)			Share (%) 2010
	2008	2009	2010	
TOTAL NET PROFIT	9,445	15,480	21,520	100.0
Large insurance undertakings	8,558	15,900	19,407	90.2
Medium-sized insurance undertakings	1,022	-741	1,420	6.6
Small insurance undertakings	-811	-741	-535	-2.5
Branches of insurance undertakings	676	1,064	1,229	5.7

4.7 FINANCIAL RESULTS

Insurance undertakings operating on the Czech insurance market (including branches of foreign insurers) recorded net profit of CZK 21.5 billion in 2010, up by 39.0% on a year earlier. The technical account⁷⁷ for non-life insurance improved by 6.0% year on year to CZK 7.3 billion. The technical account for life insurance ended in a profit of CZK 16.4 billion (up by 43.4% year on year).

All groups of insurance undertakings recorded better financial results in 2010 than a year earlier. The largest absolute increase was recorded by large insurers, where net profit rose by CZK 3.5 billion (22.1%) year on year to CZK 19.4 billion. The financial results of medium-sized insurers improved considerably, moving from a loss of CZK 0.7 billion in 2009 to a profit of CZK 1.4 billion. Only the group of small insurance undertakings recorded a negative financial result in 2010 (a loss of CZK 535 million). The net profit recorded by the sector as a whole was chiefly due to large insurers, which accounted for 90.2% of the total.

TABLE IV.13

Selected profitability and efficiency indicators

(%)

	2008	2009	2010
Net profit/assets (RoA)	2.6	4.0	5.2
Net profit/shareholder's equity (RoE)	14.8	20.8	26.0
Net profit/earned premiums	8.4	12.8	16.9
NON-LIFE INSURANCE			
Profit on technical account for non-life insurance/earned premiums	8.1	11.4	12.8
Claims incurred, including change in TPs/earned premiums	55.1	59.9	61.0
Net operating costs/earned premiums	28.1	29.0	30.2
Acquisition costs for insurance contracts/earned premiums	21.4	21.5	23.1
Administrative expenses/earned premiums	15.8	15.6	16.3
LIFE INSURANCE			
Profit on technical account for life insurance/earned premiums	-1.8	19.3	23.8
Claims incurred, including change in TPs/earned premiums	57.5	56.2	50.8
Net operating costs/earned premiums	23.9	23.8	20.0
Acquisition costs for insurance contracts/earned premiums	16.4	16.7	14.2
Administrative expenses/earned premiums	8.3	7.8	6.5

The better financial results of domestic insurance undertakings than in previous years were also reflected in better profitability and efficiency indicators. Return on assets (RoA), as measured by the ratio of net profit to assets, increased from the 4.0% reported in 2009 to 5.2%. The ratio of net profit to shareholder's equity (RoE) increased by 5.2 percentage points year on year in 2010 to 26.0%, while the ratio of net profit to earned premiums⁷⁸ rose by 4.1 percentage points year on year to 16.9%.

77 The profit and loss account of insurance undertakings is divided 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.

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

As regards non-life insurance, the ratio of profit on the technical account to earned premiums rose by 1.4 percentage points to 12.8%. The ratio of claims incurred, including change in technical provisions, to earned premiums, worsened slightly mainly as a result of a drop in earned premiums net of reinsurance, rising by 1.1 percentage points to 61.0%. For the same reason, the ratio of net operating costs to earned premiums increased by 1.2 percentage points and the ratio of acquisition costs for insurance contracts to earned premiums rose by 1.6 percentage points.

The technical account for life insurance of domestic insurance undertakings ended 2010 in a profit of CZK 15.3 billion. Compared to 2009, the ratio of the technical account for life insurance to earned premiums improved by 4.6 percentage points to 23.8%. The ratio of claims incurred, including change in technical provisions, to earned premiums improved, falling by 5.3 percentage points year on year to 50.8%. The ratios of net operating expenses to earned premiums and acquisition costs for insurance contracts to earned premiums also recorded year-on-year improvements, declining by 3.8 percentage points to 20.0% and by 2.5 percentage points to 14.2% respectively.

ABBREVIATIONS

AKAT	Czech Capital Market Association
AMA	Advanced Measurement Approaches
AML	anti-money laundering
ASA	Alternative Standardised Approach
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
bn	billion (10 ⁹)
b.p.	basis point
BSC	Banking Supervision Committee
BSCEE	Group of Banking Supervisors from Central and Eastern Europe
CCA	Czech Consolidation Agency
CCR	Central Credit Register
CDO	collateralised debt obligation
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CERTIS	Czech Express Real Time Interbank Gross Settlement System
CESR	Committee of European Securities Regulators
CIF	collective investment fund
ČKP	Czech Insurers' Bureau
CNB	Czech National Bank
Coll.	Collection of Laws of the Czech Republic
COREP	Common Reporting
CPLG	Core Principles Liaison Group
CR	Commercial Register
CRA	credit rating agency (Regulation (EC) No 1060/2009 of the European Parliament and of the Council, on credit rating agencies)
CRD	Capital Requirements Directive
ČSOB	Československá obchodní banka (a commercial bank)
CU	credit union
CZK	Czech koruna
CZSO	Czech Statistical Office
DIF	Deposit Insurance Fund
EBA	European Banking Authority
EBC	European Banking Committee
EC	European Commission
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EEA	European Economic Area
EEC	European Economic Community
EFC	Economic and Financial Committee
EFCC	European Financial Conglomerate Committee
EGCR	Expert Group on Capital Requirements
EIOPA	European Insurance and Occupational Pensions Authority
EMD	Electronic Money Directive
EMI	electronic money institution
EMIR	European Market Infrastructure Regulation
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board

EU	European Union
EUR	euro
FESE	Federation of European Securities Exchanges
FiCoD	Financial Conglomerates Directive
FINREP	Financial Reporting (harmonised financial statements)
FSC	Financial Services Committee
FV	fair value
GDP	gross domestic product
HI	Herfindahl index
HUF	Hungarian forint
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBNR	incurred but not reported
ICS	internal control system
IF	investment fund
IFRS/IAS	International Financial Reporting Standards/International Accounting Standards
ILG	International Liaison Group
IMF	International Monetary Fund
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commissions
IRB	Internal Ratings Based
IRDS	Instrument Reference Database System (CESR)
IWCFC	Interim Working Committee on Financial Conglomerates
JCFC	Joint Committee on Financial Conglomerates (formerly IWCFC)
JEGR	Joint Expert Group on Reconciliation
KYC	know-your-customer
MAD	Market Abuse Directive (Directive 2003/6/EC of the European Parliament and of the Council, on insider dealing and market manipulation)
MiFID	Markets in Financial Instruments Directive (Directive 2004/39/EC of the European Parliament and of the Council, on markets in financial instruments)
m	million (10 ⁶)
MMoU	Multilateral Memorandum of Understanding (IOSCO)
MoU	Memorandum of Understanding
MTPL	motor third party liability insurance
NBS	National Bank of Slovakia
OECD	Organisation for Economic Cooperation and Development
OTC	over the counter
P/L	profit/loss
p.p.	percentage point
Prospectus	Directive 2003/71/EC of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC
PSD	Payment Services Directive
PSE	Prague Stock Exchange (Burza cenných papírů Praha, a.s.)
PSPWG	Payment Systems Policy Working Group
PSSC	Payment and Settlement Systems Committee
PX	PSE stock exchange index
QA	quick assets
QIS	Quantitative Impact Study
RBNS	reported but not settled
RC	registered capital
RM	RM-S index
RM-S	RM-System, a. s.

RoA	return on assets
RoE	return on equity
SDNS	Non-bank Data Collection System
SEPA	Single Euro Payments Area
SFD	Settlement Finality Directive
SKK	Slovak koruna
SON	Subgroup on Operational Networking
SPAD	Share and Bond Market Support System
SPE	special purpose entity
SR	Slovak Republic
STA	Standardised Approach
SVYT	Transaction Settlement System
TARGET	Trans-European Automated Real-time Gross Settlement Express Transfer System
TFCM	Task Force on Crisis Management
TREM	Transaction Reporting Exchange Mechanism
UC	unit certificate
UCITS	Undertakings for Collective Investment in Transferable Securities (Directive 2009/65/EC of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS))
USA	United States of America
USD	US dollar
WGCR	Working Group on Credit Registers
WGDB	Working Group on Developments in Banking
WGMA	Working Group on Macroprudential Analysis
WGO	Working Group on Oversight
WGOND	Working Group on National Discretions
WGT2	Working Group on TARGET2

GLOSSARY

- Basel II** Basel II is a regulatory framework based on the following three pillars:
- a) capital coverage of the risks undertaken by financial institutions; capital requirements are set for credit risk, market risks and operational risk;
 - b) review of an institution's capital adequacy by the competent supervisory authority, as well as review of the quality of the institution's management and control mechanisms;
 - c) market discipline, i.e. requirements regarding the information that the institution discloses about itself and its business.
- A bank's capital comprises core capital (Tier 1), supplementary capital (Tier 2) and capital held to cover market risk (Tier 3). Tier 1 is the most important component of capital and consists primarily of paid-up equity capital, share premium and retained earnings.
- Basel III** A new regulatory framework issued by the Basel Committee on Banking Supervision in 2010 which sets standards for capital adequacy of banks and now also for their liquidity. Overall, Basel III introduces stricter rules than the previous framework and came into existence mainly as a reaction to the financial crisis.
- Capital adequacy ratio** Capital adequacy is one of the measures regulated by the prudential rules and is expressed as the ratio of capital (adjusted for the calculation of capital adequacy) to risk-weighted assets. This ratio must be at least 8%.
- Client assets** Client assets are the funds, derivatives and investment instruments that an investment firm has under its control in order to provide investment services, and the funds and investment instruments acquired for the client using those assets; client assets do not include deposits pursuant to the Act on Banks, which an investment firm that is a bank or a branch of a foreign bank keeps accounting records of.
- Compensation schemes** Systems for compensating investors, e.g. the Guarantee Fund of Investment Firms.
- Corporate governance** The system for directing, administering and controlling a company, including the distribution of rights and responsibilities among stakeholders in the company, in particular its shareholders (owners), statutory bodies and other stakeholders.
- CRD III** The abbreviation of the European directive amending the Capital Requirements Directive (CRD), which stipulates, among other things, prudential rules for banks, credit unions and investment firms. CRD III will strengthen the capital requirements for the trading book and includes requirements for exposures arising from securitisation and resecuritisation (i.e. securitisation where the underlying assets are securitised exposures). Institutions are also obliged to introduce and maintain rules for the remuneration of selected groups of persons.
- Credit default swap (CDS)** A CDS is a financial derivative designed to transfer credit risk from one party to another. The two parties enter into a contractual relationship. The buyer undertakes to pay the counterparty a periodic fixed amount for the duration of the swap. The seller makes no payment to the buyer on condition that no default occurs. If default does occur, the seller of the swap pays the buyer a pre-defined amount and the swap terminates.

- Credit risk** Credit risk arises from all claims in respect of which a counterparty might default by failing to meet its contractual obligations. Such claims arise not only from credit activities, but also from trading and investment activities, payments and securities settlement. Credit risk comprises country risk (territorial risk), transfer risk, counterparty risk and trading book credit risk.
- Default** Default of a debtor, i.e. a situation when at least one of the conditions is fulfilled:
- a) it can be assumed that the debtor will probably not repay his obligations in a proper and timely manner without recourse by the creditor to settlement of the claim from the security;
 - b) at least one repayment of the principal or interest of any obligation of the debtor to the creditor is more than 90 days past due; the institution need not take this condition into account if the past-due amount is not significant; the significance threshold is determined by the institution with respect to how much it will fail to collect when writing off the claim.
- Electronic money institution** A company that is authorised to issue electronic money on the basis of, and within the scope of, authorisation issued by the CNB. Electronic money can be defined as monetary value stored on an electronic money instrument.
- Financial collateral** Generally, collateral means a thing, right or other asset serving to secure an obligation (exposure). Financial collateral means cash (money) and financial instruments (e.g. selected debt securities, equity securities or collective investment securities).
- Financial conglomerate** A financial conglomerate is a group headed by a regulated entity which controls an entity in the financial sector, or is an entity which exercises a significant influence in an entity in the financial sector, or is an entity in which a majority of the members of the statutory, management or supervisory bodies are, for a majority of the financial year, the same entities which are statutory, management or supervisory bodies or members thereof of another entity in the financial sector, or is an entity which is not a regulated entity and which controls at least one regulated entity, and the activities of the group are carried on largely in the financial sector. At least one entity in the group is part of the insurance sector and at least one entity in the group is part of the banking sector or the investment services sector, and the sum of the insurance sector activities in the group and the sum of the banking sector and investment services sector activities in the group are significant.
- Guarantee schemes** Systems for compensating depositors or policyholders, e.g. the Deposit Insurance Fund.
- Hedge fund** A fund that focuses on the absolute yield of a portfolio and employs various investment methods to achieve its goals, including risky techniques such as naked short selling, high levels of leverage, and derivatives.
- Internal rating** A technique for assessing a debtor's credit risk, performed in accordance with criteria and rules set by an internally regulated entity within an IRB system that has been approved by a competent supervisory authority. In the narrower sense, it can mean the internal rating score.
- IRB approach** The IRB (Internal Ratings Based) approach is used to measure and manage credit risk. Among other things, it is used to set risk-weighted exposures for the calculation of capital requirements for the credit risk of an institution. Use of the IRB approach is subject to prior consent of the regulator.

Multilateral trading facility (MTF)

A multilateral trading facility is a market in investment instruments operated by an investment firm or a regulated market operator. The rules governing the admission of investment instruments to trading in an MTF are less strict than those governing admission to trading on a regulated market (no requirement to publish a prospectus, lower disclosure duties of issuers of investment instruments, etc.).

Notification

Under the notification framework for the provision of financial services, a European financial institution notifies the CNB via its domestic regulator of its intention to carry on activities in a given territory under the freedom to provide services or under the right of establishment (through a branch).

OTC derivatives

OTC (over-the-counter) derivatives are OTC contracts which are not traded on a regulated market or in a multilateral trading system and whose trading conditions and features are not standardised.

Private equity funds

Private equity funds tend to invest in unlisted companies whose participating securities are subsequently admitted to trading on a regulated market, or in listed companies whose participating securities are subsequently delisted from a regulated market. Private equity funds' investments are long-term (5 to 10-year investment horizons).

Probability of default (PD)

PD is the likelihood that a debtor or exposure will fall into default within one year.

Provision for claims

One of the technical provisions (see the Technical Provisions of Insurance Corporations) laid down in the Insurance Act, created for both life and non-life insurance. The provision for claims is used to cover insurance claims and comprises an RBNS provision and an IBNR provision. The RBNS provision is determined as the sum of individual claims reported but not settled in the current financial year, while the IBNR provision is used to cover claims incurred but not reported in the current financial year and is determined using mathematical and statistical methods or by expert estimation. The provision for claims also covers estimated claim settlement costs.

Repo operation

Under the Financial Collateral Act, a repo operation means the sale of financial instruments with simultaneously negotiated repurchase, and the purchase of financial instruments with simultaneously negotiated resale.

RoA

Return on assets (the ratio of net profit to assets).

RoE

Return on equity (the ratio of net profit to equity).

Secondary trading

Trading in already issued securities between investors, usually on a regulated market or in a multilateral trading system.

Securitisation

Securitisation is a method for creating a new marketable security from a set of illiquid assets. The cash flows from the security depend on the cash flows from these underlying assets. Securitisation takes place through an SPV (Special Purpose Vehicle). The original owner transfers the underlying assets to this company in return for payment in cash and the SPV issues new securities based on the underlying assets (called asset-backed securities, ABSs) and sells them to investors. Credit risk is thus transferred from the original owner of the debt to the ABS holders.

Short selling

The sale of securities that are not owned by the seller, or any other sale whereby securities borrowed by the seller are supplied.

Solvency of insurance undertakings

Solvency in the insurance sector is the ability of an insurer or reinsurer to ensure that it can settle insurance or reinsurance claims any time using its own funds. It is expressed as the ratio of capital (the available solvency margin) to the capital requirement (the required solvency margin).

Solvency II

A new regulatory framework (EC directive) for insurers and reinsurers laying down quantitative requirements (in particular methods for calculating technical provisions and capital requirements), qualitative requirements, prudential rules, compliance with market discipline and disclosure duties.

Special CI Fund

A collective investment fund that does not meet the requirements of European Union law.

STA approach

The Standardised Approach is a technique that can be used to set the capital requirement for credit risk. It is one of the basic approaches for calculating the capital requirement for credit risk.

Stress testing

Stress testing is a tool for assessing the resilience of the banking sector as a whole to potential adverse shocks. Alternative macroeconomic scenarios serve as the basis for stress testing. Credit risk testing is the most important area of stress testing.

Technical interest rate of insurance corporations

The technical interest rate is the guaranteed share in the returns on financial investment in life insurance, i.e. the increase in the value of the insurance reserve. This reserve is intended to cover future life insurance obligations.

Technical provisions of insurance corporations

Under the Act on Insurance, an insurer or reinsurer must set aside technical provisions to cover insurance or reinsurance liabilities that are either likely to be incurred or certain to be incurred but uncertain as to amount or as to the date on which they will arise. The Insurance Act provides a complete list of technical provisions which insurers or reinsurers must create if they carry on life or non-life insurance or reinsurance business.

Underlying asset

An underlying asset is the basis from which the value of a contract (e.g. a futures contract) is derived. Examples include shares, bonds, interest rates, currencies and indices.

Value-at-risk (VaR)

VaR is a risk measurement method whose output is the size of the potential maximum loss which an institution may suffer on a portfolio over a fixed time horizon with a predefined probability in the event of adverse movements in market factors (such as interest rates or exchange rates).

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 (*Financial market supervision – Aggregate information on the financial sector – Basic indicators of the financial market*).

Annex 1

MAIN INDICATORS OF MONETARY AND ECONOMIC DEVELOPMENTS IN THE CZECH REPUBLIC

		2006	2007	2008	2009	2010
Gross domestic product ^{1) 2)}	Volume (in CZK billions)	3,222.4	3,535.5	3,689.0	3,625.9	3,669.8
	Increase (in per cent)	6.8	6.1	2.5	-4.1	2.3
Output – percentage increase	Industry (sales) ¹⁾	8.5	14.1	-0.3	-15.9	9.3
	Construction ²⁾	6.0	7.1	0.0	-0.9	-7.6
Prices ³⁾	Inflation rate (in per cent)	2.5	2.8	6.3	1.0	1.5
Unemployment ⁴⁾	Unemployment rate (in per cent)	8.1	6.6	5.4	8.0	9.0
Foreign trade ²⁾	Exports of goods and services (in per cent)	15.8	15.0	6.0	-10.8	18.0
	Imports of goods and services (in per cent)	14.3	14.3	4.7	-10.6	18.0
Average wage ²⁾	Nominal (in per cent) ⁶⁾	6.6	7.2	7.8	4.0	2.0
	Real (in per cent) ⁶⁾	4.0	4.3	1.4	3.0	0.5
Balance of payments	Current account (in CZK billions)	-77.2	-113.1	-22.9	-114.8	-139.2
	Financial account (in CZK billions)	92.4	125.8	59.0	154.2	182.1
State budget balance	(in CZK billions)	-97.6	-66.4	-19.4	-192.4	-156.4
State budget balance/GDP	(in per cent)	-3.0	-1.9	-0.5	-5.3	-4.3
Exchange rates ⁵⁾	CZK/USD	22.6	20.3	17.1	19.1	19.1
	CZK/EUR	28.3	27.8	25.0	26.5	25.3
Average interbank deposit rate (PRIBOR) in per cent ⁵⁾	7-day	2.18	2.87	3.58	1.69	0.95
	3-month	2.30	3.10	4.04	2.19	1.31
	6-month	2.42	3.22	4.12	2.39	1.60
Discount rate ⁷⁾	(in per cent)	1.50	2.50	1.25	0.25	0.25
Lombard rate ⁷⁾	(in per cent)	3.50	4.50	3.25	2.00	1.75
2W repo rate ⁷⁾	(in per cent)	2.50	3.50	2.25	1.00	0.75
PX capital market index		1,588.9	1,815.1	858.2	1,117.3	1,224.8

Source: CZSO (macroeconomic indicators) data as of 10 May 2011, PSE, CNB

1) Current prices

2) Percentage increase on a year earlier in real terms

3) Inflation rate, average

4) Average registered unemployment rate; based on existing methodology since 2004

5) Annual averages from monthly averages

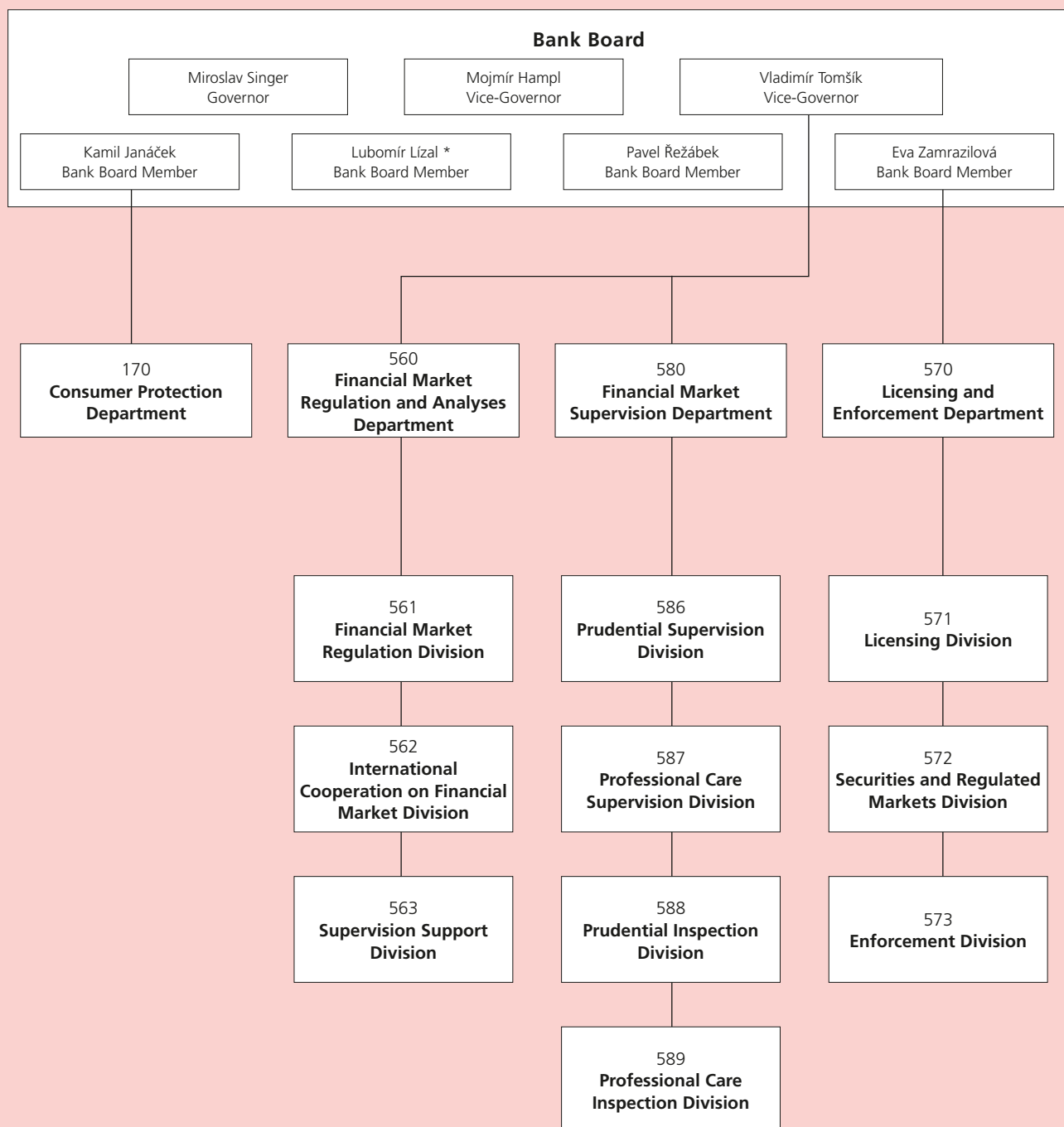
6) For natural persons excluding economic agents over limit

7) As of 31 December of given year

Annex 2

ORGANISATIONAL STRUCTURE OF CNB FINANCIAL MARKET SUPERVISION

(as of 1 March 2011)



* On 13 February 2011, following the expiration of the term of office of Robert Holman, the President of the Czech Republic appointed Lubomír Lízal as a member of the CNB Bank Board.

Annex 3

BREAKDOWN OF BANKS INTO GROUPS

(as of 31 December 2010)

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

Annex 4**CREDIT UNIONS**
(as of 31 December 2010)

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

Annex 5

LICENSED INVESTMENT FIRMS

(as of 31 December 2010)

I. Investment firms – banks		III. Investment firms – branches of foreign banks	
1. Česká spořitelna, a.s.		1. Bank of Tokyo-Mitsubishi UFJ (Holland) N.V. Prague Branch, organizační složka	
2. Českomoravská záruční a rozvojová banka, a.s.		2. Citibank Europe plc, organizační složka	
3. Československá obchodní banka, a. s.		3. COMMERZBANK Aktiengesellschaft, pobočka Praha	
4. Fio banka, a.s.		4. Crédit Agricole Corporate and Investment Bank S.A. Prague, organizační složka	
5. GE Money Bank, a.s.		5. Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka	
6. J & T BANKA, a.s.		6. Fortis Bank SA/NV, pobočka Česká republika	
7. Komerční banka, a.s.		7. HSBC Bank plc – pobočka Praha	
8. LBBW Bank CZ a.s.		8. ING Bank N.V.	
9. PPF banka a.s.		9. Saxo Bank A/S, organizační složka	
10. Raiffeisenbank a.s.		10. The Royal Bank of Scotland N.V.	
11. UniCredit Bank Czech Republic, a.s.		11. Všeobecná úverová banka a. s., pobočka Praha (abbreviated VUB, a. s., pobočka Praha)	
12. Volksbank CZ, a.s.			
II. Investment firms – non-banks		IV. Investment firms – organisational units of foreign non-bank IFs	
1. A&CE Global Finance, a.s.		1. European Investment Centre, o.c.p., a.s. – organizační složka	
2. AKCENTA CZ, a.s.		2. JER Real Estate Advisors (UK) limited, organizační složka	
3. ATLANTA SAFE, a.s.		3. JUNG, DMS & Cie. GmbH organizační složka	
4. ATLANTIK finanční trhy, a.s.		4. Wallich & Matthes B.V. – organizační složka	
5. BH Securities a.s.		5. X-TRADE BROKERS DOM MAKLERSKI SPOLKA AKCYJNA, organizační složka	
6. brokerjet České spořitelny, a.s.		V. Investment companies carrying on asset management	
7. CAPITAL PARTNERS a.s.		1. ATLANTIK Asset Management investiční společnost, a.s.	
8. Citfin – Finanční trhy, a.s.		2. AXA investiční společnost a.s.	
9. Colosseum, a.s.		3. Investiční kapitálová společnost KB, a.s.	
10. Conseq Investment Management, a.s.		4. Investiční společnost České spořitelny, a.s.	
11. CYRRUS, a.s.		5. WOOD & Company investiční společnost, a.s.	
12. CYRRUS CORPORATE FINANCE, a.s.			
13. ČSOB Asset Management, a.s., člen skupiny ČSOB			
14. EFEKTA CONSULTING, a.s.			
15. FINANCE Zlín, a.s.			
16. Generali PPF Asset Management a.s.			
17. ING Investment Management (C.R.), a.s.			
18. KEY INVESTMENTS a.s.			
19. Merx, a.s.			
20. Patria Direct, a.s.			
21. Patria Finance, a.s.			
22. Pioneer Asset Management, a.s.			
23. RSJ a.s.			
24. SARF a.s.			
25. WOOD & Company Financial Services, a. s.			

Annex 6**PENSION FUNDS**
(as of 31 December 2010)

- | |
|---|
| 1. AEGON Penzijní fond, a.s. |
| 2. Allianz penzijní fond, a.s. |
| 3. AXA penzijní fond a.s. |
| 4. ČSOB Penzijní fond Progres , a. s., člen skupiny ČSOB |
| 5. ČSOB Penzijní fond Stabilita, a. s., člen skupiny ČSOB |
| 6. Generali penzijní fond a.s. |
| 7. ING Penzijní fond, a.s. |
| 8. Penzijní fond České pojišťovny, a.s. |
| 9. Penzijní fond České spořitelny, a.s. |
| 10. Penzijní fond Komerční banky, a.s. |

Annex 7**MANAGEMENT COMPANIES**
(as of 31 December 2010)

- | | |
|---|--|
| 1. AKRO investiční společnost, a.s. | 13. Investiční kapitálová společnost KB, a.s. |
| 2. AMISTA investiční společnost, a.s. | 14. Investiční společnost České spořitelny, a.s. |
| 3. ATLANTIK Asset Management investiční společnost, a.s. | 15. IVORY Asset Management – investiční společnost a.s. |
| 4. AVANT Fund Management investiční společnost, a.s. | 16. J&T ASSET MANAGEMENT, INVESTIČNÍ SPOLEČNOST, a.s. |
| 5. AXA investiční společnost a.s. | 17. ORION CAPITAL MANAGEMENT investiční společnost, a.s. |
| 6. Conseq investiční společnost, a.s. | 18. Partners investiční společnost, a. s. |
| 7. ČP INVEST investiční společnost, a.s. | 19. Pioneer investiční společnost, a.s. |
| 8. ČSOB Investiční společnost, a.s., člen skupiny ČSOB | 20. PROSPERITA investiční společnost, a.s. |
| 9. EUFI – Asset Management investiční společnost a.s. | 21. REICO investiční společnost České spořitelny, a.s. |
| 10. FINESKO investiční společnost, a.s. | 22. Safety invest, investiční společnost, a.s. |
| 11. FORS CAPITAL investiční společnost a.s. | 23. WOOD & Company investiční společnost, a.s. |
| 12. Hanover Asset Management, investiční společnost, a.s. | |

Annex 8

BREAKDOWN OF INSURANCE UNDERTAKINGS INTO GROUPS

(as of 31 December 2010)

I. Large insurance undertakings	IV. Branches of foreign insurance undertakings
1. Allianz pojišťovna, a.s.	1. ACE European Group Ltd, organizační složka
2. Česká pojišťovna, a.s.	2. AEGON Hungary Closed Company Ltd., organizační složka
3. ČSOB Pojišťovna, a.s., člen holdingu ČSOB	3. AGA International SA – organizační složka
4. Generali Pojišťovna a.s.	4. Atradius Credit Insurance N. V., organizační složka
5. Komerční pojišťovna, a.s.	5. AVIVA LIFE & PENSIONS EUROPE SE – organizační složka
6. Kooperativa pojišťovna, a.s., Vienna Insurance Group	6. CG Car-Garantie Versicherungs-Aktiengesellschaft
7. Pojišťovna České spořitelny, a.s., Vienna Insurance Group	organizační složka pro Českou republiku
	7. Coface Austria Kreditversicherung AG, organizační složka Česko
	8. Deutscher Ring Lebensversicherungs-Aktiengesellschaft, pobočka pro Českou republiku
II. Medium-sized insurance undertakings	9. Deutscher Ring Sachversicherungs-AG, pobočka pro Českou republiku
1. AXA životní pojišťovna a.s.	10. HDI Versicherung AG, organizační složka
2. Česká podnikatelská pojišťovna, a.s., Vienna Insurance Group	11. CHARTIS EUROPE S.A., pobočka pro Českou republiku
3. Exportní garanční a pojišťovací společnost, a.s.	12. ING Životná poisťovňa, a.s., pobočka pro Českou republiku
4. POJIŠŤOVNA CARDIF PRO VITA, a.s.	13. ING Životní pojišťovna N.V., pobočka pro Českou republiku
5. PRVNÍ AMERICKO - ČESKÁ POJIŠŤOVNA, a.s. / / FIRST AMERICAN CZECH INSURANCE COMPANY	14. INTER PARTNER ASSISTANCE, organizační složka
6. UNIQA pojišťovna, a.s.	15. Österreichische Hagelversicherung – Versicherungsverein auf Gegenseitigkeit, organizační složka
III. Small insurance undertakings	16. QBE Insurance (Europe) Limited, organizační složka
1. AEGON Pojišťovna, a. s.	17. Stewart Title Limited, pobočka pro Českou republiku
2. Aviva životní pojišťovna, a.s.	
3. AXA pojišťovna a.s.	
4. Cestovní pojišťovna ADRIA Way družstvo	
5. Česká pojišťovna Zdraví a.s.	
6. D.A.S. pojišťovna právní ochrany, a.s.	
7. DIRECT Pojišťovna, a.s.	
8. Euler Hermes Čescob, úvěrová pojišťovna a.s.	
9. Evropská Cestovní Pojišťovna, a.s.	
10. HALALI, všeobecná pojišťovna, a.s.	
11. Hasičská vzájemná pojišťovna, a.s.	
12. ING pojišťovna, a.s.	
13. Komerční úvěrová pojišťovna EGAP, a.s.	
14. MAXIMA pojišťovna, a.s.	
15. Pojišťovna VZP, a.s.	
16. Servisní pojišťovna a.s.	
17. Slavia pojišťovna a.s.	
18. Triglav pojišťovna, a.s.	
19. VICTORIA VOLKSBANKEN pojišťovna, a.s.	
20. Vitalitas pojišťovna, a.s.	
21. Wüstenrot pojišťovna a.s.	
22. Wüstenrot, životní pojišťovna, a.s.	

Annex 9

BANKING SECTOR BALANCE SHEET

(data according to situation of sector as of last reported date; CZK millions)

	31 Dec. 2008	31 Dec. 2009	31 Dec. 2010		
	Data adjusted for provisions and reserves	Data adjusted for provisions and reserves	Data not adjusted for provisions and reserves	Provisions and reserves	Data adjusted for provisions and reserves
Total balance sheet assets	4,044,477	4,094,626	4,341,222	148,687	4,192,335
Cash and deposits with central banks	351,256	424,415	436,069	0	436,068
Cash	39,805	39,636	40,273	0	40,273
Deposits with central banks	311,451	384,779	395,796	0	395,795
Financial assets held for trading	360,081	249,942	224,915	0	224,915
Derivatives held for trading (positive FV)	192,817	108,228	86,571	0	86,571
Equity instruments held for trading	1,175	573	625	0	625
Debt instruments held for trading	129,411	109,544	109,356	0	109,356
Loans and advances held for trading	36,679	31,596	28,363	0	28,363
Loans and advances held for trading to credit institutions	31,259	26,599	24,920	0	24,920
Loans and advances held for trading to clients	5,361	4,996	3,443	0	3,443
Other loans and advances held for trading (not divided by sector)	58	0	0	0	0
Financial assets designated at FV through P/L	62,068	46,735	45,357	0	45,357
Equity instruments designated at FV through P/L	8,115	2,831	3,335	0	3,335
Debt instruments designated at FV through P/L	51,024	36,005	29,933	0	29,933
Loans and advances designated at FV through P/L	2,930	7,899	12,090	0	12,090
Loans and advances designated at FV through P/L to credit institutions	2,797	7,777	11,975	0	11,975
Loans and advances designated at FV through P/L to clients	133	122	115	0	115
Other loans and advances designated at FV through P/L (not divided by sector)	0	0	0	0	0
Available-for-sale financial assets	335,496	394,529	400,649	93	400,556
Available-for-sale equity instruments	12,511	3,783	4,467	93	4,375
Available-for-sale debt instruments	322,985	390,746	396,181	0	396,181
Available-for-sale loans and advances	0	0	0	0	0
Available-for-sale loans and advances to credit institutions	0	0	0	0	0
Available-for-sale loans and advances to clients	0	0	0	0	0
Other available-for-sale loans and advances (not divided by sector)	0	0	0	0	0
Loans and receivables	2,471,780	2,487,199	2,654,690	79,617	2,575,073
Debt instruments	30,175	22,473	24,462	0	24,462
Loans and advances	2,441,605	2,464,726	2,630,228	79,617	2,550,611
Loans and advances to credit institutions	380,846	391,176	431,511	271	431,240
Loans and advances to clients	2,040,419	2,048,660	2,186,275	78,434	2,107,840
Other loans and advances (not divided by sector)	20,340	24,889	12,442	911	11,531
Held to maturity investments	286,845	315,345	338,567	259	338,308
Debt instruments held to maturity	276,220	307,945	325,435	0	325,435
Loans and advances held to maturity	10,625	7,400	13,133	259	12,873
Loans and advances held to maturity to credit institutions	2,104	2,779	3,806	0	3,806
Loans and advances held to maturity to clients	8,521	4,621	9,327	259	9,067
Other loans and advances held to maturity (not divided by sector)	0	0	0	0	0
Derivatives – hedge accounting (positive FV)	20,621	21,960	25,272	0	25,272
Derivatives – hedge accounting of FV (positive FV)	77	729	123	0	123
Derivatives – hedge accounting of cash flows (positive FV)	8,902	9,475	10,688	0	10,688
Derivatives – hedge accounting of net investments in foreign units (positive FV)	0	0	0	0	0
Derivatives – hedge accounting of interest rate risk – FV (positive FV)	1,115	921	1,213	0	1,213
Derivatives – hedge accounting of interest rate risk – cash flows (positive FV)	10,527	10,834	13,248	0	13,248
FV changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0
Tangible assets	32,946	31,638	68,057	36,328	31,729
Property, plant and equipment	32,666	31,403	67,351	35,796	31,555
Investment property	279	235	706	532	174
Intangible assets	13,535	13,431	42,104	28,299	13,805
Goodwill	2,745	2,693	3,063	370	2,692
Other intangible assets	10,789	10,738	39,041	27,929	11,113
Investments in associates, subsidiaries and joint ventures	71,211	67,524	76,435	4,061	72,374
Tax assets	3,870	2,116	3,048	0	3,048
Current tax assets	1,632	158	806	0	806
Deferred tax assets	2,238	1,958	2,242	0	2,242
Other assets	34,218	38,936	26,005	1	25,806
Noncurrent assets and disposal groups classified as held for sale	550	858	53	29	25

Annex 9

BANKING SECTOR BALANCE SHEET – (continued)
(data according to situation of sector as of last reported date; CZK millions)

	31 Dec. 2008	31 Dec. 2009	31 Dec. 2010
	Data adjusted for provisions and reserves	Data adjusted for provisions and reserves	Data not adjusted for provisions and reserves Provisions and reserves Data adjusted for provisions and reserves
Total balance sheet liabilities and equity	4,044,477	4,094,626	4,192,335
Liabilities, total	3,752,068	3,775,034	3,849,511
Deposits, loans and other financial liabilities vis-à-vis central banks	38,044	2,910	1,501
Financial liabilities held for trading	216,261	138,338	122,143
Derivatives held for trading (negative FV)	189,955	105,301	87,914
Short positions	4,139	11,940	13,537
Deposits, loans and other financial liabilities held for trading	22,167	21,097	20,692
Deposits, loans and other financial liabilities held for trading from credit institutions	10,101	7,764	4,108
Deposits, loans and other financial liabilities held for trading from clients	12,060	13,332	16,584
Other financial liabilities held for trading (not divided by sector)	6	0	0
Debt certificates (incl. bonds intended for repurchase in short term)	0	0	0
Financial liabilities designated at FV through P/L	67,305	115,949	132,408
Deposits, loans and other financial liabilities designated at FV through P/L	59,290	110,265	127,397
Deposits, loans and other financial liabilities designated at FV through P/L from credit institutions	19,493	23,210	32,117
Deposits, loans and other financial liabilities designated at FV through P/L from clients	39,794	87,055	95,279
Other financial liabilities designated at FV through P/L (not divided by sector)	3	0	0
Debt certificates (including bonds) designated at FV through P/L	8,015	5,684	5,012
Subordinated liabilities designated at FV through P/L	0	0	0
Financial liabilities measured at amortised cost	3,357,384	3,450,700	3,523,768
Deposits, loans and other financial liabilities measured at amortised cost	2,967,340	3,056,525	3,139,139
Deposits, loans and other financial liabilities measured at amortised cost from credit institutions	398,875	396,151	411,838
Deposits, loans and other financial liabilities measured at amortised cost from clients	2,545,279	2,627,611	2,707,645
Other financial liabilities measured at amortised cost (not divided by sector)	23,186	32,763	19,656
Debt certificates (including bonds) measured at amortised cost	356,392	354,415	348,262
Subordinated liabilities measured at amortised cost	33,652	39,759	36,366
Financial liabilities associated with transferred assets	0	0	0
Derivatives – hedge accounting (negative FV)	13,464	18,053	19,147
Derivatives – hedge accounting of FV (negative FV)	1,796	2,281	2,456
Derivatives – hedge accounting of cash flows (negative FV)	4,438	7,339	7,598
Derivatives – hedge accounting of net investments in foreign units (negative FV)	0	0	0
Derivatives – hedge accounting of interest rate risk – FV (negative FV)	767	903	1,170
Derivatives – hedge accounting of interest rate risk – cash flows (negative FV)	6,463	7,531	7,922
FV changes of the hedged items in portfolio hedge of interest rate risk	0	0	0
Provisions	10,736	10,755	9,374
Provisions for restructuring	291	214	69
Provisions for taxes and litigation	3,026	3,527	4,018
Provisions for pensions and similar liabilities	102	118	124
Provisions for off-balance-sheet items	4,331	4,183	4,143
Provisions for disadvantageous contracts	159	137	146
Other provisions	2,827	2,576	874
Tax liabilities	1,242	2,311	3,165
Current tax liabilities	397	1,228	1,309
Deferred tax liabilities	845	1,083	1,856
Other liabilities	47,632	36,018	38,004
Equity of credit unions payable on demand			
Liabilities included in disposal groups classified as held for sale	0	0	0
Equity, total	292,409	319,592	342,824
Issued capital	74,014	75,408	79,381
Paid-up capital	73,608	75,408	79,381
Non-paid-up capital	406	0	0
Share premium	26,955	32,963	33,480
Other equity	52	52	52
Equity component of financial instruments	0	0	0
Other equity instruments	52	52	52
Revaluation reserves and other valuation differences	11,676	6,837	8,650
Valuation differences from tangible assets	0	0	0
Valuation differences from intangible assets	0	0	0
Hedge accounting of net investments in foreign units	143	194	440
Hedge accounting of cash flows	2,977	963	2,679
Valuation differences from available-for-sale financial assets	6,684	5,668	5,448
Valuation differences from noncurrent assets and discontinued operations classified as held for sale	0	0	0
Other valuation differences	1,872	13	83
Reserves	36,677	38,540	39,678
Retained earnings	97,480	106,201	126,184
Treasury shares (minus)	150	150	150
Net income from current year	45,705	59,740	55,549

Annex 10

BANKING SECTOR PROFIT AND LOSS ACCOUNT

(data according to situation of sector as of last reported date; CZK millions)

	31 December 2008	31 December 2009	31 December 2010
Financial and operating income and expenses	138,024	168,409	157,411
Interest income	191,917	174,434	167,076
Interest on cash balances with central banks	13,360	5,414	3,171
Interest on financial assets held for trading	7,517	7,846	6,084
Interest on financial assets designated at FV through P/L	2,927	2,072	1,266
Interest on available-for-sale financial assets	11,656	13,569	13,536
Interest on loans and receivables	133,110	122,680	119,430
Interest on held to maturity investments	12,049	12,460	13,234
Profit on interest rate derivatives – hedge accounting	10,670	10,334	10,336
Interest on other assets	628	59	19
Interest expenses	93,874	71,161	61,653
Interest on deposits, loans and other financial liabilities vis-à-vis central banks	75	41	13
Interest on financial liabilities held for trading	1,320	3,813	3,547
Interest on financial liabilities designated at FV through P/L	4,432	1,776	703
Interest on financial liabilities measured at amortised cost	75,733	53,601	45,342
Loss on interest rate derivatives – hedge accounting	10,125	9,716	10,054
Interest on other liabilities	2,189	2,215	1,995
Expenses on equity payable on demand	0	0	0
Dividend income	3,730	9,623	5,885
Dividend income on financial assets held for trading	23	2	35
Dividend income on financial assets designated at FV through P/L	868	310	87
Dividend income on available-for-sale financial assets	506	396	204
Dividend income from associates	2,334	8,915	5,559
Fee and commission income	46,779	46,756	48,255
Fees and commissions from financial instrument transactions for clients	1,666	1,493	1,729
Fees and commissions for arranging issues	68	49	86
Fees and commissions for procuring financial instruments	1,458	1,297	1,532
Fees and commissions for consulting activities	139	147	111
Fees and commissions from clearing and settlement	503	496	485
Fees and commissions for asset management	163	179	227
Fees and commissions for custody of values	722	596	680
Fees and commissions from commitments and guarantees	2,513	2,903	2,911
Fees and commissions from payments	27,072	28,225	28,312
Fees and commissions from structured financing	61	37	53
Fees and commissions from securitisation	0	0	0
Fees and commissions from other services	14,079	12,826	13,859
Fee and commission expenses	10,658	10,314	9,887
Fees and commissions for financial instrument transactions	606	500	541
Fees and commissions for asset management	26	35	35
Fees and commissions for custody of values	41	74	85
Fees and commissions for clearing and settlement	363	453	421
Fees and commissions for securitisation	36	44	51
Fees and commissions for other services	9,585	9,207	8,754
Realised gains (losses) on financial assets & liabilities not measured at FV through P/L, net	-943	6,327	-1,451
Gains (losses) on available-for-sale financial assets	-894	7,331	46
Gains (losses) on loans and receivables	-301	-1,561	-2,102
Gains (losses) on held to maturity investments	-13	-141	115
Gains (losses) on financial liabilities measured at amortised cost	-18	1	-4
Gains (losses) on other liabilities	283	697	494

Annex 10

BANKING SECTOR PROFIT AND LOSS ACCOUNT – (continued)

(data according to situation of sector as of last reported date; CZK millions)

	31 December 2008	31 December 2009	31 December 2010
Gains (losses) on financial assets and liabilities held for trading, net	-2,685	4,399	11,032
Gains (losses) on equity instruments and equity derivatives	-352	105	124
Gains (losses) on interest rate instruments (including interest rate derivatives)	-3,554	1,866	100
Gains (losses) on foreign currency instruments (including foreign currency derivatives)	696	1,596	10,169
Gains (losses) on credit instruments (including credit derivatives)	276	744	542
Gains (losses) on commodities and commodity derivatives	249	88	96
Gains (losses) on other instruments, including hybrid instruments	0	0	0
Gains (losses) on financial assets and liabilities designated at FV through P/L, net	-11,191	1,683	2,398
Gains (losses) from hedge accounting, net	-272	-330	-236
Exchange differences, net	11,938	7,480	-3,097
Gains (losses) on derecognition of assets other than held for sale, net	4,191	580	18
Other operating income	3,062	2,880	3,392
Other operating expenses	3,971	3,949	4,321
Administration costs	61,676	60,455	62,354
Staff expenses	31,195	31,103	31,604
Wages and salaries	22,387	22,341	22,563
Social and health insurance	6,592	6,678	7,028
Pensions and similar expenses	479	509	474
Temporary employee expenses	203	241	187
Remunerations - equity instruments	61	42	46
Other staff expenses	1,473	1,292	1,306
Other administration costs	30,481	29,352	30,750
Advertising costs	4,458	3,701	3,982
Consultancy costs	1,513	1,248	1,318
IT costs	5,474	4,552	4,404
Outsourcing costs	5,425	7,308	8,011
Rent	3,507	3,792	3,777
Other administration costs	10,104	8,752	9,258
Depreciation	7,345	7,442	6,907
Depreciation of property, plant and equipment	3,859	3,920	3,505
Depreciation of real estate investments	4	7	7
Depreciation of intangible assets	3,482	3,515	3,394
Provisions	455	4	-242
Impairment	15,221	29,792	22,539
Impairment on financial assets not measured at FV through P/L	15,207	26,573	22,321
Impairment on financial assets at acquisition price	0	0	-1
Impairment on available-for-sale financial assets	513	80	167
Impairment on loans and receivables	14,323	26,475	22,146
Impairment on held to maturity investments	370	17	8
Impairment on non-financial assets	15	3,219	218
Impairment on property, plant and equipment	-225	-228	-245
Impairment on real estate investments	0	0	0
Impairment on goodwill	1	1	1
Impairment on intangible assets	-33	7	0
Impairment on shares in associates and joint ventures	262	3,357	462
Impairment on other non-financial assets	9	82	0
Negative goodwill immediately recognised in P/L	0	0	0
Share of P/L of associates and joint ventures	0	0	0
Profit or loss from noncurrent assets and disposal groups	722	61	-157
Total profit or loss before tax from continuing operations	54,049	70,778	65,697
Tax expense	8,345	11,038	10,148
Profit or loss from continuing operations after taxation	45,705	59,740	55,549
Profit or loss from discontinued operations after taxation	0	0	0
Total profit or loss after taxation	45,705	59,740	55,549

Annex 11

PENSION FUND SECTOR BALANCE SHEET
(data according to situation of sector as of given date; CZK millions)

	31 December 2008	31 December 2009	31 December 2010
Total assets	191,705	215,873	232,422
Cash and deposits with central banks	1	0	0
Receivables from banks and credit unions	17,569	23,736	17,729
payable on demand	6,343	3,726	4,514
other receivables	11,226	20,010	13,215
Receivables from non-banking institutions	25	58	63
payable on demand	0	0	0
other receivables	25	58	63
Debt securities	151,236	173,741	196,311
issued by government institutions	121,226	139,757	162,554
issued by other entities	30,009	33,984	33,757
Shares, units and other interests	11,893	10,407	10,565
Shares	5,730	3,491	1,905
Units	6,163	6,917	8,660
Other interests	0	0	0
Substantial interests	0	0	0
in banks	0	0	0
in other entities	0	0	0
Controlling interests	0	0	0
in banks	0	0	0
in other entities	0	0	0
Long-term intangible assets	116	106	117
Start-up costs	0	0	0
Goodwill	0	0	0
Other long-term intangible assets	116	106	117
Long-term tangible assets	1,741	2,118	2,065
Land and buildings for operations	147	143	157
Other long-term tangible assets	1,594	1,975	1,907
Receivables from state budget – state contribution	875	974	983
Other assets	2,689	836	1,077
Receivables from subscribed registered capital	1,495	0	0
Deferred revenues and accrued expenses	4,065	3,895	3,513
Acquisition expenses for pension plans	4,035	3,881	3,474
Other deferred revenues and accrued expenses	30	15	39

Annex 11

PENSION FUND SECTOR BALANCE SHEET – (continued)

(data according to situation of sector as of given date; CZK millions)

	31 December 2008	31 December 2009	31 December 2010
Total liabilities	191,705	215,873	232,422
Liabilities to banks and credit unions	0	0	0
payable on demand	0	0	0
other receivables	0	0	0
Liabilities to non-banking institutions	6	6	16
payable on demand	0	0	0
other receivables	6	6	16
Planholders' money	186,698	200,735	216,114
Planholders' contributions	169,171	184,722	200,184
Planholders' own contributions	121,403	130,887	137,604
Contributions paid by employer	22,704	26,180	32,505
Contributions paid by third parties for planholder	361	367	374
State contributions	24,703	27,289	29,701
Financial means for pension payments	302	372	450
Revenues on planholders' contributions	16,025	14,597	14,786
Unallocated planholders' contributions	623	587	409
Payables from eligible unpaid lump sums	577	455	285
Liabilities to state budget – state contribution	230	257	248
Liabilities to state budget – tax liabilities	54	76	80
Other liabilities	1,076	1,263	1,459
Deferred revenues and accrued expenses	11	13	7
Provisions	74	101	120
Provisions for pensions and similar payables	72	95	111
Provisions for taxes	0	0	0
Other provisions	2	6	9
Subordinated liabilities	300	0	0
Registered capital	1,989	1,989	1,989
Paid up capital	1,989	1,989	1,989
Own shares	0	0	0
Share premium account	3,036	3,036	2,036
Reserve funds and other funds created from profit	1,997	2,011	2,144
Statutory reserve funds and risk funds	1,573	1,596	1,747
Other reserve funds	0	0	0
Other funds created from profit	424	415	398
Pension reserve fund	237	234	230
Revaluation reserve fund	0	0	0
Capital funds	2,869	3,374	1,734
Valuation differences	-8,079	-445	817
Valuation differences from assets and liabilities	-7,975	-439	820
Valuation differences from hedging derivatives	-104	7	-3
Valuation differences from recalculated shares	0	0	0
Other valuation differences	0	-14	0
Retained earnings (accumulated losses)	845	881	1,080
Profit (loss) for the accounting period	598	2,574	4,577

Annex 12

PENSION FUND SECTOR PROFIT AND LOSS ACCOUNT

(data according to situation of sector as of given date; CZK millions)

	31 December 2008	31 December 2009	31 December 2010
Profit from financial activities	1,887	3,780	5,814
Interest income and similar income	6,242	6,983	7,105
debt securities	5,597	6,607	6,850
other assets	645	375	255
Interest expenses and similar expenses	9	19	49
debt securities	0	5	49
other liabilities	9	14	0
Income from shares and other equity instruments	318	226	160
substantial interests	0	0	0
controlling interests	0	0	0
other	318	226	160
Fees and commission income	4	7	15
Fee and commission expenses	1,524	2,212	2,083
Expenses associated with care for safety and administration of securities	281	407	464
Expenses associated with sale or other disposal of securities	17	14	14
Expenses for pension plans	1,201	1,764	1,573
Other fee and commission expenses	26	26	32
Profit (loss) from financial operations	-3,228	-1,533	429
Other operating income	360	354	257
Other operating expenses	277	25	18
Administrative expenses	1,192	1,104	1,112
Personnel expenses	366	344	329
Social security and health insurance	82	75	76
Wages and remuneration – employees and statutory bodies	267	254	239
Other social expenses	16	16	13
Other administrative expenses	826	760	784
Release of provisions and allowances for tangible and intangible assets	3	0	0
Depreciation, creation and use of provisions and allowances for tangible and intangible assets	74	76	75
Depreciation of tangible assets	35	33	32
Creation and use of provisions and allowances for tangible assets	0	0	0
Depreciation of intangible assets	27	31	31
Creation and use of provisions and allowances for intangible assets	13	13	13
Release of provisions and allowances for receivables and guarantees, recoveries of receivables previously written off	0	60	0
Depreciation, creation and use of provisions and allowances for receivables and guarantees	1	74	2
Release of allowances for interests with substantial and controlling influence	0	0	0
Losses from the transfer of interests with substantial and controlling influence, creation and use of allowances for interests	0	0	0
Release of other provisions, including pension provisions	2	3	3
Creation and use of other provisions, including pension provisions	19	35	27
Shares of profits (losses) from interests with substantial and controlling influence	0	0	0
Profit (loss) for the accounting period before taxation	607	2,554	4,600
Extraordinary income	0	0	4
Extraordinary expenses	0	0	0
Extraordinary profit (loss) for the accounting period before taxation	0	0	4
Income tax	9	-20	27
Profit (loss) for the accounting period after taxation	598	2,574	4,577

Annex 13

COLLECTIVE INVESTMENT FUND SECTOR BALANCE SHEET

(data according to situation of sector as of given date; CZK millions)

	31 December 2008	31 December 2009	31 December 2010
Total assets	122,872	119,010	123,735
Cash	0	0	0
Receivables from banks	17,962	20,313	19,105
payable on demand	7,890	10,041	8,262
other receivables	10,072	10,271	10,844
Receivables from non-banking institutions	2,642	323	607
payable on demand	16	25	26
other receivables	2,625	298	580
Debt securities	71,089	60,758	59,444
issued by government institutions	27,941	27,572	40,492
issued by other entities	43,148	33,186	18,952
Shares, units and other interests	29,161	36,147	42,576
Shares	12,821	20,589	25,395
Units	16,154	15,048	17,167
Other interests	187	510	14
Interests with substantial and controlling influence	760	623	1,097
Long-term intangible assets	0	0	0
Start-up costs	0	0	0
Goodwill	0	0	0
Other long-term intangible assets	0	0	0
Long-term tangible assets	40	35	90
Land and buildings for operating activities	0	0	0
Other long-term tangible assets	40	35	90
Other assets	1,195	793	804
Receivables from shareholders for subscribed capital	0	0	0
Deferred expenses and accrued income	22	18	11

Note: Collective investment funds open to the public (domestic open-end mutual funds). Data taken as market historical data. i.e. including entities that terminated their activities before 31 December 2010.

Annex 13

COLLECTIVE INVESTMENT FUND SECTOR BALANCE SHEET – (continued)

(data according to situation of sector as of given date; CZK millions)

	31 December 2008	31 December 2009	31 December 2010
Total liabilities	122,873	119,010	123,735
Liabilities to banks	0	0	23
payable on demand	0	0	9
other liabilities	0	0	15
Liabilities to non-banking institutions	229	172	6
payable on demand	66	12	3
other liabilities	163	160	3
Other liabilities	1,404	1,544	1,136
Accrued expenses and deferred income	54	56	64
Provisions	54	60	3
Provisions for pensions and similar liabilities	0	0	0
Provisions for taxes	3	4	3
Other provisions	50	56	0
Subordinated liabilities	0	0	0
Registered capital	0	0	0
Paid up capital	0	0	0
Treasury shares	0	0	0
Share premium account	10,444	7,382	6,668
Reserve funds and other funds from profit	12,205	7,988	14,278
Statutory reserve funds and risk funds	0	0	0
Other reserve funds	0	9	20
Other funds from profit	12,205	7,979	14,257
Revaluation reserve fund	0	0	0
Capital funds	112,228	88,706	92,685
Valuation differences	-44	24	43
Valuation differences from assets and liabilities	-54	16	39
Valuation differences from hedging derivatives	0	0	0
Valuation differences from recalculated shares	0	0	0
Other valuation differences	10	8	3
Retained earnings (accumulated losses)	6,727	1,481	4,752
Profit (loss) for the accounting period	-20,429	11,598	4,078

Note: Collective investment funds open to the public (domestic open-end mutual funds). Data taken as market historical data. i.e. including entities that terminated their activities before 31 December 2010.

Annex 14

COLLECTIVE INVESTMENT FUND SECTOR PROFIT AND LOSS ACCOUNT

(data according to situation of sector as of given date; CZK millions)

	31 December 2008	31 December 2009	31 December 2010
Profit from financial activities	-19,766	12,171	4,599
Interest income and similar income	5,061	2,698	2,063
debt securities	3,420	2,128	1,802
other assets	1,641	570	262
Interest expenses and similar expenses	783	275	177
Income from shares and other equity instruments	1,005	646	710
substantial and controlling interests	0	0	0
other	1,005	646	710
Fees and commission income	6	11	3
Fee and commission expenses	1,383	1,053	1,121
Profit or loss from financial operations	-23,665	10,136	3,198
Other operating income	5	10	11
Other operating expenses	12	2	87
Administrative expenses	485	440	484
Personnel expenses	0	0	0
Wages and salaries of employees	0	0	0
Social security and health insurance of employees	0	0	0
Other social expenses	0	0	0
Other administrative expenses	485	440	484
Release of provisions and allowances for tangible and intangible assets	0	0	1
Depreciation, creation and use of provisions and allowances for tangible and intangible assets	0	1	0
Release of provisions and reserves for receivables and guarantees, recoveries of receivables previously written off	11	5	23
Depreciation, creation and use of provisions and allowances for receivables and guarantees	5	5	-58
Release of allowances for interests with substantial and controlling influence	0	0	0
Losses from transfers of interests with substantial and controlling influence, creation and use of allowances for interests	0	0	0
Release of other provisions	0	0	0
Creation and use of other provisions	22	5	-55
Share of profits (losses) from interests with substantial and controlling influence	0	0	0
Profit (loss) for the accounting period before taxation	-20,266	11,727	4,252
Extraordinary income	0	0	0
Extraordinary expenses	0	0	0
Extraordinary profit (loss) for the accounting period before taxation	0	0	0
Income tax	163	129	174
Profit (loss) for the accounting period after taxation	-20,429	11,598	4,078

Note: Collective investment funds open to the public (domestic open-end mutual funds). Data taken as market historical data. i.e. including entities that terminated their activities before 31 December 2010.

Annex 15

BALANCE SHEET – DOMESTIC INSURANCE UNDERTAKINGS *)

(data according to situation of sector as of given date; total excluding the Czech Insurers' Bureau; CZK millions)

	31 Dec. 2008	31 Dec. 2009	31 December 2010		
	Data adjusted for provisions and reserves	Data adjusted for provisions and reserves	Data not adjusted for provisions and reserves	Provisions and reserves	Data adjusted for provisions and reserves
Total assets	332,110	358,264	412,436	24,997	387,439
Receivables for subscribed share capital	0	300	0	0	0
Long-term intangible assets	2,180	2,219	12,486	10,177	2,309
Start-up costs	8	4	35	30	5
Goodwill	198	154	3,707	3,642	66
Financial placement (investments)	277,828	294,649	305,007	0	305,007
Land and buildings (real estate)	5,266	4,785	4,889	0	4,889
Real estate used in operations	4,324	4,092	4,202	0	4,202
Financial placements in third-party companies	13,929	13,396	13,194	0	13,194
Participating interests in affiliates	12,532	11,677	11,626	0	11,626
Bonds and loans – affiliated companies	24	124	136	0	136
Participating interests with substantial influence	876	1,111	1,061	0	1,061
Bonds – companies with substantial influence	497	484	371	0	371
Other financial placements	258,632	276,468	286,923	0	286,923
Shares and other variable-yield securities, other interests	22,671	16,923	20,239	0	20,239
Debt securities	203,169	226,771	236,841	0	236,841
Securities valued at FV against expense and income accounts	N/A	N/A	136,188	0	136,188
OECD bonds held to maturity	N/A	N/A	82,544	0	82,544
Other securities held to maturity	N/A	N/A	18,110	0	18,110
Financial placements in investment associations	510	374	628	0	628
Other loans	2,990	4,448	1,697	0	1,697
Deposits with financial institutions	28,110	25,743	26,830	0	26,830
Other financial placements	1,182	2,208	688	0	688
Deposits with ceding undertakings	1	1	1	0	1
Financial placement of unit-linked life assurance where policyholders bear the investment risk	19,736	30,708	44,456	0	44,456
Debtors	20,839	17,656	31,744	11,467	20,277
Receivables arising out of direct insurance operations	11,125	8,942	12,225	3,960	8,265
Policyholders	10,765	8,555	11,030	3,421	7,609
Intermediaries	360	387	1,195	539	656
Receivables arising out of reinsurance operations	3,007	4,396	3,365	103	3,262
Other receivables	6,707	4,318	16,154	7,405	8,749
Other assets	2,898	3,158	6,435	3,340	3,095
Long-term tangible assets other than land, buildings (real estate) and stocks	1,420	1,250	4,512	3,340	1,172
Cash at financial institutions and cash in hand	1,476	1,906	1,921	0	1,921
Other assets	2	3	2	0	2
Temporary accounts of assets	8,629	9,575	12,309	13	12,296
Interest and annuities	70	47	26	0	26
Deferred acquisition costs for insurance contracts	6,369	7,304	9,136	13	9,124
in life assurance	4,131	5,089	6,644	13	6,632
in non-life insurance	2,238	2,215	2,492	0	2,492
Other temporary accounts of assets	2,190	2,224	3,146	0	3,146
Estimated receivables	974	873	1,587	0	1,587

*) Domestic insurance corporations excluding branches of foreign insurance corporations.

Annex 15

NCE SHEET – DOMESTIC INSURANCE UNDERTAKINGS *) – (continued)

(data according to situation of sector as of given date; total excluding the Czech Insurers' Bureau; CZK millions)

	31 Dec. 2008	31 Dec. 2009	31 December 2010		
	Net	Net	Gross	Reinsurers' share in TPs	Net
Total liabilities	332,110	358,264			387,439
Shareholders' equity	59,203	69,186			78,081
Share capital	18,985	20,084			22,605
Movements in share capital	0	480			132
Own stocks or own interim certificates, own business shares	0	0			0
Share premium account	1,817	1,693			2,701
Revaluation reserve fund	0	0			0
Other capital funds	8,191	10,372			11,559
Reserve fund and other profit funds	9,902	11,449			9,854
Retained earnings	11,540	11,171			11,070
Profit (loss) for the accounting period	8,769	14,417			20,292
Subordinated liabilities	253	253			551
Technical provisions	222,175	227,528	263,276	27,699	235,577
Provision for unearned premiums	17,990	17,565	24,061	5,490	18,571
related to life assurance	1,616	1,519	1,528	113	1,415
related to non-life insurance	16,374	16,046	22,534	5,377	17,156
Life assurance provision	148,343	151,894	160,155	45	160,110
Outstanding claims provision	40,030	44,963	68,054	21,854	46,201
related to life assurance	4,148	4,534	5,934	845	5,089
related to non-life insurance	35,883	40,429	62,120	21,009	41,111
Provision for bonuses and rebates	1,476	1,787	2,079	150	1,929
related to life assurance	449	1,025	1,174	0	1,174
related to non-life insurance	1,027	761	905	150	755
Equalisation provision	5,217	3,318	1,182	0	1,182
Provision for the fulfilment of the commitments from the technical interest rate applied	3,562	2,267	1,787	0	1,787
Non-life insurance provision	284	318	355	0	354
related to life assurance	58	79	99	0	99
related to non-life insurance	226	239	255	0	255
Provisions for the fulfilment of the commitments from the guarantee of the CIB	5,272	5,338	5,408	62	5,345
Other provisions	0	79	195	97	97
related to life assurance	0	0	0	0	0
related to non-life insurance	0	79	195	97	97
Technical provision for unit-linked life assurance	19,651	30,696	44,415	0	44,415
Provision for other risks and losses	1,615	3,162			1,182
Provision for pensions and similar liabilities	3	3			1
Tax provision	1,109	2,718			786
Other provisions	503	441			395
Passive reinsurance deposits	178	684			2,250
Creditors	22,453	20,466			18,546
Liabilities arising out of direct insurance	8,330	8,202			8,279
Liabilities arising out of reinsurance	5,561	7,128			5,884
Debenture loans	0	0			0
Convertible loans	0	0			0
Liabilities to financial institutions	19	61			33
Other liabilities	8,543	5,075			4,351
Tax liabilities and payables due to social security insurance institutions	576	555			520
Guarantee fund of the Czech Insurers' Bureau	0	0			0
Temporary accounts of liabilities	6,581	6,289			6,837
Accrued expenses and revenues	2,450	1,881			1,827
Other temporary accounts of liabilities	4,131	4,408			5,010
Estimated payables	4,116	4,385			4,988

*) Domestic insurance corporations excluding branches of foreign insurance corporations.

Annex 16

PROFIT AND LOSS ACCOUNT – DOMESTIC INSURANCE UNDERTAKINGS *)

(data according to situation of sector as of given date; total excluding the Czech Insurers' Bureau; CZK millions)

Technical account for non-life insurance	31 December 2008	31 December 2009	31 December 2010
Result of technical account for non-life insurance	4,625	6,907	7,147
Earned premiums, net of reinsurance	57,180	60,380	55,644
Premiums written, net of reinsurance	58,522	59,978	56,763
Gross premium written	80,644	81,577	81,508
Gross premium written ceded to reinsurers	-22,122	-21,599	-24,745
Change in provision for unearned premiums, net of reinsurance	-1,342	401	-1,118
Change in the gross provision for unearned premiums	-1,561	464	-2,407
Change in the gross provision for unearned premiums, reinsurance share	219	-62	1,289
Allocated investment return transferred from the non-technical account	400	3,667	2,996
Other technical income, net of reinsurance	3,011	3,614	3,643
Claims incurred including change in provision, net of reinsurance	-31,524	-36,169	-33,953
Claims incurred, net of reinsurance	-28,242	-31,672	-33,262
Gross claims paid	-37,999	-41,439	-45,140
Claims paid – reinsurers' share	9,758	9,767	11,877
Change in provision for claims, net of reinsurance	-3,282	-4,497	-691
Change in gross provision for claims	-3,615	-4,758	-2,767
Change in provision for claims – reinsurers' share	333	260	2,076
Change in other technical provisions, net of reinsurance	-223	-99	-37
Bonuses and rebates, net of reinsurance	-1,809	-3,037	-1,222
Operating expenses, net amount	-16,068	-17,490	-16,810
Acquisition expenses for insurance contracts	-12,317	-12,927	-13,153
Change in deferred acquisition expenses	71	-80	287
Administrative expenses	-9,013	-9,406	-9,073
Reinsurance commissions and profit participation	5,191	4,923	5,129
Other technical expenses, net of reinsurance	-5,994	-5,857	-5,243
Change of equalisation provision	-347	1,899	2,129
Technical account for life assurance	31 December 2008	31 December 2009	31 December 2010
Result of technical account for life assurance	-881	10,135	15,323
Earned premiums, net of reinsurance	47,679	52,635	64,266
Premiums written, net of reinsurance	47,545	52,539	64,162
Gross premium written	48,986	54,041	65,742
Gross premium written ceded to reinsurers	-1,441	-1,502	-1,580
Change in provision for unearned premiums, net of reinsurance	134	96	104
Change in gross provision for unearned premiums	126	93	97
Change in provision for unearned premiums – reinsurers' share	8	3	7
Income from financial placements	23,197	22,247	24,928
Income from participating interests	159	769	1,233
Income from other financial placements	7,652	9,534	9,124
Income from land and buildings (real estate)	120	92	74
Income from other investments (except real estate)	7,532	9,442	9,050
Change in value of financial placements – income	444	61	57
Gains on the realisation of financial placements	14,942	11,883	14,514
Unrealised gains on financial placements	8,436	9,887	8,899
Other technical income, net of reinsurance	1,008	1,150	1,339
Claims incurred including change in provision, net of reinsurance	-27,407	-29,561	-32,659
Claims paid, net of reinsurance	-26,846	-29,175	-32,098
Gross claims paid	-27,147	-29,536	-32,504

*) Domestic insurance corporations excluding branches of foreign insurance corporations.

Annex 16

PROFIT AND LOSS ACCOUNT – DOMESTIC INSURANCE UNDERTAKINGS *) – (continued)

(data according to situation of sector as of given date; total excluding the Czech Insurers' Bureau; CZK millions)

Technical account for life assurance	31 December 2008	31 December 2009	31 December 2010
Claims paid – reinsurers' share	301	361	406
Change in provision for claims, net of reinsurance	-561	-386	-561
Change in gross provision for claims	-597	-391	-551
Change in provision for claims – reinsurers' share	37	5	-10
Change in other technical provisions, net of reinsurance	-7,575	-13,464	-21,708
Change in balance of life assurance provision, net of reinsurance	-4,885	-4,554	-9,165
Change in balance of gross life assurance provision	-4,880	-4,559	-9,163
Change in balance of life assurance provision – reinsurers' share	-5	5	-2
Change in balance of other technical provisions (except life assurance provision), net of reinsurance	-2,690	-8,910	-12,542
Bonuses and rebates, net of reinsurance	-103	-685	-235
Operating expenses, net amount	-11,384	-12,512	-12,849
Acquisition expenses for insurance contracts	-8,830	-9,706	-10,684
Change in deferred acquisition expenses	1,022	912	1,578
Administrative expenses	-3,940	-4,131	-4,167
Reinsurance commissions and profit participation	365	412	424
Expenses related to financial placements	-17,489	-11,613	-9,608
Administration expenses on financial placements, including interest	-782	-834	-1,012
Change in value of financial placements – expenses	-1,905	140	-33
Realisation expenses on financial placements	-14,802	-10,918	-8,562
Unrealised losses on financial placements	-15,762	-5,562	-4,904
Other technical expenses, net of reinsurance	-946	-1,312	-1,312
Transfer of income from financial placement to the non-technical account	-536	-1,076	-834
Non-technical account	31 December 2008	31 December 2009	31 December 2010
Profit or loss for the accounting period	8,769	14,417	20,292
After-tax profit or loss on ordinary activities	8,797	14,395	20,313
Result of technical account for non-life insurance	4,625	6,907	7,147
Result of technical account for life assurance	-881	10,135	15,323
Income from financial placements	15,580	7,992	9,508
Income from participating interests	507	117	194
Income from other financial placements	2,432	1,664	1,701
Income from land and buildings (real estate)	140	136	135
Income from other investments (except real estate)	2,293	1,528	1,566
Changes in value of financial placements - expenses	1,769	2,259	2,336
Gains on the realisation of financial placements	10,872	3,952	5,277
Transferred income from financial placements from technical account for life assurance	536	1,076	834
Expenses related to financial placements	-8,149	-4,711	-6,696
Administration expenses on financial placements, including interest	-308	-116	-127
Change in value of financial placements – expenses	-2,646	-701	-1,315
Realisation expenses on financial placements	-5,195	-3,893	-5,255
Transfer of income from financial placements to non-life technical account	-400	-3,667	-2,996
Other income	1,985	709	1,393
Other expenses	-2,615	-661	-1,191
Income tax on ordinary activities	-1,885	-3,384	-3,009
Extraordinary profit or loss	25	40	-3
Extraordinary income	61	43	16
Extraordinary expenses	-36	-3	-20
Income tax on extraordinary activities	-2	0	0
Other taxes	-51	-18	-18

*) Domestic insurance corporations excluding branches of foreign insurance corporations.

Annex 17

LISTED BONDS ISSUED IN 2010

Issue date	ISIN	Issuer	Maximum size
13 January 2010	CZ0003702250	Českomoravská stavební spořitelna, a.s.	1 bn CZK
29 January 2010	CZ0003702276	Wüstenrot stavební spořitelna a.s.	500m CZK
9 April 2010	CZ0003702367	Česká spořitelna, a.s.	1.5 bn CZK
9 April 2010	CZ0003702359	Česká spořitelna, a.s.	1.2 bn CZK
26 May 2010	CZ0002002231	Wüstenrot hypoteční banka a.s.	2 bn CZK
25 May 2010	CZ0002002223	Wüstenrot hypoteční banka a.s.	60m EUR
16 July 2010	CZ0001500102	City of Liberec	2 bn CZK
22 September 2010	CZ0000000245	Home Credit B.V.	4.35 bn CZK

Annex 18

UNLISTED BONDS NEWLY ISSUED IN 2010

Issue date	ISIN	Issuer	Maximum size
8 January 2010	CZ0003501710	Letiště Praha, a.s.	2 bn CZK
3 February 2010	CZ0003702284	Česká spořitelna, a.s.	200m CZK
10 March 2010	CZ0003702292	ČSOB, a.s.	700m CZK
25 February 2010	N/A	Lenz Solar a.s.	300m CZK
10 March 2010	N/A	ORRERO a.s.	78.735m CZK
11 March 2010	CZ0003702300	UniCredit Bank Czech Republic, a.s.	50m USD
11 March 2010	CZ0003702318	UniCredit Bank Czech Republic, a.s.	50m USD
11 March 2010	CZ0003702334	UniCredit Bank Czech Republic, a.s.	50m USD
11 March 2010	CZ0003702326	UniCredit Bank Czech Republic, a.s.	50m USD
14 April 2010	CZ0002002181	Volksbank CZ, a.s.	800m CZK
24 March 2010	CZ0003702342	Česká spořitelna, a.s.	1 bn CZK
15 April 2010	CZ0002002207	Wüstenrot hypoteční banka a.s.	2 bn CZK
19 May 2010	CZ0002002199	Volksbank CZ, a.s.	500m CZK
10 April 2010	N/A	LPS Automotive, s.r.o.	4.5m CZK
22 April 2010	CZ0002002215	Česká spořitelna, a.s.	4 bn CZK
1 June 2010	CZ0003702375	UniCredit Bank Czech Republic, a.s.	2 bn CZK
1 June 2010	CZ0003702383	UniCredit Bank Czech Republic, a.s.	2 bn CZK
10 June 2010	CZ0003501702	Letiště Praha, a.s.	1 bn CZK
23 June 2010	CZ0003702391	ČSOB, a.s.	700m CZK
2 June 2010	N/A	Medifin a.s.	50m CZK
1 August 2010	N/A	Goldkredit, a.s.	30m CZK
15 July 2010	CZ0003702409	Raiffeisenbank, a.s.	400m CZK
1 August 2010	N/A	OPTREAL, s.r.o.	35m CZK
14 July 2010	CZ0003702417	ČSOB, a.s.	1 bn CZK
1 August 2010	N/A	Serafin Campestrini s.r.o.	600 thou EUR
15 September 2010	CZ0003702425	ČSOB, a.s.	700m CZK
11 August 2010	N/A	Raiffeisenbank, a.s.	150m CZK
27 October 2010	CZ0003702441	ČSOB, a.s.	700m CZK
4 November 2010	CZ0003702458	UniCredit Bank Czech Republic, a.s.	2.25 bn CZK
4 November 2010	CZ0003702466	UniCredit Bank Czech Republic, a.s.	2.1 bn CZK
22 October 2010	CZ0003702474	Česká spořitelna, a.s.	1.5 bn CZK
16 November 2010	CZ0002002249	Raiffeisenbank, a.s.	1 bn CZK
10 November 2010	CZ0003501728	Letiště Praha, a.s.	1.5 bn CZK
12 November 2010	CZ0003702482	Raiffeisenbank, a.s.	100m CZK
25 November 2010	CZ0002002256	Hypoteční banka, a.s.	500m CZK
1 December 2010	CZ0003702508	Raiffeisenbank, a.s.	400m CZK
3 December 2010	CZ0003702490	ČSOB, a.s.	3 bn CZK
22 December 2010	CZ0003702516	Česká spořitelna, a.s.	1.5 bn CZK

Annex 19**ISSUES/TRANCHES OF LISTED SHARES IN 2010**

Issuer	ISIN	Face value	Size
KIT digital Inc.	USU4947Q1077	N/A.	2,400,000 pcs
	US4824702009		14,344,853 pcs

Annex 20**INVESTMENT CERTIFICATES ISSUED IN 2010 IN OFFER PROGRAMMES APPROVED BY THE CNB**

Issuer	ISIN	Name
Raiffeisenbank a.s.	CZ0000300041	EUR/CZK TL 23,000
Raiffeisenbank a.s.	CZ0000300058	EUR/CZK TS 28,000

Annex 21**OFFER PROGRAMMES APPROVED IN 2010**

Issuer	Type of security	Maximum size	Duration
Volksbank CZ	bonds	15,000,000,000 CZK	10 years
CETELEM, a.s.	bonds	10,000,000,000 CZK	5 years

Annex 22**PUBLICLY OFFERED UNLISTED SHARES IN 2010**

Issuer/Offeror	Face value	Size
MINERVA BOSKOVICE, a.s.	CZK 1,000	CZK 100,000,000
ČIS Investiční, a.s.	CZK 3.68 and CZK 0.78	max. CZK 110,397,658

Annex 23**MANDATORY TAKEOVER BIDS DUE TO TAKING CONTROL OF TARGET COMPANY IN 2010**

Bidder	Target company	Decision
EnBW Energie Baden-Württemberg AG	Pražská energetika, a.s.	Approved

Annex 24**VOLUNTARY TAKEOVER BIDS AND CHANGES THERETO IN 2010**

Bidder	Target company	Decision
Petr Koutek	Česká námořní plavba	Approved (decision not issued by law)

Annex 25

GROSS PREMIUMS WRITTEN BY CLASSES OF INSURANCE IN 2010

(total excluding the Czech Insurers' Bureau; CZK millions)

PART A		
CLASSES OF LIFE ASSURANCE		Premiums written
1. a)	Assurance on death only, assurance on survival only, assurance on survival or earlier death, joint life assurance, money back term assurance	25,635
1. b)	Annuity assurance	2,082
1. c)	Personal accident and sickness assurance (if supplementary to life assurance)	7,934
2.	Marriage assurance or insurance of benefits for child maintenance	1,961
3.	Assurance classes under 1.a), 1.b) and 2. which are linked to an investment fund	33,956
4.	Permanent health insurance not subject to cancellation in accordance with Article 2(1)(d) of Directive 2002/83/EC of the European Parliament and of the Council	0
5.	Tontines whereby associations of subscribers are set up with a view to jointly capitalising their contributions and subsequently distributing the assets thus accumulated among the survivors or among the beneficiaries of the deceased	0
6.	Capital redemption operations based on actuarial calculation	181
7.	Management of group pension funds	0
8.	Activities pursuant to Article 2(2)(e) of Directive 2002/83/EC of the European Parliament and of the Council	0
9.	Assurance relating to the length of human life	0
PART B		
CLASSES OF NON-LIFE INSURANCE		Premiums written
1.	Accident insurance	2,695
2.	Sickness insurance	2,793
3.	Insurance against damage to or loss of land vehicles other than railway rolling stock	15,637
4.	Insurance against damage to or loss of railway rolling stock	14
5.	Insurance against damage to or loss of aircraft	155
6.	Insurance against damage to or loss of vessels	13
7.	Insurance of goods in transit including luggage and other property irrespective of means of transport used	378
8.	Insurance against damage to or loss of property other than referred to in 3 through 7 above	12,045
9.	Insurance against damage to or loss of property other than referred to in 3 through 7 above due to hailstorm or frost, or any other event (such as robbery, theft or damage caused by forest animals) unless these are included in class 8, inclusive of insurance against damage to or loss of farm animals caused by infection or by other causes	8,106
10.	Liability insurance for damage arising out of use of land motor vehicle and its trailer, use of rail vehicle and the activity of the carrier	22,830
11.	Liability insurance for damage arising out of ownership or use of aircraft, including carrier's liability	98
12.	Liability insurance for damage arising out of ownership or use of inland or sea vessel, including carrier's liability	8
13.	General liability insurance for damage other than referred to in classes 10 through 12	12,128
14.	Credit insurance	2,877
15.	Suretyship insurance	212
16.	Insurance of miscellaneous financial losses	1,952
17.	Legal expenses insurance	307
18.	Assistance insurance to persons who get into difficulties while travelling or while away from their residence, including insurance of financial losses directly connected to the travelling (assistance services)	1,976

Annex 26

SUMMARY OF SUBMISSIONS RECEIVED BY CONSUMER PROTECTION DEPARTMENT

26 a) TOTAL NUMBERS OF SUBMISSIONS RECEIVED

Time period	Total number of submissions received	Submissions outside jurisdiction of CNB	Submissions within jurisdiction of CNB
1 January– 31 December 2010	479	39	440 forwarded to different unit 37 further investigated by CPD 403

26 b) INITIATOR OF SUBMISSIONS INVESTIGATED BY CONSUMER PROTECTION DEPARTMENT

Consumer protection organisations (CTI, CPA):	Other CNB unit	Direct submissions by individuals	Direct submissions by legal entities	Total
9	FO 160 PO 2	259	10	440

	Credit institutions	Investment firms	Inv. intermediaries, management companies	Insurance undertakings	Insurance intermediaries	Others	Total
Costs of products (including submissions to bureaux-de-change)	58	4	1	22	3	6	94
Payments (including payment cards)	33			1		7	41
Product information	39	3	4	31	37	4	118
Insurance claims	1			37			38
Discrimination against consumers	2			3		1	6
Dealing with complaints	16			9			25
Aggressive business practices	8		2	6	58	1	75
Consumer protection	9		3	3	8	20	43
TOTAL	166	7	10	112	106	39	440

26 c) BREAKDOWN BY INVESTIGATION RESULT

	Submissions closed					Submissions under investigation	Forwarded to different unit	Total
	Penalty proposal	Remedy by financial entity	Unjustified submissions	Failure of evidence	Written explanations			
Credit institutions		23	49	15	39	36	4	166
Investment firms		1	3			2	1	7
Inv. intermediaries, management companies		2	1	1	1	3	2	10
Insurance undertakings		13	19	17	19	25	19	112
Insurance intermediaries	28	3	11	11	31	16	6	106
Others			5	10	16	3	5	39
TOTAL	28	42	88	54	106	85	37	440

Annex 27

SUMMARY OF SUBMISSIONS RECEIVED BY CNB BRANCHES IN 2010

27 a) TOTAL NUMBERS OF SUBMISSIONS RECEIVED

Time period	Total number of submissions received	Submissions outside jurisdiction of CNB	Submissions within jurisdiction of CNB
1 January– 31 December 2010	225	13	212 forwarded to different unit further investigated by branches
			68 144

27 b) INITIATOR OF SUBMISSIONS INVESTIGATED BY CNB BRANCHES

Consumer protection organisations (CTI, CPA):	Other CNB unit	Direct submissions by individuals	Direct submissions by legal entities	Total
4	FO 10 PO 1	195	2	212

	Credit institutions	Investment firms	Inv. intermediaries	Insurance undertakings	Insurance intermediaries	Non-bank foreign exchange entities	Others	Total
Costs of products (including submissions to bureaux-de-change)	5					134		139
Payments (including payment cards)	3					1		4
Product information	7		1	4	11			23
Insurance claims				15	1			16
Discrimination against consumers	1			2	1	1		5
Dealing with complaints	4	1		3	1			9
Aggressive business practices	4	1		2	6	1	2	16
TOTAL	24	2	1	26	20	137	2	212

27 c) BREAKDOWN BY INVESTIGATION RESULT

	Submissions closed					Submissions under investigation	Forwarded to different unit	Total
	Submissions closed	Remedy by financial entity	Unjustified submissions	Failure of evidence	Written explanations			
Credit institutions			1	3	1	1	18	24
Investment firms							2	2
Investment intermediaries							1	1
Insurance undertakings				1		1	24	26
Insurance intermediaries		1	1	2	1	2	13	20
Non-bank foreign exchange entities		5	10	13	95	6	8	137
Others							2	2
TOTAL	0	6	12	19	97	10	68	212

Annex 28

TOTAL NUMBER OF REGISTERED INSURANCE INTERMEDIARIES

Category	As of 31 Dec. 2008	As of 31 Dec. 2009	As of 31 Dec. 2010
Insurance intermediaries - total	86,232	105,980	126,123
of which:			
tied insurance intermediaries	10,465	11,767	12,704
subordinated insurance intermediaries	46,067	58,036	71,129
exclusive insurance agents	20,601	26,011	31,561
insurance agents	1,158	1,286	1,414
insurance brokers	658	705	761
independent loss adjusters	165	172	184
insurance intermediaries (foreign)	7,118	8,003	8,370

Issued by:

CZECH NATIONAL BANK
Na Příkopě 28
115 03 Praha 1
CZECH REPUBLIC

Contact:

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

<http://www.cnb.cz>

Produced by: Jerome s.r.o.

Design: Jerome s.r.o.

