

FINANCIAL MARKET SUPERVISION REPORT

2014

FINANCIAL MARKET SUPERVISION
REPORT 2014

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

The Financial Market Supervision Report 2014 consists of three parts.

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

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

Starting with the 2014 Report, Part C contains information on submissions made by the public in the financial market supervision and consumer protection area.

The Financial Market Supervision Report is also intended to inform the public about a wide range of CNB activities in the field of supervision of the domestic financial market and about the situation and trends in the Czech financial market in 2014.

Like the Financial Market Supervision Reports for 2006–2013, the Financial Market Supervision Report for 2014 will be published on the CNB website in Czech and English along with other information about the financial market.

The report was discussed and approved by the CNB Bank Board on 4 June 2015.

¹ The Financial Market Supervision Reports for 2006–2013 are published on the CNB website at <http://www.cnb.cz> – Supervision, regulation – Aggregate Information on the Financial Sector – Financial Market Supervision Reports.

The Czech National Bank (CNB) is the integrated financial market supervisory authority in the Czech Republic. It supervises banks, credit unions, pension management companies, pension funds, management companies, investment and mutual funds, investment firms, insurance companies and insurance and investment intermediaries and also performs supplementary supervision of financial conglomerates. Other regulated entities supervised by the CNB include payment institutions, electronic money institutions, small-scale payment service providers and small-scale electronic money issuers.

Financial market supervision contributes significantly to the stability of the financial system. The conduct of financial market supervision involves a range of activities including licensing and approval proceedings, fulfilment of disclosure duties, on-site and off-site supervision and international cooperation.

In 2014, as in previous years, the regulatory framework for financial market supervision was strongly affected by European legislation, most significantly by CRD IV and the directly applicable CRR regulation. This led to changes being made to numerous domestic legal regulations, particularly the Act on Banks, the Act on Credit Unions, the Capital Market Undertakings Act, the Act on the CNB and the Building Savings Schemes Act.

Financial market supervision is based on a “forward-looking” system for assessing the risk profiles and systemic importance of the supervised institutions. Off-site surveillance consists in continuously monitoring the activity and financial performance of individual financial market entities and assessing the evolution of the market as a whole. On-site examinations follow a plan of examinations prepared on the basis of outputs from an internal analytical system for risk assessment of supervised institutions and information obtained during continuous off-site surveillance and previous on-site examinations. The plan also responds to the requirements of foreign supervisory authorities. The links that exist between financial markets necessitate closer cooperation with foreign regulators.

Consumer protection is an important element of financial market supervision. In 2014, the CNB again helped to protect the legitimate interests of many clients of financial institutions and to enhance financial literacy.

The Czech financial market recorded quite positive developments in 2014. The banking sector is sound, well capitalised and profitable and has sufficient funds and no liquidity problems. Its structure has long been quite stable.

The credit union sector was profitable in 2014, but the quality of its credit portfolio deteriorated. The number of credit unions decreased again in 2014.

The investment firm sector showed positive trends in 2014. The assets of collective investment funds increased and the sector recorded a profit.

Pension management companies made a profit and the assets of their funds increased.

The insurance company sector saw an increase in gross premiums written and in its total assets in 2014 as the economy recovered. Insurance companies operating in the Czech insurance market posted a net profit in 2014.

The CNB's supervisory work also involves assessing information contained in submissions made by the public in the financial market supervision and consumer protection area. Submissions made by the public are a key source of information on compliance by supervised entities with their legal obligations to clients. This assessment is presented in the 2014 Report for the first time.

PART A
FINANCIAL MARKET SUPERVISION IN 2014

1. LEGISLATIVE CHANGES IN THE FINANCIAL MARKET SUPERVISION AREA IN 2014

1.1 THE SITUATION IN FINANCIAL MARKET REGULATION

In 2014, the Czech National Bank (CNB) contributed to the implementation of the EU's rapidly changing regulations in the financial market area and to changes in the regulatory framework in the Czech Republic. The CNB's activities in the area of preparation of new legislation included working mainly with the Czech Ministry of Finance and also with other state administration bodies. The CNB prepared and issued a number of decrees and explanatory and methodological opinions interpreting the application of regulatory requirements pertaining to financial market participants.

1.2 CHANGES TO LAWS AND GOVERNMENT DECREES

The CNB is involved in the preparation of laws and government decrees in the financial market area, for which the Ministry of Finance has primary responsibility. This involvement is based primarily on an agreement on cooperation in the preparation of draft national legislation concerning the financial market. The CNB and the MF signed this agreement in May 2006.² The CNB is also the official commenting authority for such legislation in the legislative process.

The following laws and government decrees regulating the business activities of financial institutions and other entities subject to regulation and supervision were prepared in 2014 with the active involvement of the CNB.

Amendment to the government regulation on investment fund investments and techniques and instruments used for the purpose of portfolio management

The amendment to this regulation contains revisions to some excessively strict rules and investment limits for funds for qualified investors (e.g. a change to the base for the calculation of limits, the cancellation of the limit on investments in a single fund for qualified investors, an increase in the limit per asset and a decrease in the required amount of fund capital for funds for qualified investors with a large number of qualified investors). The CNB was actively involved in discussions with the Ministry of Finance and market participants regarding the setting of parameters for investment by investment funds. The amendment was promulgated in the Collection of Laws on 21 January 2014.

Amendment to the Act on Banks, the Act on Credit Unions, the Capital Market Undertakings Act, the Act on the CNB and the Building Savings Schemes Act

The amendment of these laws contains a transposition of CRD IV (the Capital Requirements Directive)³ and an adaptation of CRR (the Capital Requirements Regulation)⁴ aimed at strengthening the regulatory framework and creating conditions for stability, security and sufficient resilience of the banking sector and the financial system as a whole. The most important changes include the introduction of capital buffers to reinforce capitalisation, requirements for members of the governance body, the introduction of crisis management frameworks and duties of institutions to have recovery plans in place, and an extension of the list of remedial measures and penalties available to the supervisory authority. The CNB worked actively with the Ministry of Finance on the preparation of the above acts, primarily to ensure consistency of the draft regulations with EU law. The amendment was promulgated in the Collection of Laws on 22 July 2014.

Amendment to the Act on Bonds

This amendment to the Act on Bonds clarifies the regime applying to specific securities (perpetuities), primarily for the purposes of bank capital, transfers some requisites of bonds to issue conditions and completely abolishes some

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

³ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

⁴ Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending regulation (EU) No. 648/2012.

requisites of issue conditions to simplify the procedure for bond issuers. The CNB supported this proposal and initiated, in cooperation with some market participants, the clarification of the perpetuities regime in order to prevent ambiguity in the issuance of new types of instruments under CRD IV. The amendment was promulgated in the Collection of Laws on 22 July 2014.

Amendment to the Act on Management Companies and Investment Funds

This amendment primarily eliminates shortcomings identified during the application of the act. They include, for example, the removal of unnecessary duties of depositories relating to founders' shares in funds with variable capital, the incorporation of proof of the origin of capital in the case of capital increases, the possibility for the CNB to refuse permission to manage assets individually in the event of failure to meet the relevant conditions, the possibility for the CNB to delete funds from lists if they fail to meet the statutory requirements and the re-introduction of the possibility to perform the function of director in other companies within a group. Many of the changes were based on suggestions made by the CNB, while others were made in close cooperation between the CNB and the Ministry of Finance. The amendment was promulgated in the Collection of Laws on 29 December 2014.

Amendment to the Act on Credit Unions

This amendment focuses on enhancing the stability of the credit union sector and the mutuality principle. The CNB prepared draft rules for mitigating risks associated with the business activities of credit unions and had them incorporated into the act. The act contains an upper limit of CZK 5 billion on the balance-sheet total of credit unions, an increase in the risk fund of credit unions from 20% to 30% of deposits outstanding and guarantees provided, a ceiling on new deposits bearing interest or similar benefit of ten times the sum of paid-up basic and other membership contributions and a doubling of credit unions' contributions to the Deposit Insurance Fund compared to 2014. The process of conversion into a bank, consisting in the possibility of gradually increasing capital to the required CZK 500 million, has been temporarily simplified for credit unions. The amendment was promulgated in the Collection of Laws on 29 December 2014.

Amendment to the Insurance Act

This draft amendment to the Insurance Act transposes Solvency II and Omnibus II and introduces a new, risk-oriented regulatory and supervisory regime for the insurance industry. A comments procedure took place in July and August 2014. The CNB made 15 major comments, most of which were incorporated. However, requirements for prudential distribution of fees paid for the distribution of insurance companies' products and annual audits of solvency report by external auditors were not approved. The revised draft amendment was submitted to the Czech government for discussion in January 2015.

Amendment to the Act on Insurance Intermediaries

This amendment to the Act on Insurance Intermediaries (now called the Act on Distribution in Insurance) redefines the categories of intermediaries and how intermediaries are registered, and stipulates more stringent requirements for their professional qualifications and rules of conduct towards clients. Insurance companies should fulfil the same requirements when distributing products directly. The amendment is meant to strengthen the protection of consumers of insurance products, improve the supervisory environment and increase the transparency of intermediation on the insurance market. The CNB made a number of comments in the comments procedure, all of which were approved. By agreement with the Ministry of Finance, the CNB withdrew its suggestion to make only the necessary changes (a minor amendment) and to wait for the European insurance distribution regulations to be finalised before making any other provisions. The revised draft amendment was submitted to the Czech government for discussion in January 2015.

1. LEGISLATIVE CHANGES IN THE FINANCIAL MARKET SUPERVISION AREA IN 2014

1.3 CNB DECREES ISSUED

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

In 2014, the CNB completed legislative work on decrees relating mainly to new laws in the financial market area. The CNB issued the following decrees in 2014, usually on the day the relevant laws took effect.

- Decree No. 23/2014 Coll., on the pursuit of business of banks, credit unions and investment firms (repealed by Decree No. 163/2014 Coll. upon the finalisation of the transposition of CRD IV).
- Decree No. 31/2014 Coll., amending Decree No. 141/2011 Coll., on the pursuit of business of payment institutions, electronic money institutions, small-scale payment service providers and small-scale electronic money issuers.
- Decree No. 129/2014 Coll., amending Decree No. 281/2008 Coll., on certain requirements for the system of internal principles, procedures and control measures against the legitimisation of the proceeds of crime and financing of terrorism.
- Decree No. 145/2014 Coll., amending Decree No. 117/2012 Coll., on more detailed regulation of the activities of a pension management company, a retirement fund and a participation fund.
- Decree No. 163/2014 Coll., on the pursuit of business of banks, credit unions and investment firms (the transposition of CRD IV).
- Decree No. 164/2014 Coll., on the register of coverage of mortgage bonds and disclosure duties of an issuer of mortgage bonds.
- Decree No. 171/2014 Coll., amending Decree No. 233/2009 Coll., on applications, approval of persons and the manner of proving the professional qualifications, trustworthiness and experience of persons.
- Decree No. 344/2014 Coll., amending Decree No. 247/2013 Coll., on applications under the Act on Management Companies and Investment Funds.
- Decrees on reporting regulating the content, form, time limits and manner of compiling and submitting reports to the Czech National Bank:
 - (i) Decree No. 2015/2014 Coll., amending Decree No. 314/2013 Coll., on the submitting of statements to the Czech National Bank by entities that belong to the financial institutions sector.
 - (ii) Decree No. 2016/2014 Coll., amending Decree No. 346/2013 Coll., on the submitting of statements by banks and foreign bank branches to the Czech National Bank.
 - (iii) Decree No. 273/2014 Coll., on compiling and submitting information for the Czech National Bank database – the Central Credit Register – by banks and foreign bank branches.
 - (iv) Decree No. 310/2014 Coll., amending Decree No. 426/2013 Coll., on the submitting of statements by credit unions to the Czech National Bank.

1.4 PROVISIONS OF A GENERAL NATURE

Under Article 20d(1) of the Act on Banks, Article 9a(1) of the Act on Credit Unions and Article 199(5) of the Capital Market Undertakings Act, the CNB is entitled to issue provisions of a general nature in areas defined in CRR (“overall discretions”).

In 2014, the CNB issued a total of 18 provisions of a general nature regarding, for example, liquidity, prudential consolidation, valuation, capital deductions, qualifying holdings outside the financial sector, the significance threshold, the submission of consolidated financial information, exposures secured by property, the significance threshold for default, the calculation of the net position, unrealised losses and gains, capital items and exemptions from large exposure limits.

1.5 OFFICIAL INFORMATION

The CNB issues official information documents containing important facts for financial market participants regarding the implementation of legal rules. In 2014, the CNB issued the following official information documents:

- Official information of the Czech National Bank of 17 January 2014 regarding the conditions of admissibility of inducements in the distribution of certain products on the financial market.
- Official information of the Czech National Bank of 29 January 2014 regarding some provisions of decrees on reporting of banks and foreign bank branches, credit unions and investment firms to the Czech National Bank.
- Official information of the Czech National Bank of 19 February 2014 on the repealing of some of the CNB's official information in the area of prudential rules for banks, credit unions and investment firms.
- Official information of the Czech National Bank of 28 March 2014 disclosing the questions set for professional examinations for the medium and higher level of competence of insurance intermediaries.
- Official information of the Czech National Bank of 4 April 2014 on the repealing of official information of the CNB No. 38/2007, CNB Bulletin of 20 July 2007, regarding the obligation to make a public share offer in the event of a capital increase and official information of the CNB No. 2/2002, CNB Bulletin of 31 January 2002, regarding the conclusion of control agreements by banks.
- Official information of the Czech National Bank of 4 April 2014 regarding the conduct of business activities by banks, credit unions and investment firms – publication of information (repealed by official information of 18 September 2014 upon the finalisation of the transposition of CRD IV).
- Official information of the Czech National Bank of 5 May 2014 regarding the conduct of business activities by banks, credit unions and investment firms – remuneration (repealed by official information of 18 September 2014 upon the finalisation of the transposition of CRD IV).
- Official information of 18 September 2014 regarding the conduct of business activities by banks, credit unions and investment firms – remuneration.
- Official information of 18 September 2014 regarding the conduct of business activities by banks, credit unions and investment firms – publication of information.
- Official information of the CNB of 6 November 2014 regarding the verification of sufficient coverage of credit losses.
- Official information of the Czech National Bank of 21 November 2014, repealing official information of the Czech National Bank No. 16/2013, CNB Bulletin, of 20 December 2013 regarding the conduct of business activities by banks, credit unions and investment firms – application of overall discretions by the supervisory authority.

The following information on the issuance of European supervisory authorities' guidelines was also published on the CNB website, along with information on whether the CNB will follow these guidelines:

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- Information of the CNB of 24 January 2014 on the issuance of four EIOPA guidelines (assessment of own risks, pre-application of internal models, submission of information to supervisory authorities, system of governance) to prepare for a new insurance regulation, known as Solvency II.
- Information of the CNB of 3 March 2014 on the issuance of EBA guidelines on retail deposits subject to different outflows for purposes of liquidity reporting.
- Information of the CNB of 20 March 2014 regarding the issuance of an EBA recommendation on the use of the Legal Entity Identifier.
- Information of the CNB of 26 May 2014 regarding the issuance of EBA guidelines on the applicable notional discount rate for variable remuneration.
- Information of the CNB of 20 August 2014 regarding the issuance of EBA guidelines on significant risk transfer for securitisation transactions.
- Information of the CNB of 20 August 2014 regarding the issuance of EBA guidelines on disclosure of encumbered and unencumbered assets.
- Information of the CNB of 7 November 2014 on the issuance of EBA guidelines on capital measures for foreign currency lending to unhedged borrowers under the supervisory review and evaluation process (SREP).
- Information of the CNB of 13 November 2014 on the issuance of EBA guidelines on harmonised definitions and templates for funding plans of credit institutions under recommendation A4 of ESRB/2012/2.

The CNB also provided market participants and the public with information in the form of opinions and replies to queries in the area of financial market regulation. In 2014, the CNB published a total of 12 explanatory opinions on its website and answered more than 500 queries regarding financial market regulation received in writing or via the electronic mailroom.

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

1.6 REGULATORY CHANGES UNDER PREPARATION⁵

1.6.1 Draft laws and government decrees

In 2014, the CNB and the Ministry of Finance actively cooperated in the preparation of numerous other changes in financial market regulation, mainly in order to transpose EU regulations. These changes are expected to be submitted to the Czech government and the Czech Parliament in 2015.

Recovery and Resolution Act and related amendments (BRRD transposition)

This bill, which was circulated for comments by the Ministry of Finance in November 2014, transposes the directive establishing a framework for the recovery and resolution of credit institutions and investment firms. The bill lays down the particulars and the procedure for the preparation of recovery and resolution plans, early intervention measures and resolution tools (including government stabilisation tools) and the establishment of a Financial Market Guarantee

⁵ See section 2 EU regulations in 2014 for details on issued and planned changes to the regulations relating to EC proposals (in the areas of capital requirements, Solvency II, markets in financial instruments, crisis management, etc.).

System, which will include a Resolution Fund and a Deposit Guarantee Fund. The CNB worked closely on the preparation of the law and also participated in a joint team with the Ministry of Finance, which drafted the law. Despite that, it was necessary in the meantime to make a large number of comments, including comments related to the development of EU regulations and the positions of the Commission and the EBA. These comments were still being processed at the start of 2015.

Amendment to the Capital Market Undertakings Act (MiFID) and Related Acts

This amendment, which was circulated for comments by the Ministry of Finance in October 2014, implements the new regulation on central depositories, the directive on transparency requirements for listed companies and an amendment to the directive on undertakings for collective investment in transferable securities. The CNB made major comments on the draft, in particular concerning the abolition of the proposed use of English in the CNB's decisions in administrative proceedings, the repealing of the proposed provision on Ministry of Finance positions regarding the interpretation of regulations and the abolition, or substantial limitation, of investment intermediaries. All the comments made by the CNB were processed (the discussion regarding investment intermediaries was postponed to the next amendment of the law transposing MiFID 2 – see the following item). The amended Act was submitted to the Czech government for discussion in January 2015.

Transposition of the directive on markets in financial instruments and other capital market directives (consultation)

The CNB drew up a position on a Ministry of Finance consultation paper regarding the use of discretions as contained in the Markets in Financial Instruments Directive (MiFID 2)⁶ and in other current capital market directives (e.g. the Transparency Directive). Discretions are used, for example, to regulate the existence of investment intermediaries. On the basis of supervisory findings, the CNB proposed to abolish investment intermediaries or substantially limit their activities. An amendment to the Act on Capital Market Undertakings transposing MiFID 2 and adapting MiFIR will be drawn up in 2015.

Transposition of the Mortgage Credit Directive (consultation)

The CNB drew up a position on a Ministry of Finance consultation paper regarding the use of discretions as contained in the Mortgage Credit Directive⁷ during the planned transposition of this directive into Czech law. The CNB supported the extension of the scope of the Act to real estate other than dwellings only, the prohibition of prepayments to loan intermediaries and the possibility for a consumer to withdraw from a loan agreement within 14 days and to change, under stipulated conditions, the currency in which the loan is provided or expressed under the agreement. By contrast, it resisted an extension of the regulation to business loans and expressed its disagreement with unified supervision of mortgage credit intermediaries and providers.

Act on Credit for Consumers (consultation)

The CNB drew up a position on a Ministry of Finance consultation paper regarding the legal treatment of the distribution of credit for consumers. The CNB supported the system of distribution of credit for consumers, the method for authorising credit intermediaries and providers and the requirements applying to their competence and trustworthiness. Strong disagreement was expressed with the extension of the scope of the Act to business loans and with the CNB becoming a supervisory authority for the provision and distribution of credit for consumers, as non-bank loans are not relevant to systemic stability and the central bank's mandate. The CNB has also long been against extending the applicability of prudential regulation to non-bank loan providers. It should therefore not license and supervise the distribution of their loans either. These are not entities which accept deposits or manage the funds of third parties and whose failure has serious consequences for clients, investors or financial stability. The preparation of a new Consumer Credit Act, which is to contain the current Consumer Credit Act and the transposition of the Mortgage Credit Directive, will start in 2015.

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

7 Directive 2014/17/EU of the European Parliament and of the Council on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No. 1093/2010.

1.6.2 Draft decrees

Legislative work on the following decrees – connected mainly with amendments to laws – will be initiated in 2015:

- Decree implementing certain provisions of the Insurance Act.
- Decree on applications according to the Insurance Act.
- Decree implementing certain provisions of the Act on Insurance Intermediaries.
- Decree on applications, notifications and information pursuant to the Act on Insurance Intermediaries relating to the pursuit of business under this Act.
- Amendment to Decree No. 347/2006 Coll., implementing certain provisions of the Act on Financial Conglomerates.
- Amendment to Decree No. 231/2009 Coll., on the requisites and the manner of keeping of a transactions and orders book of an investment firm and on the requisites and the manner of keeping records of an investment intermediary.
- Amendment to Decree No. 233/2009 Coll., on applications, approval of persons and the manner of proving professional qualifications, trustworthiness and experience of persons.
- Amendment to Decree No. 215/2012 Coll., on professional qualifications for the distribution of certain products on the financial market.
- Amendment to Decree No. 244/2013 Coll., on more detailed regulation of some rules set out by the Act on Management Companies and Investment Funds.
- Amendments to decrees regulating the reporting obligations of financial market entities (investment firms, regulated market operators, settlements system operators) to the Czech National Bank.
- Amendments to decrees relating to reporting for the individual sectors of the financial market, responding to amendments to acts and to directly applicable and other European regulations.

2. EU REGULATIONS IN 2014

Intensive work on new European financial market regulations continued in 2014 at the level of the European Commission (Commission), the Council and the European Parliament (EP). The CNB paid special attention to the Commission's proposals and prepared relevant opinions on an ongoing basis. CNB representatives in EU committees and working groups actively promoted the CNB's positions on key issues. As regards European supervisory authorities, the CNB was involved in the preparation of implementing regulations for directives and regulations.

2.1 Directives

Mortgage Credit Directive (MCD)

Directive 2014/14/EU on mortgage credit was published in the Official Journal of the EU on 28 February 2014. The directive introduces similar rules for mortgage loans as those already applicable to consumer credit. The CNB's comments on the provisions of the directive which remained unchanged mainly concern binding mediation for national supervisory authorities (even though cooperation between them has already been provided for sufficiently in the 2004 EU regulation on cooperation in the field of consumer protection) and the EBA's activities in matters which do not fall within the competence of many EBA members (e.g. mortgage brokers).

Amendment to Solvency II (Omnibus II)

The Omnibus II directive (2014/51/EU), primarily amending Solvency II, was published in the Official Journal of the EU on 22 May 2014. Its main objectives were to reflect the establishment of the European Insurance and Occupational Pensions Authority (EIOPA) in Solvency II, to change the powers to issue related lower-level regulations into a form respecting the Treaty on the Functioning of the European Union and to amend some of the Solvency II requirements regarding insurance products with long-term guarantees to mitigate the adverse financial impacts of financial market volatility on insurance companies providing such products.

Directive establishing a framework for the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive, BRRD)

Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms was published in the Official Journal of the EU on 12 June 2014. The directive regulates the particulars and the procedure for the preparation of recovery and resolution plans (on both an individual and group level), early intervention measures, the provision of intra-group financial support, resolution tools (including government stabilisation tools), cross-border coordination in the preparation of plans when imposing specific measures, the establishment of resolution colleges, the establishment of national resolution funds and their target amount, and related administrative penalties.

Deposit Guarantee Schemes Directive (DGSD)

Directive 2014/49/EU on deposit guarantee schemes was published in the Official Journal of the EU on 12 June 2014. The directive regulates the duty of Member States to establish deposit guarantee schemes financed from previously paid contributions, the duty to introduce contributions taking into account the riskiness of individual credit institutions, the target amount of funds in these guarantee schemes and time limits for the payment of compensation. The final text of the directive contains numerous proposals, on which the CNB has long made comments through the Ministry of Finance's instructions for meetings of the Council working group. These include mandatory introduction of contributions based on the risk profiles of credit institutions, compulsory application of DGS to resolution measures and exemptions from the upper limit on compensation for insured deposits (primarily for social purposes).

Directive and regulation on markets in financial instruments (MiFID 2, MiFIR)

Directive 2014/65/EU on markets in financial instruments and Regulation No. 600/2014 on markets in financial instruments were published in the Official Journal of the EU on 12 June 2014. Although the CNB generally opposed the draft MiFID 2/MiFIR due to the extension of the scope of regulation and the strengthening of the ESMA's powers, acceptable compromises were reached in the final text (e.g. in the list of investment instruments, where derivatives regulated in accordance with Regulation No. 1227/2011 on wholesale energy market integrity and transparency were exempted from MiFID regulation).

Amendment to the directive on undertakings for collective investment in transferable securities (UCITS V)

Directive 2014/91/EU amending certain provisions of Directive 2009/65/EC⁸ regulating standard collective investment undertakings was published in the Official Journal of the EU on 28 August 2014. The directive regulates three aspects of the operation of standard funds, namely the duties of a depository of a standard fund, remuneration rules for UCITS managers and administrative sanctions for regulated entities. It also contains a number of powers for the Commission to adopt implementing measures. The CNB agreed with the amendment on the general level, but made some comments in the discussion concerning the detailed remuneration rules, the imposition of sanctions on natural persons and the large number of implementing measures to be adopted as delegated acts. These comments were not incorporated into the draft amendment.

Directive on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features

Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features was published in the Official Journal of the EU on 28 August 2014. The directive introduces a right for consumers legally residing in the EU to open a payment account with a credit institution, standardised fee terminology and free access to fee comparison websites and a new process for switching payment accounts to another payment service provider within a single Member State. The Czech Republic objected to the proposal as a whole on the grounds that it was superfluous, but given the position of other Member States and the course of the negotiations it strived at least for a compromise to eliminate the proposal's shortcomings. The Czech Republic also made a declaration on the draft directive, emphasising that it disagreed with the duty to ensure comparison websites, where necessary through a public authority. Such sites are already effectively in place without the need for regulatory intervention.

Insurance Mediation Directive (IMD 2)

The negotiations on the proposed revision of the Insurance Mediation Directive continued into 2014. The proposal suits the Czech Republic, as it strengthens the professional requirements, introduces the same requirements for direct and mediated sale of insurance and harmonises the rules with MiFID 2, including disclosure of commissions. The only topics on which the CNB made comments were the interpretation of the term insurance-based investment products in the text of the directive (the CNB recommended interpreting this term uniformly in accordance with the regulation on disclosure of key information, PRIIPs) and the issue of advice, where it recommended harmonising the advice regime between IMD and MiFID.

Anti-Money Laundering Directive (AMLD)

The new directive extends the applicability of the existing regulations to national politically exposed persons, reduces the limit on cash payments where AML checks are not necessary from EUR 15,000 to EUR 10,000 and introduces risk assessment both at the level of institutions and at the national level. New tasks and powers have been assigned to the European supervisory authorities in the areas of risk assessment and implementing measures.

The CNB prepared comments on an ongoing basis for the Ministry of Finance's instructions for meetings of the Council working group, COREPER and ECOFIN. The Council's general approach was approved in June 2014. As regards the topics monitored by the CNB, some improvements were made to the general approach as compared to the Commission's proposal in the area of electronic money micro-payments (some exemptions from customer checks for such payments) and an acceptable compromise was reached in the case of archiving (data storage for ten years for AML purposes, including prevention).

⁸ Directive 2009/65/EC of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS IV).

2.2 REGULATIONS

Regulation on market abuse

Regulation No. 596/2014 on market abuse, replacing Directive 2003/6/EC on insider trading and market manipulation and three implementing Commission directives, was published in the Official Journal of the EU on 12 June 2014.

Regulation on packaged retail investment products (PRIIPs)

The regulation on key information documents for packaged retail and insurance-based investment products was published in the Official Journal of the EU on 12 June 2014. In the negotiations of the Council working group, non-harmonised pension schemes were eliminated from the applicability of the regulation and delegated acts were replaced by implementing acts with greater powers conferred on the Member States.

Single Resolution Mechanism Regulation (SRMR)

Regulation No. 806/2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism was published in the Official Journal of the EU on 30 July 2014. The regulation establishes uniform rules and procedures for the resolution of credit institutions and investment firms.

The CNB's comments on this second pillar of the banking union mainly concerned the legal basis for establishing the SRM, the management and decision-making process within this mechanism and issues relating to the different positions of participating and non-participating EU countries. Throughout the discussions, the CNB advocated mitigation of the risks to the stability of the Czech financial system arising from the above regulation and compliance with the subsidiarity principle in relation to the powers of national authorities.

Regulation on improving securities settlement in the EU and on central securities depositories (CSDR)

Regulation No. 909/2014/EU on improving securities settlement in the European Union and on central securities depositories was published in the Official Journal of the EU on 28 August 2014. In the discussion of the draft regulation, the CNB commented on the instructions for meetings of the Council working group and promoted its stance on the draft regulation. Its major comments related to the request for an exemption, or a significant broadening of the exemptions, from the applicability of the regulation to central banks operating a settlement system, the strengthening of the powers of the Commission and ESMA, recognition of third countries' depositories, penalties for natural persons, the need for clear determination of capital for central depositories, and the retention of activities of existing settlement systems. On the key issue of the applicability of the draft regulation to central banks, the exemptions for central banks were suitably extended.

Regulation on European long-term investment funds (ELTIFs)

The aim of this regulation is to expand the possibilities for financing long-term investment projects in the EU by introducing a special investment vehicle allowing funds from investors to be pooled for the purposes of investment in infrastructure projects, unlisted companies and real estate. The CNB assessed the Ministry of Finance's instructions for meetings of the Council working group on the draft regulation. In line with the general position of the Czech Republic, its comments mainly concerned the authorisation procedure, the involvement of retail investors, diversification and limits on portfolio structure, the investment horizon and expected regulatory technical standards. The trilogue discussions were completed in December 2014 and the proposal was approved at COREPER II. Since a number of major requests made by the Czech Republic, especially those concerning the offering of ELTIFs to retail investors and the protection of those investors, were approved, the current version of the draft regulation is acceptable.

Regulation on money market funds

This regulation is aimed at establishing single rules for such funds delivering a high level of investor protection and preventing or mitigating the risk of contagion due to runs on money market funds. The CNB assessed the Ministry of Finance's instructions for meetings of the Council working group on the draft regulation. In line with the general position of the Czech Republic, its comments mainly concerned the across-the-board implementation of all the detailed requirements of the regulation without taking into account the proportionality principle, the internal

rating process, the analysis of fund investors' behaviour, information duties to the ESMA and the applicability of the regulation solely to funds using the designation of money market fund. The discussions on the proposed regulation will continue into 2015.

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

This regulation focuses on introducing regulation of all indices used as benchmarks in financial instruments and financial contracts and sets detailed rules for the benchmark-setting process, in particular regarding the quality of input data and the methodology used, the restriction of conflicts of interest and checks of administrators and providers of benchmark-setting data. The CNB assessed the Ministry of Finance's instructions for meetings of the Council working group on the draft regulation. In line with the general position of the Czech Republic, its comments mainly concerned the application of the proportionality principle and the ex-territorial applicability of the regulation. Some positive changes were accepted in the discussion. Some cumbersome duties were excluded (e.g. the administrator's duty to publish benchmark input data), the impacts resulting from the use of benchmarks from third countries were reduced (benchmark recognition without the need for a decision of the Commission on regulatory equivalence was incorporated) and the number of delegated acts of the Commission was partly reduced. The discussions on the proposed regulation will continue into 2015.

Regulation on reporting and transparency of securities financing transactions

The Commission published a proposal for a regulation on reporting and transparency of securities financing transactions on 29 January 2014. The draft regulation lays down a duty to report transactions (lending and borrowing of securities or commodities, repo operations) to trade repositories, a duty for investment fund managers to inform investors of such transactions and conditions for the rehypothecation of investment instruments accepted as transaction collateral. The CNB made a number of comments on the draft regulation, which were incorporated into the general position of the Czech Republic. Some of the CNB's comments were accepted in the discussion of the draft regulation, e.g. gradual implementation of the requirements set forth by the regulation and making them conditional on the adoption of all relevant implementing measures, a reduction of the limit on the penalty for a breach of the reporting duty, an exemption from the reporting duty for financial counterparties when concluding transactions with an ESCB member, and the exemption of financial counterparties that satisfy the parameters of a "small corporation" from the applicability of the regulation. A general approach to the regulation was approved at the COREPER II meeting on 20 November 2014. The trilogue discussions on the proposed regulation between the Council, the Commission and the Parliament will continue into 2015.

2.3 IMPLEMENTING MEASURES FOR DIRECTIVES AND REGULATIONS

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

Implementing measures for CRD IV and CRR

- Commission regulations (regulatory technical standards) published in the Official Journal of the EU in 2014 (19 in total) amending regulations in the areas of, for example, capital, capital requirements, capital buffers, large exposures, the leverage ratio, credit risk transfers, remuneration and the exchange of information between supervisory authorities.
- Commission regulations (implementing technical standards) published in the Official Journal of the EU in 2014 (nine in total) concerning, for example the exercise of the right of establishment and the freedom to provide services, the exchange of information between supervisory authorities, disclosure by supervisory authorities, reporting and the publication of information and details in the calculation of capital requirements.
- Proposals for another set of regulatory and implementing technical standards based on which the Commission will issue regulations amending or implementing CRD/CRR, for example regarding reporting, capital, capital requirements, prudential valuation, derivatives and advanced approaches for the calculation of capital requirements.

Implementing measures for the directive establishing a framework for the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive, BRRD)

- Technical advice for the Commission on the definition of critical operations and core business lines, the conditions under which some liabilities can be exempted from bail-in and the conditions under which an institution's duty to pay an extraordinary ex-post contribution to the resolution fund can be postponed.
- Commission regulation on the calculation of contributions to resolution funds.
- Draft regulatory technical standards governing the content and assessment of recovery plans, the conditions for providing intra-group financial support, the minimum requirement for own funds and eligible liabilities (MREL), the content and the assessment of the content of resolution plans, the assessment of the resolvability of institutions and groups, valuation for the purposes of resolution (methods, valuation, assessment of the independence of valuers) and the content of reorganisation plans.
- Implementing measures for the Solvency II Directive
- Commission delegated regulation governing the requirements for the calculation of technical reserves, the solvency capital requirement, the governance system, disclosure and the provision of information by insurance companies to supervisory authorities.
- Draft implementing technical standards (around 20) concerning, for example the approval of applications made by insurance companies for the use of an internal model, statements for the provision of information to supervisory authorities and the calculation of quantitative requirements.

Implementing measures for the Markets in Financial Instruments Directive (MiFID 2)

- Technical advice for the Commission containing proposed measures in the area of customer protection (e.g. investment advice, dealing with complaints, assessment of appropriateness), transparency, algorithmic and high-frequency trading, the market for small and medium-sized enterprises, suspension and withdrawal of instruments from trading and commodity derivatives.
- Draft regulatory technical standards (36 in total) containing detailed requirements for investment firm licences, organisational requirements for automated trading, pre-trading and post-trading transparency, commodity derivatives and transaction reporting.
- Draft implementing technical standards (four in total) amending the forms for filing applications, making notifications and sharing information between supervisory authorities.

Implementing measures for CSDR

- Draft regulatory technical standards containing requirements for settlement discipline, storage of information and the definition of relevant central banks for supervising central depositories.
- Draft technical advice for the Commission on the manner of setting fines for settlement fails and for determining when the activities of a central depository in a host state are of significance for the functioning of a securities market.

2.4 GUIDELINES

The regulations establishing the European Supervisory Authorities (Nos. 1093/2010, 1094/2010 and 1095/2010) empower those authorities (the EBA, the ESMA and the EIOPA) to issue guidelines with a view to ensuring uniform application of EU law. The issuance of guidelines is in some cases stipulated directly in directives or regulations. Although the guidelines are labelled as legally non-binding, national supervisory authorities and regulated financial institutions are obliged to make every effort to comply with them. Within the ESAs, the CNB contributed to the preparation of numerous draft guidelines, mainly concerning CRD IV and Solvency II. The ESAs issued a total of 36 guidelines in 2014.

3. FINANCIAL MARKET SUPERVISION IN 2014

3.1 LICENSING, APPROVAL AND AUTHORISATION ACTIVITIES

Credit institutions

The CNB supervised an unchanged number of 23 domestic banks in 2014. Changes were recorded in the number of foreign bank branches and credit unions supervised.

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

	As of 31 December 2013	Entries in 2014	Exits in 2014	As of 31 December 2014
Banks ⁱ⁾	23	0	0	23
Foreign bank branches (under the single licence)	21	1	0	22
Credit unions	12	0	1	11
Credit institutions, total	56	1	1	56

i) Of which five building societies.

No new banking licence was granted in 2014. A branch of Sumitomo Mitsui Banking Corporation Europe Limited, Prague Branch was established. A branch of Vanquis Bank Limited, a UK credit institution, was passported, but it was not incorporated until the end of 2014. A branch of the French BNP PARIBAS PERSONAL FINANCE was also passported at the end of 2014 but was not incorporated as of 31 December 2014 (the branch will take over the business of the credit company Cetelem a.s.).

A decision made by the CNB Bank Board on 19 June 2014 dismissing an appeal filed by WPB Capital, spořitelní družstvo, confirmed the CNB's first-instance decision of 4 April 2014 to revoke its credit union licence. WPB Capital, spořitelní družstvo, closed down on 24 June 2014, i.e. on the date this decision came into force.

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

Continuing from 2013	Opened in 2014	Completed in 2014	Continuing into 2015
13	57	59	11

Of the 70 administrative proceedings conducted by the CNB in the credit institution sector in 2014, 16 related to banks and the rest to credit unions. The majority of the proceedings related to the approval of members of bodies and senior officers of credit unions. The other proceedings concerned applications for a decrease in the basic membership contribution, a transfer of other membership rights, the acquisition of a qualifying holding in a bank/credit union and consents to a merger or the sale of a part of a credit institution. There was a change in the ownership structure of LBBW Bank CZ a.s., whose name was subsequently changed to Expobank CZ a.s.

Insurance companies

A total of 32 domestic insurance companies (excluding the Czech Insurers' Bureau) and one reinsurance company were subject to CNB supervision as of the end of 2014. A total of 20 branches of foreign insurance companies were subject to supervision by the CNB to a limited extent. The domestic insurance company DIRECT Pojišťovna, a.s. closed down in the Czech market in 2014. D.A.S. pojišťovna, a.s. did not definitively leave the insurance market but converted into a branch of the Austrian D.A.S. Rechtsschutz AG and is active in the Czech Republic under the single licence regime. NOVIS Poistovňa a.s., odštetný závod started operating under the single licence regime in the Czech Republic in 2014. The Bulgarian Euroins Insurance Plc. made a notification through the competent domestic regulator of its plan to open a branch in the Czech Republic but was not incorporated as of 31 December 2014.

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

	As of 31 December 2013	Entries in 2014	Exits in 2014	As of 31 December 2014
Insurance companies (including branches and reinsurers)	52	2	1	53
of which:				
domestic insurance undertakings (excluding the CIB)	33	0	1	32
branches of insurance companies from the EU/EEA	18	2	0	20
branches of insurance companies from third countries	0	0	0	0
reinsurance companies	1	0	0	1

The CNB conducted 87 administrative proceedings and issued 78 administrative decisions in the insurance sector in 2014.

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

Continuing from 2013	Opened in 2014	Completed in 2014	Continuing into 2015
9	78	78	9

Competition in the insurance sector played a role in 2014. This resulted in exit of DIRECT pojišťovna a.s. from the Czech market and still open proceedings relating to the sale of another insurance company and an application to establish a new insurance company (these proceedings were not completed by the end of 2014). The conversion of D.A.S. a.s. and MetLife a.s. into branches of their foreign parents is undoubtedly due to the forthcoming coming into effect of Solvency II (in 2016), which will imply fundamental changes in the capitalisation and internal governance systems of insurance companies.

One administrative proceeding was held in 2014 regarding registration in the register of responsible actuaries maintained by the CNB. In all, 70 entities were entered in the above register as of the end of 2014.

Pension management companies and retirement funds

The CNB registered nine pension management companies, 20 retirement funds, 34 participation funds and eight transformed funds at the end of 2014. Raiffeisen penzijní společnost, a.s., whose licence was revoked by the CNB at its own request in August 2014, closed down in 2014. The retirement and participation funds managed by Raiffeisen penzijní společnost were transferred in advance to the management of Penzijní společnost České pojišťovny, a.s. and in June 2014 were merged with the retirement and participation funds of the same type managed by that pension management company. Two new participation funds were established in the last quarter of 2014 based on licences granted to ING penzijní společnost, a.s., and AXA penzijní společnost, a.s.

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

	As of 31 December 2013	Entries in 2014	Exits in 2014	As of 31 December 2014
Pension management companies	10	0	1	9
Transformed funds	8	0	0	8
Retirement funds	24	0	4	20
Participation funds	36	2	4	34
Accredited entities ⁹	16	2	0	18

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

A total of 52 administrative proceedings were conducted (and 50 decisions made) in the pension management companies and retirement funds sector in 2014.

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

	Continuing from 2013	Opened in 2014	Completed in 2014	Continuing into 2015
Pension management companies and retirement funds	5	47	50	2
Accredited entities	0	2	2	0

In 2014, Penzijní společnost České pojišťovny, a.s., Allianz penzijní společnost, a.s., Conseq penzijní společnost, a.s., AXA penzijní společnost, a.s., and Penzijní společnost KB, a.s. were granted licences to merge participation funds (the funds ceasing to exist will mostly be participation funds whose assets did not reach the legally required CZK 50 million level within two years after the licences to establish them were granted). Penzijní společnost České pojišťovny, a.s. was also granted a licence to merge retirement funds of the same type. In November 2014, the CNB approved a merger of Conseq důchodová penzijní společnost, a.s.⁹ (as the successor company) and Conseq penzijní společnost, a.s. (as the company ceasing to exist). The CNB gave consent to a change in the statute of a participation or transformed fund in 20 cases and prior consent to the discharge of office of director of a pension management company in ten cases and granted two licences to establish new participation funds. The CNB also granted consent to a change in the depository of five participation funds managed by Conseq penzijní společnost, a.s. (a single decision was issued in joint proceedings).

⁹ Original company AEGON penzijní společnost, a.s.

Management companies and investment funds

At the end of 2014, the CNB registered 26 management companies, 88 investment funds with legal personality (of which 13 autonomous investment funds) and 191 mutual funds. Two new management companies (Art of Finance investiční společnost, a.s., and DELTA investiční společnost, a.s.) and five autonomous investment funds (Wine Investment Partners, investiční fond s proměnným základním kapitálem a.s., Imperial nemovitostní, uzavřený investiční fond, a.s., CENTRAL GROUP investiční fond, a.s., AGRO 2000 – uzavřený investiční fond, a.s., and Inceptio Investment Fund, investiční fond, a.s.) obtained licences in 2014. Three investment company licences were extended.

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

	As of 31 December 2013	Entries in 2014	Exits in 2014	As of 31 December 2014
Management companies	24	2	0	26
Management funds with legal personality	88	17	17	88
of which: autonomous funds	13	5	1	17
Mutual funds	176	34	19	191
of which: standard funds	41	9	0	50
Depositories	6 ⁱ⁾	0	1 ⁱⁱ⁾	5

i) Of which five entities were registered in the list of depositories kept in accordance with the Act on Management Companies and Investment Funds.

ii) Citibank Europe plc, organizační vložka, stopped carrying on depository activities on 1 January 2014.

In all, 142 administrative proceedings were conducted (and 103 decisions made) in the management companies and investment funds sector in 2014.

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

Continuing from 2013	Opened in 2014	Completed in 2014	Continuing into 2015
8	134	103	39

In 2014, the CNB recorded a large number of administrative proceedings associated with the end on 22 July 2014 of the transitional period for the adjustment of management companies and investment funds to the requirements of Act No. 240/2013 Coll., on Management Companies and Investment Funds.¹⁰ These mostly involved applications for autonomous investment fund licences submitted by investment funds in accordance with Article 9(1) of the Act on Management Companies and Investment Funds (“non-autonomous investment funds”) connected with their intention to switch to the autonomous regime (a total of 26 proceedings) and also a new type of application for prior consent to the discharge of office of director – nominee of a management company in an individual statutory body of an investment fund under management (a total of 16 proceedings). In addition, there were six proceedings regarding applications for investment company licences, four proceedings regarding extensions of investment company licences (additional licences for the provision of investment services in two cases), four proceedings regarding autonomous investment fund licences (at the request of the founders of a company before its incorporation) and two proceedings regarding a change in the scope of autonomous investment fund licences (of which one proceeding was discontinued owing to withdrawal of the application).¹¹

¹⁰ The Act on Management Companies and Investment Funds took effect on 19 August 2013.

¹¹ Four proceedings to grant a management company licence and 23 proceedings to grant an autonomous investment fund licence had not been completed by the end of 2014.

The CNB also conducted ten proceedings regarding the entry of a standard fund in the list of mutual funds,¹² seven proceedings concerning consent to a change in the statute of a standard fund,¹³ four proceedings concerning consent to merge or consolidate mutual funds and three proceedings concerning comparability of a foreign investment fund and a special fund (the applications were approved in all cases and the proceedings were closed by the issuing of an affirmative decision). Five proceedings were conducted in connection with consent to acquire a qualifying holding in a management company or an autonomous investment fund (three proceedings were closed by the issuing of consent, one proceeding was discontinued and no decision was issued in one case). The CNB conducted a total of 52 proceedings concerning consent to the discharge of office of director of a management company or an autonomous investment fund (including a nominee) or a person discharging an office under Article 21(5) of the Act on Management Companies and Investment Funds (33 consents, 14 proceedings discontinued and five proceedings not completed by the end of 2014).

Investment services providers

At the end of 2014, the CNB registered 33 entities holding investment firm licences. No new investment firm licences were granted in 2014. Two investment firm licences expired. The licence of Amidea, a.s. ceased to be valid as a result of a change in its objects of business at its own decision. Patria Finance a.s. ceased to exist due to merger with the investment firm Patria Direct a.s. (the successor company Patria Direct a.s. was renamed Patria Finance a.s.).

Table A.IX – Numbers of investment firms

	As of 31 December 2013	Entries in 2014	Exits in 2014	As of 31 December 2014
Investment firms	35	0	2	33
of which: banks	13	0	0	13
non-banks	22	0	2	20
Branches of investment firms	29	1	5	25
of which: banks	15	0	0	15
non-banks	14	1	5	10

The largest number of administrative proceedings completed in 2014 (148) related to the withdrawal of registration of investment intermediaries (130 decisions issued, 18 proceedings discontinued).

Of the remaining 33 proceedings, five concerned investment firm licences or changes thereto (three consents granted, two proceedings discontinued), one concerned prior consent to a de-merger of an investment firm by spin-off by acquisition (consent granted), two concerned the approval of auction rules or changes thereto, 18 concerned prior consent to the discharge of office of director of an investment firm (16 consents granted, two proceedings discontinued) and seven were connected with consent to the acquisition of qualifying holdings in investment firms (five consents granted, two proceedings discontinued).

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

Continuing from 2013	Opened in 2014	Completed in 2014	Continuing into 2015
5	185	181	9

¹² Two proceedings were closed by the issuing of an affirmative decision in January 2015.

¹³ Two proceedings were closed by the issuing of an affirmative decision in January 2015.

Payment service providers and electronic money issuers

At the start of 2014, the CNB registered 15 payment institutions. In 2014, one new entity (CYRRUS FX, a. s.) was granted a licence for the pursuit of business of a payment institution. One branch of a foreign payment institution (Dek-Co (UK) Limited) was established in the Czech Republic in 2014.

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

	As of 31 December 2013	Entries in 2014	Exits in 2014	As of 31 December 2014
Payment institutions	15	1	0	16
Branches of payment institutions	7	1	0	8
Electronic money institutions	2	0	0	2
Branches of electronic money institutions	1	0	0	1

Two administrative proceedings were closed in the payment system area in 2014. Both concerned licences for the pursuit of business of a payment institution (a licence was granted to CYRRUS FX, a. s. and the second proceeding was discontinued due to withdrawal of the application).

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

	Continuing from 2013	Opened in 2014	Completed in 2014	Continuing into 2015
Payment institutions	2	4	2	4
Electronic money institutions	0	0	0	0

Handlers of domestic banknotes and coins

No proceedings on authorisation for the activity of handler of domestic banknotes and coins were conducted in 2014. The sector of handlers of domestic banknotes and coins saw no changes compared to 2013.

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

	As of 31 December 2013	Entries in 2014	Exits in 2014	As of 31 December 2014
Handlers of domestic banknotes and coins	4	0	0	4

Securities issues and regulated markets

A total of 66 companies subject to CNB supervision owing to admission of their securities to trading on the European regulated market (issuers of listed securities) were registered at the start of 2014. During 2014, the number of issuers of listed securities decreased to 64. Securities of four issuers (bonds in three cases – VIG Fund, uzavřený investiční fond, a.s., J&T Securities Management Limited and J&T BANKA, a.s., and shares in one case – Pivovary Lobkowicz Group, a.s.) were newly admitted to trading on a regulated market. Securities of six issuers were excluded from trading – three cases involved bonds excluded owing to redemption – SALEZA, a.s., Statutární město Ostrava and Kongresové centrum Praha, a.s.¹⁴ – and three involved shares excluded at the decision of the regulated market operator – Spolek pro chemickou a hutní výrobu, a.s. (change of form of shares), OCEL HOLDING SE and VET Assets, a.s. (entry into liquidation).

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

Table A.XIV – Numbers of securities issuers, regulated markets and settlement systems

	As of 31 December 2013	Entries in 2014	Exits in 2014	As of 31 December 2014
Issuers of listed securities	66	4	6	64
of which: registered office abroad	19	1	0	20
listed solely abroad	4	0	3	1
Regulated market operators	3	0	0	3
Multilateral trading facility operators	2	0	0	2
Operators of settlement systems with settlement finality	3	0	0	3
Central depository	1	0	0	1

The CNB conducted 46 administrative proceedings in the area of securities issues, securities registers and regulated markets in 2014. Most of the 39 decisions (35) concerned the approval of documents relating to new securities issues.

The other decisions issued by the CNB in 2014 related to the areas of takeover bids and market infrastructure. They involved one consent to the publication of obligatory takeover bids and two approvals of changes in the CSDP settlement system rules. One administrative proceeding concerning prior consent to squeeze-outs was discontinued. The CNB granted one request for the approval of changes to the rules of operation of the CSDP (no decision issued). A central counterparty licence in the form of participation in an ESMA college was granted to European Commodity Clearing AG (in accordance with the EMIR¹⁵), which started to operate on the PXE. Two cases of providing information to the public and participation in proceedings were dealt with in connection with administrative proceedings (both rejected).

¹⁴ All cases involved issuers of bonds admitted to trading on the Luxembourg Stock Exchange. For an overview of all the licence decisions issued by the CNB within the framework of supervision in the capital market area, see annexes 9–15 in Part C.

¹⁵ Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.

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

Continuing from 2013	Opened in 2014	Completed in 2014	Continuing into 2015
4	42	40	6

In the area of securities issues, 38 sets of final conditions for offers of securities were reviewed outside administrative proceedings in 2014. Regularly published reports were subject to standard inspections (inspections of annual, semi-annual and mid-term reports of all issuers and detailed checks of the application of IFRS in annual accounts in seven selected issuers). Compliance with the duties of issuers of listed securities and related persons was supervised at the same time (notifications of shares in voting rights and directors' transactions). Shortcomings were communicated and remedy ensured.

In the area of regulated markets, the PSE rules (admission of debt securities to the START market and admission of securities of collective investment entities to the regulated market) and the PXE rules (standardisation of foreign electricity futures) were reviewed as part of off-site surveillance. Several examinations concerning regulated market operators and the CSDP were conducted on the basis of submissions and some minor issues regarding the maintenance of the register of securities and the Legal Entity Identifier were addressed.

3.2 NOTIFICATIONS (UNDER THE SINGLE LICENCE)

3.2.1 Outbound notifications

Four domestic banks had branches in Slovakia as of 31 December 2014. Three domestic insurance companies had branches in Slovakia and two had branches in Poland. One domestic credit union was operating in Slovakia through a branch. Six investment firms have a total of eleven branches in five host EU Member States. Two payment institutions had branches in a total of three EU Member States.

In 2014, KUPEG úvěrová pojišťovna, a.s. provided notification of the establishment of a branch in Poland.

Investment firms WOOD & Company Financial services, a.s. and AKCENTA CZ a.s. provided notification of their intention to operate within the territory of a host EU Member State through a branch or via tied agents.

Payment institutions AKCENTA CZ a.s. and Global Payments Europe, s.r.o. provided notification of their intention to operate within the territory of a host EU Member State through a branch or via tied agents. Global Payments Europe, s.r.o., AKCENTA CZ a.s. and PayU Czech Republic, s.r.o. provided notification of their intention to operate within the territory of a host EU Member State under the free movement of services.

Five domestic insurance companies provided notification of their intention to provide services without establishing a branch within the territory of host EU Member States, one insurance company provided notification of its intention to cease providing services in some EU Member States, three banks provided notification of their intention to provide cross-border services (of which two banks as from 1 January 2015) and one management company decided to abandon its intention to carry on business activities in Malta.

Outbound notifications (or changes thereto or termination thereof) were dealt with for 2,898 insurance intermediaries residing or having their registered office in the Czech Republic.

3.2.2 Inbound notifications¹⁶

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

	As of 31 December 2013	Entries in 2014	Exits in 2014	As of 31 December 2014
Credit institutions ⁱ⁾	340	23	4	359
Electronic money institutions	26	10	0	36
Insurance companies ⁱ⁾	734	63	14	783
UCITS funds	1,154	82	74	1,162
AIFs (excluding EuVECAs and EuSEFs) ⁱⁱ⁾	11	77	10	78
EuVECAs ⁱⁱⁱ⁾	2	5	0	7
Management companies	47	2	1	48
Investment service providers	1,666	137	127	1,676
Payment institutions	194	45	1	238
Institutions for occupational retirement provision	1	0	0	1
Insurance intermediaries	5,576	319	200	5,695

i) In the insurance and banking sectors, insurance companies and banks and their branches operating in other EU/EEA countries provide notification.

ii) AIFs = Alternative Investment Funds (special funds and funds for qualified investors. EuSEF (European Social Entrepreneurship Fund).

iii) EuVECAs = the European Venture Capital Funds.

The CNB received 165 prospectus notifications from foreign regulators.

3.3 REGISTRATIONS OF REPRESENTATIONS OF BANKS AND FINANCIAL INSTITUTIONS

Table A.XVII – Numbers of registered and listed entities

	As of 31 December 2013	Entries in 2014	Exits in 2014	As of 31 December 2014
Registered representations of foreign banks ⁱ⁾	17	0	2	15
Investment intermediaries	7,669	41	156	7,554
Tied agents	25,821	7,065	6,830	26,056
Small-scale payment service providers	74	26	2	98
Small-scale electronic money issuers	6	1	1	6
Entities authorised to distribute pension products:				
investment intermediaries	123	11	22	112
non-bank investment firms	1	0	0	1
bank investment firms	6	0	1	5
tied agents	11,043	829	3,231	8,641
tied agents of pension management companies	15	1	5	11

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

¹⁶ See section 3.1 for details on the number of branches.

In 2014, supplementary pension savings and retirement savings distributors renewed their activities on a larger scale for the first time.¹⁷ Entities that had been granted licences before 2013 had to pay a renewal fee. This fee was paid by 101 investment intermediaries, six investment firms, 7,904 tied agents of investment intermediaries and investment firms and ten tied agents of pension management companies. The licences were renewed for another year. The CNB revoked the licences of 15 investment intermediaries, one investment firm, 1,553 tied agents representing an investment intermediary or an investment firm, and four tied agents of pension management companies due to non-payment of the fee.

Register of insurance intermediaries

The CNB holds professional examinations of insurance agents and insurance brokers to verify whether the applicants are competent to perform such activities at a medium and higher level of competence. In all, 588 candidates took these examinations in 2014 and 524 passed.

A total of 8,146 applications for entry in the register of insurance intermediaries and independent loss adjusters (ILAs) were submitted in 2014. A total of 8,040 insurance intermediaries and ILAs were registered (this figure does not include foreign intermediaries listed in the register due to notifications of insurance intermediation from another EU/EEA Member State).

3.4 OFF-SITE SURVEILLANCE

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

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

Submissions made by the public are an important source of information about the approach of supervised entities to clients for supervision of compliance with the duties of financial market service providers in the area of professional care.¹⁸ The findings are used not only to eliminate shortcomings identified in the activity of the supervised entity, but also to identify possible systemic shortcomings. The findings obtained when examining submissions are used as a basis for sector-wide surveys focusing on the breadth of occurrence of unlawful conduct. These findings are then used to identify supervised entities to be included in the on-site inspection plan as well as areas to which attention should be paid during on-site inspections. If systemic shortcomings are indicated for a large proportion of supervised entities, the preparation and publication of a CNB interpretation regarding a specific duty imposed by law, or a clarification or tightening of legal provisions, are initiated.

¹⁷ In 2013, the licences of six investment intermediaries and four investment firms were renewed and no licences were revoked for non-payment of the renewal fee. No tied agent renewed its activity in this period.

¹⁸ See Part C – Annexes, section 5 Assessment of information from submissions made by the public for details on the assessment of information from submissions made by the public.

3.4.1 Supervision of credit and payment institutions

Supervision of credit institutions involves supervision of banks, building societies and credit unions. Branches of foreign banks from EU countries are assessed under a simpler regime.¹⁹ The main analytical instrument employed in off-site surveillance is regular comprehensive analyses of the financial condition of individual entities and the sector as a whole. An analysis of the credit institution sector is produced quarterly. The observance of prudential limits is monitored on a monthly basis for credit institutions. Early warning information is assessed every month. This helps supervisors to identify potential negative tendencies in financial indicators.

Ratings dividing banks and credit unions into five categories according to their risk profiles are regularly prepared for internal CNB supervisory purposes. Risk profiles are determined on the basis of a quantitative and qualitative assessment of credit institutions' exposures to individual types of risks and an evaluation of each institution's risk management system and internal control environment. This assessment also serves as one of the inputs for determining the minimum amount of capital that a credit institution should, in the opinion of the CNB, hold to cover all the risks it undertakes.

In 2014, CNB Banking Supervision obtained auditors' governance system reports from two banks and three credit unions as of 31 December 2013. These reports serve as a supplementary source of information on the quality of the governance environment inside institutions at times when the CNB is unable to conduct on-site examinations due to capacity constraints. As of 31 December 2014, requests for such audits were made with regard to eight banks, all five building societies and five credit unions.

Banking supervision was performed under the standard regime in 2014. Owing to the persisting uncertainty in the European economy, attention was devoted primarily to credit portfolios (categorisation of claims, sufficient provisioning, collateral value, etc.), capital adequacy, liquidity and the overall performance of banks and their consolidated units. In 2014, attention was also paid to the implementation of revised prudential rules associated with CRD IV and CRR. Banks had been invited to prepare recovery plans in compliance with BRRD requirements in the second half of 2013. During 2014, banks gradually submitted supplemented and revised versions of their recovery plans to CNB supervisors for assessment. A whole range of consultative meetings were held with banks to discuss next steps in the plan preparation process.

The CNB, in cooperation with selected banks, continued to implement the joint project of stress testing of banks in 2014. Compared to previous years, the frequency of the joint stress testing was reduced from half-yearly to yearly, using year-end data. The range of risks tested was extended to include the interest rate risk of banks in addition to credit risk. The nine largest domestic banks which have received approval to use the special IRB approach²⁰ 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 using data as of 31 December 2013. These banks account for almost 90% of the assets of the Czech banking sector. The aggregated results of the two rounds of stress tests confirmed the good resilience of domestic banks. Their capital adequacy ratio stayed above the regulatory minimum by a sufficient margin even in an adverse scenario. In addition to these bottom-up tests, the CNB conducts half-yearly stress tests of the entire banking sector (top-down tests), whose results are regularly published on the CNB website.

Despite its relatively small market share, the credit union sector is subject to intensive CNB supervision. A substantial proportion of its supervisory capacity is devoted to this sector in on-site examinations and off-site surveillance. In 2014, the CNB concentrated its off-site surveillance in particular on assessing the current situation and developments in individual credit unions and on resolving their problems, mainly with respect to specific risks undertaken by individual entities. Given the numerous shortcomings identified, supervision was focused mainly on credit portfolio categorisation, sufficient provisioning, financing of groups of connected persons, compliance with regulatory limits and the origin of credit unions' capital.

¹⁹ Since November 2014, primary responsibility for supervision of branches of foreign banks from EU countries has resided with home country supervisors or with the ECB. The CNB merely monitors – under a simplified regime – compliance by branches of foreign banks from EU countries with anti-money laundering and combating terrorist financing obligations, compliance with the rules of conduct and professional care, and liquidity.

²⁰ Internal Ratings Based Approach.

On 24 June 2014, the Czech National Bank revoked the credit union licence of WPB Capital. This was due to an artificial increase in WPB Capital's capital using the credit union's funds granted in the form of loans, the acquisition of prohibited types of securities and circumvention of exposure limits. The CNB found that all this had been done via a network of purpose-built companies which WPB Capital was using.

In addition, CNB Banking Supervision issues decisions relating to the assessment of the competence and integrity of proposed senior officers in banks, the approval of external auditors of banks and credit unions, the approval of the list of shareholders for the purposes of a bank's general meeting and the approval of early repayment of subordinated debt.

After the new Civil Code²¹ took effect on 1 January 2014, CNB supervision focused on verifying the procedures followed by credit and payment institutions and their compliance with the rules contained in the Civil Code. The CNB also paid considerable attention to building societies' procedures for changing and withdrawing from building savings contracts. The CNB continued to put great emphasis on proper execution of payments, and particularly on compliance with the time limits for executing transactions.

3.4.2 Capital market supervision

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

Compliance with information and disclosure duties was continuously assessed in the investment firm sector as part of off-site surveillance. Compliance with exposure limits in connection with the abolition of the possibility of exempting clients' funds from exposures and the calculation of capital adequacy and contributions to the guarantee fund were inspected in 2014.

In the area of pension management companies and funds managed by them, supervisors mainly assessed compliance with statutory limits,²² particularly regarding the value of assets. Fund mergers were dealt with in the second half of 2014 as a result of non-compliance with statutory limits. Supervisors also concentrated on the financial performance of pension management companies and the funds they manage, compliance with the rules of professional care and compliance with other regulatory limits.

The engagement of investment intermediaries in providing investment services relating to shares and derivatives associated with receiving inadmissible incentives from investment firms was identified as the main problem in the area of capital market service provision. Unlawful practices by investment intermediaries give rise to distorted perceptions of the capital market among investors. The CNB therefore proposed to the Ministry of Finance that legislative measures be adopted to limit unlawful conduct by investment intermediaries and regulatory arbitrage. The proposal contained several possible options, some of which may be applied simultaneously. The main options under consideration include limiting the activities of investment intermediaries to the provision of investment services relating to the securities of collective investment funds, and limiting the group of entities to which investment intermediaries may transmit orders to entities resident in the Czech Republic, on which the Capital Market Undertakings Act imposes an obligation to inspect the activities of investment intermediaries with whom they collaborate in providing investment services. These issues will be addressed in a large amendment to the Capital Market Undertakings Act aimed at implementing MiFID 2, MAD and MAR. The amendment is to take effect in 2017. One option being discussed with the Ministry of Finance in the process of preparation of the amendment to the Capital Market Undertakings Act is the complete abolition of investment intermediaries, which were introduced on the basis of a provision allowing Member States to apply a national exemption from the MiFID. The existing investment intermediaries would be converted into investment

²¹ Act No. 89/2012 Coll., the Civil Code, as amended.

²² Under Article 36 of Act No. 427/2011 Coll., on Supplementary Pension Savings.

firms with the same scope of authorisation, but with higher capital,²³ material and personnel requirements. A new major problem in the capital market indicated in 2014 is a significant expansion in investment services relating to contracts for difference (CFDs) and binary options. Such services are offered mainly by foreign investment firms, who frequently use Czech investment intermediaries to promote their services and seek new customers. This means that speculation in investment instruments which are totally inappropriate for most non-professional customers is widely available in the Czech Republic. The fact that such derivatives transactions are usually executed exclusively against the investment firm's own account is also giving rise to doubts. This, coupled with the fact that customers cannot verify the correctness of realisation prices from an independent source, is providing scope for fraudulent behaviour. The CNB has so far addressed this problem by publishing a warning about the risks of investing in CFDs on its website. Wherever it suspects foreign investment firms of dishonest behaviour, the CNB notifies the supervisory authorities of their home Member States.

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

In the area of management companies and investment funds, off-site surveillance was focused on verifying that all entities subject to the Act on Management Companies and Investment Funds had adjusted their conditions to the legislation in force by the end of the transitory period, i.e. by 22 July 2014. The adjustment of conditions involved, among other things, updating the internal regulations of managers, updating the statutes and key information documents of investment funds, revising contract documentation (including the agreement on performing the activity of a depositary) and defining management and administration activities. Attention was also focused on the preparation of new reporting under AIFMD and on the stipulation of individual reporting obligations as regards the data dissemination frequency and the scope of data in accordance with the criteria laid down in European regulations.

3.4.3 Supervision of insurance companies and insurance intermediaries

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

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

Information-gathering visits to insurance companies were an integral part of supervision again in 2014. In addition to the companies' financial and business situation, the discussions covered their strategies and in particular their preparedness for the Solvency II requirements, most notably quantitative determination of the solvency capital requirement. The need to improve governance systems, the introduction of internal risk and solvency assessment and the preparation of new reporting structures were also discussed. At the same time, the CNB prepared a schedule for the

²³ Under Article 8a(4) of the Capital Market Undertakings Act.

implementation of the individual requirements arising from the Solvency II Preparatory Guidelines issued by the EIOPA at the end of October 2013 for 2014–2015. Since the start of 2014, the CNB has been conducting regular evaluations of information submitted quarterly by insurance companies in the form of progress reports on the implementation of the Solvency II requirements in the areas of governance systems and risk and solvency assessment. Insurance companies are being provided with feedback based on these evaluations at both the sector and company level. In the second and third quarters of 2014, following the implementation of the reporting requirements, insurance companies submitted Solvency II reports using end-2013 data in pilot testing. As part of the Solvency II preparations, the CNB is communicating regularly with insurance companies. In 2014, the process of pre-assessment of internal models at group and local level continued in respect of insurance companies that plan to determine their solvency capital requirements under the future Solvency II regime using internal group models.

Intensive cooperation with foreign supervisory authorities – especially in the form of attendance of coordination meetings relating to the supervision of insurance companies in groups and attendance of evaluations of internal models at group level – continued during 2014.

In 2014, supervisors of insurance companies continued to intensively assess premium sufficiency in motor third party liability insurance and the sufficiency of the technical reserves of some insurance companies in this category. An on-site examination²⁴ to check the adequacy of premiums and technical provisions was proposed for entities for which the risk of insufficient premiums had been identified. Extraordinary reporting was introduced in some cases. This involves insurance companies submitting the results of premium sufficiency tests on a quarterly basis and providing information on their motor third party liability insurance portfolios. The measures adopted by insurance companies in connection with the new Civil Code were also an important topic of discussion. Owing to changes in the amount of compensation for damage, the CNB will focus mainly on premium sufficiency and technical provisions in liability insurance.

A fifth round of stress tests of selected insurance companies took place in April 2014. The tests are used to assess the stability of the insurance sector as a whole, and the individual results are used in supervisory work. In the stress tests, the effect of major changes in risk parameters on the value of the insurance company's assets and liabilities and on the available solvency margin and the required solvency margin were assessed at the one-year horizon in line with Solvency I principles. The stress scenario for insurance companies was derived from the adverse macroeconomic scenarios that the CNB had used to test the resilience of the banking sector. This test also included an analysis of the sensitivity of life insurance assets and liabilities to a further decline in interest rates and a qualitative assessment of the consequences of a sustained period of low interest rates. The tests again confirmed that the insurance sector as a whole has sufficient capital to withstand significant changes in selected risk factors.

Supervisors intend to continue conducting regularly stress tests of selected insurance companies in the future. Given that Solvency II comes into effect on 1 January 2016, the stress testing in 2015 is planned to be conducted fully in accordance with Solvency II principles.

In 2014, the CNB continued to focus on enforcing contributions to the fund of the uninsured of the Czech Insurers' Bureau (CIB). At the end of 2013, the Czech Ministry of Transport had identified a technical error at the Central Vehicle Register (CVR) owing to which updated data were not being transferred to the CIB, possibly giving rise to an increased number of cases of companies being wrongly called on to pay the contribution. Further to these findings, regular discussions were held between representatives of the CIB and the Ministry of Transport to prepare a new system of data exchange between the two institutions. In December 2014, the Chamber of Deputies of the Czech Parliament passed an amendment to the Act on Vehicle Liability Insurance repealing Article 24c of this Act, which authorised the CIB to send out calls to pay the contribution.

²⁴ One on-site examination to check the adequacy of premiums in motor third party liability insurance was conducted in 2014. On-site examinations will continue to focus on this category in 2015.

Some shortcomings persisted in the activities of insurance intermediaries in 2014, especially in the distribution of investment life insurance. The CNB considers the shortcomings in the provision of pre-contractual information to potential clients and the negotiation of inappropriate products, including the presentation of investment life insurance as a savings product, to be problematic. Under the existing Act on Insurance Intermediaries, if it identifies serious cases of unlawful conduct the CNB may require insurance intermediaries to bring their activities into compliance with the said act and impose a fine in cases stipulated by law. However, the amounts of such fines must not jeopardise the existence of the supervised entities. The CNB's limited powers and the number of insurance intermediaries in the Czech Republic (around 150,000 were registered at the end of 2014) are adversely affecting the effectiveness of supervision of such entities. The problem of unlawful conduct by insurance intermediaries is being exacerbated by persisting insufficient checks of such intermediaries by insurance companies. The CNB has opened administrative proceedings against several insurance companies accused of insufficient management and control of their distribution networks. The CNB has long been proposing legislative changes to the Ministry of Finance in order to enhance the tools for enforcing ethical principles in the insurance market. The CNB also works to enforce these principles in a less formal manner by influencing insurance companies through the Czech Insurance Association, by publishing supervisory standards and by drawing the attention of individual insurance companies to systemic shortcomings in their activities and demanding information about remedial measures taken. For the same reason, several supervisory benchmarks were published on the CNB website in 2014, acquainting insurance companies and insurance intermediaries with the most serious supervisory findings and the expected remedies. The CNB also published several public notices drawing attention to the most serious risks the public may face in the financial market.

3.4.4 Supplementary supervision of financial conglomerates

The CNB performs supplementary supervision of financial conglomerates under Act No. 377/2005 Coll. and Decree No. 347/2006 Coll. Supplementary supervision of financial conglomerates focuses on capital adequacy, intra-group transactions, risk concentrations, internal control systems and risk management systems. Entities active within financial conglomerates are subject to financial market supervision by various supervisory authorities. For this reason, a coordinator is appointed for the purposes of supplementary supervision based on criteria stipulated by law. The coordinator's role consists mainly in coordinating the collection and provision of significant information at financial conglomerate level, monitoring defined indicators and coordinating supervisory authorities' practices in the performance of supplementary supervision. In 2014, the CNB acted as a coordinator in one case. In the other cases, the role of coordinator was entrusted to foreign supervisory authorities, with which the CNB cooperates on an ongoing basis.

3.4.5 Supervision of other regulated entities

In accordance with the transposition of the payment services directive and the e-money directive, the CNB supervised payment institutions, electronic money institutions, small-scale payment service providers and small-scale electronic money issuers in 2014.

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

Compliance with disclosure duties by the supervised entities is the main source of information for prudential supervision. Compliance with disclosure duties in the sector of non-bank payment service providers is specific in that the supervised entities report not only total data for all their activities, but also data for activities associated solely with payment services.²⁵ Entities in which shortcomings were detected in reported data were called on to remedy the shortcomings and adopt measures to prevent them from recurring.²⁶

²⁵ An implementing requirement arising from Directive 2007/64/EC on payment services.

²⁶ The main shortcomings were miscalculated amounts of payment transactions and miscalculations due to wrongly selected exchange rates. Most of the shortcomings occurred in new entities and are being gradually eliminated. Their number is not significant given the large number of entities.

3.5 ON-SITE EXAMINATIONS

The Czech National Bank performs financial market supervision that is based on a “forward-looking” system for assessing the risk profile and systemic importance of the supervised institutions. The current situation in the financial sector is also taken into account. On-site examination work follows an annually approved plan of on-site examinations based primarily on outputs from an internal analytical system for risk assessment of supervised institutions,²⁷ on information obtained during off-site surveillance and on-site examinations, and, last but not least, on the requirements of foreign regulators. In addition to conducting examinations, supervisors are responsible for approving advanced methods for calculating capital requirements. Owing to the links between financial markets, cooperation with foreign regulators is being stepped up systematically.

3.5.1 On-site examinations in credit institutions

Both comprehensive and partial examinations were conducted in the credit institution sector in 2014.

A total of 12 examinations were commenced or conducted in banks in 2014. Three of these were comprehensive and the remainder were partial.

One comprehensive examination and three partial examinations were conducted in credit unions in 2014.

Table A.XVIII – Number of on-site examinations in credit institutions by type in 2014

	ICAAP	Credit risk	Market risks	Liquidity risk	Processing of transactions in financial markets	Capital requirements for trading portfolio	Operational risk	IS/IT risks	AML/CFT	Remuneration
Banks	3	3	2	2	2	2	2	2	7	4
Credit unions	1	1	1	1	1	0	0	3	1	1

Examinations of credit risk management

Three examinations in banks (one of which continued into 2015) and two examinations in credit unions were conducted in the area of credit risk management. All the examinations in banks were regular examinations in line with the plan of inspection activities. Two of the examinations were conducted in systemically important institutions, where the inspection team focused on assessing the implementation of remedial measures from previous examinations and on compliance of advanced credit risk management methods with regulatory standards. The shortcomings identified in the institutions examined included (methodological) errors in the assignment of internal ratings and less serious shortcomings, for example, in the valuation and records of collateral, the process of assessment of the balance-sheet value of claims, the calculation of provisions and the traceability of approval bodies’ procedures. In some cases, failure to respect the CNB’s rules concerning the categorisation of claims was identified. No serious systemic errors were identified in any bank.

It was also found that in some cases the institutions examined were not compliant with the provision of CNB Decree No. 163/2014 Coll. stating that the primary factor for the assessment of claims should be a client’s ability to repay funding from his primary sources, rather than sources stemming from collateral (such as support from parent companies or other companies from the client’s group of economically connected persons). In some cases of asset purchase

²⁷ This system is based on quantitative and qualitative assessment criteria and also on the systemic importance of the supervised institutions.

financing, the cash flow generated by the asset was not sufficient for the repayment of loans and the loan had to be subsidised from other sources. In these cases, the institutions examined had not assessed the loans as default claims. The institutions in which shortcomings were detected were all called on to remedy the shortcomings and to regularly report the remedial measures adopted.

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

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

Four on-site examinations (three in banks and one in a credit union) focused on evaluating the internal capital systems (ICAAP) being put in place by credit institutions under Pillar 2 of the Basel II framework were also conducted in 2014. Shortcomings were identified in the verification of the assumptions used (especially the going concern assumption) and also in the method for setting internal capital requirements for individual risks, concentration risk in particular. Shortcomings were also identified in the concept of stress testing, which is an integral part of ICAAP. The shortcomings identified did not jeopardise the ability of the examined banks to cover the internal capital requirements with available capital.

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

In the area of market risks, less significant shortcomings were identified relating to the definition of risk appetite, inconsistencies between procedures and internal regulations, insufficient or absent checks of the market conformity of prices (in one bank and one credit union) and insufficient monitoring of exposure to countries (in one bank) and to country and sector concentration risk (in one bank and one credit union). Further shortcomings were generally identified in interest rate risk measurement (primarily in credit unions) and in reporting to the CNB connected with the interest rate risk statement.

As regards liquidity risk, the shortcomings related most often to an insufficient definition of risk appetite, to limits, which did not reflect the institution's risk profile, to stress scenarios, which failed to take sufficient account of relevant risk factors, and to emergency plans, which were not integrated with stress testing, had no variants or failed to define indicators of exceptional events. Inconsistencies between individual features of the liquidity risk management system were also identified in two cases. The CNB called on the institutions examined to eliminate the shortcomings identified. The elimination of those shortcomings is being monitored on an ongoing basis.

Risks associated with trading in financial markets were examined in two banks and one credit union. Shortcomings of various degrees of seriousness were found in all cases. Risks arising from insufficient separation of the business and settlement functions and the absence of authorisation (validation) actions taken by another worker (the "four eyes" principle) were assessed as serious findings.

The calculation of capital requirements for market risks and risks arising from trading in financial markets was subject to examination in two banks. Shortcomings were detected mainly in the valuation of certain types of financial derivatives and in the calculation of capital requirements for general interest rate risk, counterparty risk and credit valuation adjustment (CVA) risk. The CNB called on the institutions examined to eliminate the shortcomings identified. The elimination of those shortcomings is being monitored on an ongoing basis.

Examinations of operational risk management, including IS/IT risks

The CNB examined operational risk management systems in two banks in 2014. The IS/IT risk management system was checked in two banks and three credit unions.

In the operational risk area, CNB supervisors focused on comprehensively checking all key processes associated with operational risk management and compliance with regulatory requirements for determining the capital requirement for operational risk. In addition to the necessary verification of the information security management system, the IS/IT examinations concentrated on outsourcing and on data confidentiality, accessibility and integrity in the use of cloud services.²⁸ In view of current security threats, the CNB paid increased attention to the security of electronic banking and to the procedures used by financial institutions when dealing with security incidents.

The inspections in credit institutions revealed differences in quality of operational risk management systems across institutions. The shortcomings identified mostly concerned processes associated with the collection and quality of data on operational risk events and with the identification, monitoring and assessment of operational risk. As regards IS/IT risk management, the most serious shortcomings were found in the area of risk analysis and classification of information system assets, security of access to information systems, security principles and compliance therewith, and the traceability of procedures and processes associated with IS/IT operations. The CNB called on the institutions examined to eliminate the shortcomings identified. The elimination of those shortcomings is being monitored on an ongoing basis.

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

The AML/CFT examinations conducted by the CNB are focused primarily on verifying the efficiency and effectiveness of the measures meant to protect the examined institution from being used for money laundering and terrorist financing and also to create the conditions for detecting such conduct.

Eight examinations were conducted in 2014, seven in banks and one in a credit union. The shortcomings identified related mainly to the determination of client risk factors, the application of procedures to risky clients, the vetting of clients and the monitoring of transactions, and compliance with the requirements of sanction legislation. The CNB called on the institutions examined to eliminate the shortcomings identified and is assessing this process on an ongoing basis.

The CNB continued to work with the Ministry of Finance's Financial and Analytical Unit in 2014. The CNB was also involved in activities associated with the evaluation of the Czech Republic being conducted by the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL).

Remuneration principles and procedures

Four on-site examinations and one on-site inspection were conducted in credit institutions in 2014 focusing on the application of remuneration principles and procedures encouraging prudential risk, liquidity and capital management. Both systemic and partial shortcomings were identified. The institutions' remuneration systems were responding inadequately to the adverse trend in claim risk. In some cases, independent verification of the application of remuneration principles was not being carried out and the institutions were not responding appropriately to shortcomings identified by internal and external audits. Shortcomings in the granting of part of the flexible component of pay in non-monetary instruments of the parent company were detected again in 2014. Problems also persisted in the identification of employees having a significant effect on the risk profile of institutions and the application of specific remuneration instruments. The releasing of part of the flexible component of pay was not spread over a period whose length takes into account the institutions' business cycle and associated risks. For the majority of identified employees with unusually high variable components of pay, the claim to at least 60% of that amount was not postponed to the following years, but at most 40% of the claim was postponed. Most institutions had not sufficiently linked the criteria for the granting of the flexible component of pay with prudential risk, capital and liquidity management.

Basel II implementation as regards advanced methods for determining capital requirements

Under the capital adequacy framework (Basel II) in the wording of EU Directives 2006/48/EC and 2006/49/EC as transposed into Decree No. 123/2007 Coll., banks are allowed to use advanced approaches based on mathematical models in order to calculate capital requirements. In 2014, the CNB's expert teams (for IRB, AMA and VaR) continued

²⁸ Cloud computing is the use of hardware and software supplied as a service through a computer network (typically the internet).

their consultations with all regulated institutions that had shown an interest in using the special approaches for the calculation of capital requirements for credit, operational and market risks under the Basel II rules. The teams communicated with foreign supervisors on an ongoing basis.

In its planned on-site examinations in 2014, the inspection team concentrated mainly on continuous verification of the procedures of banks which have already received approval to use the IRB approach. The team is also dealing on an ongoing basis with banks' applications for consent to change their IRB models by means of a joint application from their parent bank. The discussions between the CNB and the banks focused on assessing the compliance of the banks' procedures with CNB Decree 163/2014 Coll. and EU Regulation No. 575/2013, which replaced CNB Decree No. 123/2007 Coll. Most applications were approved (including the conditions), although in some cases the bank was asked for additional information. Cooperation with banks at an expert level involves regular meetings at which CNB representatives discuss planned changes to IRB models with the relevant members of staff.

In 2014, the CNB considered an application and subsequently granted approval for a significant change to the AMA approach in one credit institution and worked with the home regulator on issuing the relevant decision. It also continued to examine compliance with the conditions under which some institutions were allowed to use the AMA approach, focusing on further refining and developing the operational risk management systems under which this approach is applied.

A material change in the internal VaR model of one bank was validated in 2014. The bank was granted consent to extend its internal VaR model to include a new risk factor. The CNB validated option valuation models in two banks in 2014. These banks were granted consent to use models for the calculation of delta equivalents of interest, equity, currency and commodity positions.

3.5.2 On-site examinations in capital market institutions

A total of 28 on-site examinations were completed and one commenced in the area of investment service provision in 2014. Five examinations were conducted in investment firms, two in branches of foreign investment firms and 22 in investment intermediaries. All these inspections were comprehensive, focusing on verifying compliance with the rules laid down in legal regulations connected with the duty to provide investment services with professional care and compliance with rules of conduct and professional care in the provision of investment services.

The most common shortcomings found were in the areas of the provision of information to clients, the obtaining of information about clients, compliance with the archiving duty, traceability of control processes, the governance system and the transactions and orders book (or the records of an investment intermediary). Formal shortcomings, especially in the internal regulations of the institutions examined, were also identified.

Further to these examinations, the institutions concerned took remedial measures, the implementation of which is being continuously monitored. Administrative proceedings were opened in more serious cases.

In 2014, on-site examinations were conducted in two management companies, focusing mainly on the rules of conduct and professional care in the management of investment fund and client assets, procedures for the issuance and redemption of units, cooperation with a depository, control of delegated activities and promotion of products and services.

Shortcomings were found in control mechanisms in respect of some delegated activities, control mechanisms in respect of compliance with the limits, cooperation with the depository, professional care as regards documentation on executing transactions under the best conditions and the provision of misleading information to clients when promoting products, and also in fee policies and the configuration of modelling calculators.

Further to these examinations, management companies took remedial measures, the implementation of which is being continuously monitored. Petitions for the opening of administrative proceedings were submitted in more serious cases.

On-site AML/CFT examinations were conducted in two investment firms and three investment funds in 2014. The main shortcomings concerned client identification and vetting. At the proposal of the CNB, the Financial Analytical Unit at the Ministry of Finance opened an administrative proceeding on the imposition of a fine against one investment firm in 2014.

3.5.3 On-site examinations in insurance companies and insurance intermediaries

One partial on-site examination was carried out in an insurance company in the area of prudential supervision in 2014.

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

As regards motor third party liability insurance, the examinations identified that premiums were not sufficient to ensure that claims arising from the provision of liability insurance under the Act on Vehicle Liability Insurance can be settled. This was mainly due to the highly loss-making segment of fleet insurance.

In connection with the results of the examination focusing on compliance with prudential requirements, the insurance company examined was called on to submit the content and timetable of remedial measures.

In 2014, on-site examinations were completed in two insurance companies focusing on management and control of distribution networks, conclusion of policies with clients, administration of policies, handling of complaints, loss adjustment, marketing and, in one case, consumer protection. The findings related mainly to insufficient control mechanisms when concluding policies with distributors and monitoring the quality of distributors' activities, the use of misleading terminology in training aids for distributors and in web presentations, and the content of policy terms and conditions and lists of fees. In the loss adjustment area, the findings related primarily to delays in commencing or conducting loss adjustment, insufficient traceability of loss adjustment processes, insufficient control of the activities of loss adjustment assistance services and insufficient justification of the way in which claims are quantified.

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

The CNB also conducts on-site examinations in the area of insurance intermediation. A total of 79 examinations of investment intermediaries were completed in 2014. The most common findings included shortcomings relating to the duty to act with professional care, the extent and form of the provision of information to clients or potential clients, and the notification of changes in data recorded in the register of insurance intermediaries and independent loss adjusters.

Further to these examinations, the investment intermediaries concerned took remedial measures, the implementation of which is being continuously monitored. Administrative proceedings were opened in more serious cases.

Where the above entities carry out life insurance-related activities, they are subject to on-site examinations focusing on anti-money laundering and combating the financing of terrorism. The findings related above all to failure to prepare evaluation reports, failure to report the names of contact persons to the Ministry of Finance's Financial Analytical Unit (FAU MF) and shortcomings in staff training.

AML/CFT inspections were conducted in two life insurance companies in 2014. The findings chiefly concerned the identification of risk factors, client vetting, monitoring of client transactions and compliance with the requirement for traceability of decision-making and control processes.

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

3.5.4 On-site examinations in other regulated entities

In 2014, three on-site examinations were completed in payment institutions and one on-site examination was completed in an electronic money institution. In addition, one examination was started in a payment institution and is scheduled for completion in the first quarter of 2015. The shortcomings identified related mainly to the provision of information to clients, risk management and compliance with the reporting duty.

Four examinations in small-scale payment service providers were also completed in 2014. The most common findings included shortcomings in contractual documentation connected with the fulfilment of information duties to users.

The CNB also conducts on-site examinations in bureaux de change. The CNB completed 103 on-site examinations in 2014. A total of 238 establishments were inspected. The most common findings included shortcomings in the area of informing clients about exchange rates and fees for services and shortcomings in compliance with the reporting duty.

On-site examinations focusing on anti-money laundering and combating the financing of terrorism were also conducted in these entities. The findings related mainly to shortcomings in the system of internal principles, failure to prepare an evaluation report and shortcomings relating to client identification and vetting.

Further to these examinations, the institutions concerned took remedial measures, the implementation of which is being continuously monitored. Administrative proceedings were opened in more serious cases.

3.6 ENFORCEMENT²⁹

In 2014, activity in the enforcement area consisted mainly in investigating petitions for the opening of administrative proceedings, making decisions on the opening of administrative proceedings or the deferral of cases, and conducting first-instance administrative proceedings, within which fines and remedial measures were imposed, licences revoked and registrations cancelled. In addition to conducting administrative proceedings against supervised entities, the CNB conducts administrative proceedings against entities that provide financial market services without having the relevant licence in financial market sectors where the law enables penalties to be imposed for the carrying on of unauthorised business.

Table A.XIX – Numbers of penalty administrative proceedings

Continuing from 2013	Opened in 2014	Completed (by final and conclusive ruling) in 2014	Continuing into 2015
60	68	77	51

In addition to those already under way, three penalty administrative proceedings were opened in the area of supervision of credit institutions in 2014. Four decisions became final and conclusive. Three decisions imposed remedial measures. One decision revoked the licence of the credit union WPB Capital, spořitelní družstvo, due to the provision of loans to repay other membership contributions and violation of exposure rules.

In 2014, a total of 19 penalty administrative proceedings were opened in the capital market area in addition to those already under way. In all, 26 decisions became final and conclusive. Fines totalling CZK 10,590,000 were imposed by the CNB.

Besides the proceedings already under way, 28 penalty administrative proceedings were launched in the insurance supervision area in 2014. A total of 34 decisions became final and conclusive (eight in the insurance company area

²⁹ Final decisions in the capital market area are published on the CNB website (*Supervision, regulation > Conduct of supervision > Final administrative decisions*). Sanctions imposed on insurance intermediaries are entered in the Register of Insurance Intermediaries.

and 26 in the area of insurance intermediation). Administrative proceedings were discontinued in four cases relating to insurance companies, as the companies concerned voluntarily remedied the shortcomings. Ex-officio remedial measures were imposed in three cases and a fine was imposed in one case. In the area of insurance intermediaries, fines were imposed in eleven cases, a fine combined with remedial measures was imposed in one case, and remedial measures combined with suspension of activities until implementation of the measures were imposed in six cases. In two cases only a remedial measure was imposed, and in five cases the registration of the insurance intermediary was withdrawn. One administrative proceeding was discontinued. Fines totalling CZK 2,875,000 were imposed. In addition to these proceedings, 40 on-site orders and fines totalling CZK 157,000 were imposed in the area of insurance intermediaries.

Nine administrative proceedings were opened in 2014 for violation of the Act on Bureau-de-change Activity. The CNB issued six final and conclusive decisions, of which fines were imposed in three cases and bureau-de-change licences were withdrawn together with fines imposed in two cases. A fine coupled with a remedial measure was imposed in one case. The fines amounted to CZK 625,000 in all. At the same time, 43 on-site orders and fines totalling CZK 200,000 were imposed in 2014.

In addition to the proceedings already under way, one administrative proceeding was opened and two administrative proceedings were completed by a final and conclusive ruling in the consumer protection area in 2014. One administrative proceeding was discontinued and a fine coupled with a remedial measure was imposed in one case. The fine totalled CZK 200,000.

Five administrative proceedings were opened in the payment system area in 2014. Three final decisions were taken. Fines were imposed in two cases, and in one case a combination of a fine and a remedial measure was imposed. The fines amounted to CZK 610,000.

Two administrative proceedings pursuant to the Act on the CNB were opened in 2014. One decision to impose a fine of CZK 4,000 became final and conclusive.

Furthermore, one administrative proceeding was opened pursuant to the Act on the Circulation of Banknotes and Coins in 2014. One decision, imposing a remedial measure and a fine of CZK 300,000, became final and conclusive.

3.7 MONITORING OF FINANCIAL MARKET ENTITIES IN LIQUIDATION

The CNB monitors the process of liquidation of financial market entities on the basis of a statutory disclosure duty and information requested. In 2014, the CNB conducted oral proceedings with liquidators, provided consultations and opinions on liquidation processes and provided information and documentation on the requests of courts and law enforcement agencies.

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

	As of 31 December 2013	Entries in 2014	Exits in 2014	As of 31 December 2014
Banks	3	0	0	3
Credit unions	11	1	4	8
Insurance and reinsurance companies	0	1	0	1
Management companies	5	0	0	5
Investment funds	13	1	2	12
Mutual funds	5	4	3	6
Pension management companies	0	1	0	1
Investment firms	0	0	0	0
Total	37	8	9	36

The number of financial market entities in liquidation, which is monitored by the CNB, declined by one year on year. Six companies in liquidation and three mutual funds ceased to be subject to financial market supervision by the CNB as a result of the completion of liquidation and the subsequent deletion of the company from the Companies Register. WPB Capital, spořitelní družstvo, DIRECT Pojišťovna, a.s. and four mutual funds (CONVERSANO otevřený podílový fond AVANT investiční společnost, a.s., Investiční společnost České spořitelny, a.s., BONDINVEST – otevřený podílový fond, BRODIS hodnotový, otevřený podílový fond kvalifikovaných investorů, QI investiční společnost, a.s., and J&T OPPORTUNITY EUR smíšený otevřený podílový fond, J&T INVESTIČNÍ SPOLEČNOST, a.s. – the last-mentioned fund also concluded its liquidation in 2014) went into liquidation in 2014. Liquidation was resumed in the case of MBI uzavřený investiční fond, a.s. v likvidaci, which had already been deleted from the Companies Register but new assets were identified. Raiffeisen penzijní společnost a.s. went into liquidation.

3.8 CENTRAL CREDIT REGISTER

The Central Credit Register (CCR) is an information system administered by the Czech National Bank since 2002 which enables banks and foreign bank branches operating in the Czech Republic (banks) to share information on the credit commitments and payment discipline of businesses. The level of use of CCR data by banks indicates that such information forms part of the lending processes in banks and plays a role in the assessment of potential and existing bank clients.

CCR data play an ever-increasing role in European cooperation and will also play a role in the collection of granular credit data by the European System of Central Banks in the AnaCredit project. On the basis of an ECB decision, two transfers of anonymised client data for the preceding five half-yearly periods took place in the preparatory phase in 2014; another data transfer is expected in March 2015. At the same time, a long-term solution is under preparation in the form of a draft ECB regulation on the collection of granular data as from 2018. The CCR continues to be involved in international data exchange with countries participating in a joint project based on memoranda of understanding.

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

	31 December 2011	31 December 2012	31 December 2013	31 December 2014
Number of registered borrowers	576,583	609,503	611,885	621,716
of which: natural persons (entrepreneurs)	330,372	345,243	339,730	338,394
legal entities	246,211	264,260	272,155	283,322
Total volume of loans outstanding (CZK billions)	1,290	1,328	1,508	1,559
Number of CCR application users	2,569	2,767	2,836	2,151
Ad hoc enquiries about credit commitments (thousands per year)	215	184	234	285
Number of enquiries about client credit commitments in monthly reports (thousands per year)	3,198	3,843	3,759	4,300
Number of extracts made for clients per year	514	490	520	499

The indicators characterising the content and use of the Central Credit Register are rising steadily, the only exception being the number of users, which fell in 2014 due to the cancellation of some user accounts in some banks linked with migration to an internal application using the CCR's web services.

4. SUPERVISION OF COMPLIANCE WITH CONSUMER PROTECTION REGULATIONS

4.1 SUMMARY OF CONSUMERS' COMPLAINTS

The CNB received 1,230 complaints in the consumer protection area in 2014. More than two-thirds of the complaints pertained to insurance and banking. As in previous years, the numbers of complaints in these areas were almost equal. A relatively high number of complaints were again recorded for non-bank foreign exchange entities, followed by non-bank consumer credit providers and investment firms.

Complaints and investigations in the insurance area

A total of 427 complaints – representing about 35% of all the complaints received – concerned the insurance area. Complaints regarding pre-contractual information and fees dominated in this category. Consumers complained about the charging of fees by supervised entities and about delayed returns of insurance premium overpayments. Also frequent were complaints about the provision of false and insufficient information by insurance company employees, delays in the settlement of losses and the provision of insufficient information before the conclusion of the contract. In accordance with their information duties, insurance companies undertook to inform consumers properly about changes in their valuation tables so that consumers always know sufficiently in advance what changes have been made to the tables and can respond to them.

The CNB examined the compliance of insurance companies with the requirements of the new Civil Code as regards the possibility of withdrawing from a contract in the first month after its conclusion and terminating an insurance policy in the first two months after its conclusion. Insurance companies should not charge any fees associated with insurance costs in connection with such actions, with the exception of insurance claims already paid by the company. Where complaints could not be answered using available information, the CNB asked the insurance company for its standpoint, on the basis of which it assessed the degree of possible violation of the consumer protection regulations.

As regards insurance intermediaries, the CNB dealt with complaints concerning inactivity of insurance intermediaries in dealing with complaints, i.e. failure to react to consumers' complaints, and possible damage caused to consumers by the conduct of insurance intermediaries' representatives when selling insurance and investment products. In some cases where it was not possible to draw inference about the applicability of the relevant law in terms of limitation periods and take action against the intermediary, it was nevertheless stated that the proposals were not in line with the consumers' demands. From the perspective of the current legal framework for professional care in the area of consumer protection, products negotiated in this manner were in contravention of these regulations. As the limitation periods enabling administrative proceedings for the violation of the Consumer Protection Act to be opened had expired, the consumers were referred to proceedings before the Financial Arbitrator or the courts with their claims. The current procedures – and in particular the forms for recording clients' demands and needs and the investment questionnaire forms – were reviewed in connection with these complaints and no major shortcomings were found. As for the issue of compliance with the time limits for dealing with complaints laid down in Article 19 of the Consumer Protection Act, the CNB stated that this provision is not subject to its supervision but to that of the Czech Trade Inspection Authority.

Another area where (potential) clients may have been misled was communication through call centres, whose services are used by some subordinated insurance intermediaries. These call centres, or third parties, contact clients in connection with already negotiated insurance and offer changes to it and information about new tariff benefits. In this area, the CNB focused on verifying findings suggesting possible undesirable renegotiations (to the detriment of the consumer) which could be a result of misleading practices, in particular with regard to consumers contacted by phone.

4. SUPERVISION OF COMPLIANCE WITH CONSUMER PROTECTION REGULATIONS

Complaints and investigations in the banking products area

In the area of credit institutions, a total of 448 consumer complaints pertaining to all banking products were received.

Most of the complaints concerned payments and fees. Consumers most often complained about time limits for the execution of payment transactions, fees associated with international payments and the handling of complaints linked with card payments. They also complained about the time limits for dealing with complaints linked with card payments, which are longer than the usual 30 days as a result of investigations conducted by card companies.

Bonus campaigns by banks remain a constant problem. Consumers often do not understand the conditions and ask for bonuses without being aware of all the conditions they have to meet to obtain them. As regards notifications of cases of possible discrimination, a bank removed a discriminatory condition from its website which led to it offering student accounts only to Czech students.

Complaints and investigations in the consumer credit area

Complaints regarding consumer credit, including complaints connected with credit cards, were also investigated. Credit drawn by means of a credit card is consumer credit within the meaning of Act No. 145/2010 Coll., on Consumer Credit. The provision of unaffordable credit or credit line increases to low-income individuals, disabled people or pensioners were often the subject of complaints. In the past, the CNB had already discussed with banks through the Czech Banking Association the need to comply with the obligation laid down in the Consumer Credit Act to assess consumers' creditworthiness with sufficient professional care so that the provision of credit does not lead the consumer into financial problems and a debt trap.

In the consumer credit area, checks were conducted and shortcomings in the process of consumer credit provision were remedied where necessary. One scoring model was adjusted to take a more individual approach to applicants, one offer to increase limits was modified to take account of the client's current ability to repay and internal guidelines were amended to include a personal banker's duty to provide accurate information necessary to correctly calculate refinanced credit. Furthermore, an error in the fees charged for early credit repayment was eliminated after it was found that the charges associated with early repayment had been unjustified and in contravention of the contract.

With regard to this issue, the CNB on 18 March 2014 issued Supervisory Benchmark No. 1/2014 on the interpretation of a lender's duty to assess a consumer's ability to repay consumer credit with professional care. This document aims to inform supervised entities about the interpretation of the provision in question in the context of its application by the Czech National Bank when performing supervision of compliance with legal duties in the consumer protection area. Specific shortcomings identified in the area of assessing consumers' creditworthiness and determining their ability to repay were discussed with representatives of specific banks at bilateral meetings.

During 2014, the new arrangements for informing consumers about changes in price lists and terms and conditions were discussed with building societies. On the basis of consumer complaints, the CNB found that building societies' procedures were incompatible with the new framework for making changes to contracts of adhesion contained in the Civil Code as well as representing a possible unfair commercial practice. Following a series of meetings with building society representatives, as well as written communications, building societies agreed to adopt measures and make changes to internal procedures to ensure that their clients will in future receive information about changes to price lists or terms and conditions in written or electronic form far enough in advance to be able to decide whether to continue their contractual relationship with the building society under the revised conditions. If they decide to terminate the relationship, this will happen under the originally agreed conditions, including the originally defined notice periods (usually three months).

Consumers' complaints also pertained to withdrawals from contracts by building societies. These contracts involve no loan provision following the binding period, the target amounts had been exceeded and savings had not been deposited regularly.

Complaints and investigations in the capital market area

A total of 46 consumer complaints were investigated in the capital market area in 2014. Most of them concerned complaints about losses on investments, with consumers claiming that they had not been adequately warned about the risks associated with investing, that they had not been offered stop loss and stop limit hedging tools, and above all that they had requested a guaranteed return on their investment. After examining the contract (usually a consignment contract not providing for investment advice), the terms and conditions and the investment questionnaire filled in by the consumer, the CNB found that their claims could not be regarded as justified and that unfair commercial practices were not involved.

Consumers also sent in enquiries about the activities of foreign firms providing cross-border investment services in the Czech Republic. All we can say here is that consumers still invest on the basis of promises of high returns with unknown entities without making any checks and only via the internet, and only seek information after they have invested. Only rarely do they check out the investment firm and the contact person in advance.

Complaints and investigations concerning non-bank foreign exchange entities

A total of 185 complaints concerning non-bank foreign exchange entities were received in 2014. Steady year-on-year growth in the number of complaints has been recorded in this area. When examining such complaints, the CNB requires the bureau de change to provide a copy of the pre-contractual information signed by the consumer proving his or her agreement with the conditions of the exchange and a copy of the receipt as laid down in the Consumer Protection Act, and also performs an on-site check of the provision of information about exchange rates and fees on the bureau de change's exchange rate list. If the bureau de change provides these documents and the on-site check proves that the exchange rate and any fees are clearly stated on the exchange rate list, the consumer's claim cannot be upheld.

The exchange rate level remains the main subject of the complaints. Some bureaux de change, especially in the centre of Prague, offer exchange rates of between CZK 15 and 20 to the euro. Foreigners do not expect such an exchange rate and ask for transactions to be cancelled. Bureaux de change almost always refuse to do so once the pre-contractual information has been signed and the transaction completed.

Complaints and investigations in other areas

A total of 51 complaints pertaining to non-bank consumer credit providers were received. However, these entities are subject to CNB supervision only where credit has been provided via a credit card. In this area, the CNB was most often contacted by consumers with requests to assess the correctness of the APRC calculation for credit for the purchase of second-hand vehicles from used car dealers. The CNB explained that this type of credit from non-bank providers is not subject to its supervision. Failure to calculate the APRC in accordance with the law constitutes an administrative offence, for which a fine up to CZK 20 million may be imposed. The consumer would also be able to demand a loan interest rate equal to the CNB's discount rate from the beginning.

Contracts contained an "automatic request" to provide a credit line and issue a credit card were investigated from the perspective of compliance with the duties relating to the provision of pre-contractual information.

A total of 73 submissions pertaining to consumer protection in general were received in 2014. This category includes enquiries or requests for expert opinions submitted to the CNB by consumers, consumer organisations and law firms (in the area of consumer credit). The CNB deals with such submissions by providing written explanations with references and recommendations on how to deal with the issue or which advisory or supervisory institution to contact.

4.2 ON-SITE EXAMINATIONS

A total of seven on-site examinations took place or were opened in 2014. Five examinations pertained to insurance intermediaries, one to an insurance company and one to a bureau de change. As regards insurance, the most frequent shortcomings detected were in the area of informing customers about the nature of life insurance associated with investment in funds or other types of insurance, and in the area of fee policies.

4. SUPERVISION OF COMPLIANCE WITH CONSUMER PROTECTION REGULATIONS

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

4.3 LEGAL AND METHODOLOGICAL ACTIVITIES

The CNB continued to pay attention to the issue of consumer credit. In this area, the CNB issued a supervisory benchmark regarding the interpretation of a lender's duty to assess a consumer's ability to repay consumer credit with professional care. This document aims to inform supervised entities about the interpretation of the provision in question in the context of its application by the CNB when performing supervision of compliance with legal duties in the consumer protection area.

In connection with the Consumer Credit Act and the entry into effect of the new Civil Code, the CNB again dealt with fundamental interpretative applications of these legal rules. The issue of consumer credit agreements and how they are concluded and the regulation of consumer credit again generated several enquiries from supervised entities and other entities, for example providers of legal services. In its application opinions, the CNB used interpretative approaches which, in its opinion, best reflect the sense and purpose of the new regulation, while endeavouring to eliminate any interpretations which could pose a threat to supervision in this area.

In the area of European legislation, the CNB was involved in work on the transposition of the Directive of the European Parliament and of the Council on credit agreements for consumers relating to residential immovable property and the Directive of the European Parliament and of the Council on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features.

The CNB also participated in the meetings of the working group on the implementation of the directive on alternative dispute resolution for consumer disputes. Its implementation should make available a new option for resolving such disputes which will be faster and cheaper than the existing ones.

Further information on the investigation of complaints is available in Part C – Annexes, section 5.2.

5. INTERNATIONAL COOPERATION

5.1 ESTABLISHMENT OF THE BANKING UNION AND THE EUROPEAN FINANCIAL SUPERVISORY SYSTEM

Three proposals completing the legislative establishment of the banking union (BRRD, SRMR, DGSD) were adopted in 2014. Preparations for the actual launch of the first pillar of the banking union, i.e. the Single Supervisory Mechanism (SSM), continued throughout 2014. The ECB assumed responsibility for direct supervision of important banks on 4 November 2014. This was preceded by a comprehensive assessment of 130 banks conducted by the ECB in cooperation with national supervisory authorities and also stress testing of banks conducted by the EBA.

In the first half of 2014, the EU Member States, the European Parliament and the Commission reached an agreement on the establishment of the Single Resolution Mechanism (SRM), the second pillar of the banking union. In May 2014, 26 EU Member States signed an intergovernmental agreement (IGA) on the transfer and mutualisation of contributions to the Single Resolution Fund (SRF). At the end of the year, EU finance ministers reached an agreement on the implementing regulation, which contains, among other things, rules for calculating banks' contributions to the SRF.

Throughout the trilogue on the SRM regulation, the CNB campaigned against limiting the role and powers of the Council and the plenary meeting of the Single Resolution Board in decision-making on bank resolution. It also resisted the inclusion of a joint securing mechanism in the IGA and supported the principle of voluntary lending between the SRF national compartments. As regards bridge financing of the SRF, the CNB supported the concept of individual responsibility of the Member States in the SRM for the creation of functional securing mechanisms in the event of a lack of funds in the national compartments.

As in the previous year, the large number of legislative proposals issued in 2014 by the European Commission had a significant impact on the workload of the European Supervisory Authorities (ESAs) – the EBA, the ESMA and the EIOPA – and the European Systemic Risk Board (ESRB). During 2014, the European Commission published the first review of the functioning of the ESAs and the ESRB, concluding that the ESAs had become established as well-functioning authorities and had contributed to a renewal of investor confidence in the financial system. The Commission also stated that the mandate of the ESAs was broad enough and proposed only a few short-term and long-term recommendations which could be implemented in the years ahead during the term of the newly appointed Commission.

At the end of 2014, the Commission opened a debate on a capital markets union with a view to furthering the integration of this sector in the single market in order to support economic growth and in particular the access of small and medium-sized enterprises to capital markets.

The CNB promoted its proposals by actively participating in meetings of the ESRB and the ESAs, working closely with the Ministry of Finance in EU policy committees and cooperating with the supervisory authorities of EU Member States. The Czech Republic achieved numerous partial successes in promoting its standpoints.

5.2 COOPERATION WITHIN THE EUROPEAN SUPERVISORY AUTHORITIES

European Banking Authority (EBA)

In 2014, the CNB was actively involved in the activities of the EBA, where it was represented at the level of the Board of Supervisors, standing committees and working groups.

Within the working groups, the CNB participated mainly in the preparation of level-three regulations connected with the new CRD IV/CRR regulatory framework. Among other things, 2014 saw the completion of EBA guidelines and recommendations on indicators of the global systemic importance of institutions, disclosure of encumbered and unencumbered assets of credit institutions, the funding plans of credit institutions, significant risk transfer for securitisation transactions, collection of data on individuals whose income exceeds EUR 1 million, identification criteria

for other systemically important institutions, the supervisory review and evaluation process (SREP) and the setting of conditions for disclosure by financial institutions. Guidelines setting the range of scenarios to be used in recovery plans, specifying detailed measures for reducing or removing impediments to resolvability and setting the circumstances under which these measures may be used, and specifying the types of tests, reviews and exercises that may lead to the provision of support from public funds, were published in the area of crisis prevention and resolution.

Another key EBA activity in 2014 was the preparation of a large number of implementing and regulatory technical standards (ITS/RTS), mainly in the area of remuneration, liquidity management of credit institutions, supervisory reporting, the content and evaluation by supervisory authorities of institutions' recovery plans, identification of systemically important institutions, liability insurance for consumer credit intermediaries, the internal models of credit institutions for calculating capital requirements, and the functioning of supervisory colleges. The CNB contributed to the creation of all the binding technical standards and was also involved in the preparation of hundreds of published answers to enquiries from the public and the industry regarding the application of CRD IV/CRR and BRRD.

The EBA completed the second round of EU-wide stress testing in 2014. Banks operating in the Czech Republic participated only indirectly through their parent companies at the consolidated level. The CNB contributed to the test methodology, for example the requirement for sufficient exchange of information about the course of the tests within supervisory colleges. The CNB was also involved in the preparation of the second module of the single supervisory manual for the analysis of business models, which will serve as a set of non-binding rules aimed at harmonising the supervisory practices of the national supervisors.

In 2014, the EBA and the national supervisors conducted a peer review of the implementation by supervisors of the key EBA guidelines on concentration risk. As the CNB ranked among the supervisors with the best supervisory practices in this area, EBA representatives visited the CNB to learn about these practices in more detail.

CNB representatives also contributed to EBA reports for the Commission evaluating the CRD IV/CRR regulations in the area of macroprudential instruments, providing an opinion on the definition of a credit institution in the context of shadow banking, analysing the consistency of risk weights in the residential portfolios of EU banks and providing an opinion on virtual currencies. They also helped prepare the EBA's regular reports monitoring the impacts of Basel III on EU banks and analysing risks in the EU banking sector.

European Securities and Markets Authority (ESMA)

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

The first inspection by representatives of ESMA and competent supervisory authorities at the CNB took place in 2014 as part of a peer review of the competent supervisors' procedures as regards enforcement of the MiFID provisions on the provision of fair, clear and not misleading information to clients in marketing communications. ESMA stated in its assessment that the CNB's procedures were fully in line with the MiFID rules in all the areas reviewed. The CNB received the same assessment in a peer review of its supervisory procedures as regards enforcement of the MiFID provisions on the obligation to execute orders on terms most favourable to the client.

As regards accounting, auditing and financial reporting, the CNB participated in the preparation of ESMA guidelines on enforcement of financial information disclosed by issuers of listed securities, draft technical standards concerning the revised Transparency Directive with regard to the creation and operation of an ESMA web portal to be used as a point of access to regulated information, ESMA opinions for the IASB and the EFRAG on the draft IFRS and an ESMA opinion on the Commission's public consultation on the impacts of the use of IFRS in the EU.

In the area of creating and harmonising rules of protection against market abuse, the CNB commented on documents implementing the new Market Abuse Regulation (MAR). This included, for example, draft technical advice for the Commission on indicators of market manipulation, reporting of managers' transactions and reporting of whistleblowing, as well as draft technical standards, among other things regarding buyback and stabilisation programmes, testing of market demand, recognised market practices and reporting of suspicious transactions.

In the prospectus area, the CNB was involved in the preparation of draft technical standards on prospectus-related issues under the Omnibus II Directive, which aimed, among other things, to regulate the procedures for approving prospectuses and define the information to be incorporated by reference. As regards transparency and takeover bids, technical standards were prepared on notification of voting rights associated with financial instruments under the revised Transparency Directive.

In fulfilling its tasks under the regulation on credit rating agencies (CRA 3), the CNB contributed to documents implementing this regulation. These included technical advice for the Commission regarding the development of a creditworthiness assessment for EU Member States and draft ESMA guidelines on the information duty of credit rating agencies to ESMA. The CNB also contributed to technical standards under the CRA 3 regulation on the information on structured-finance instruments, the European Rating Platform (a rating agency's duty to report rating data to ESMA) and fees charged to clients for rating services.

In the area of creation and harmonisation of trading rules on the secondary securities market, the CNB helped prepare documents on the implementation of MiFID 2 and MiFIR. These included draft technical standards on securities transparency, the duty to conclude derivatives transactions on an OTF and disclosure requirements with regard to data on trading and access to trading venues, as well as draft technical advice for the Commission concerning among other things the definition of the systematic internaliser, access to systematic internalisers' quotes and the definition of algorithmic and high-frequency trading.

In addition, the CNB contributed to documents on market infrastructure. As regards the regulation on OTC derivatives, central counterparties and trade repositories (EMIR), draft technical standards were prepared on the clearing obligation for some credit default swaps and interest rate derivatives. In the CSDR area, draft technical standards with regard to required measures to deal with settlement fails and record keeping, as well as draft technical advice for the Commission on the manner of determining fines for unsettled trades, were prepared. In the context of MiFID 2 and MiFIR implementation, draft technical standards on indirect clearing arrangements³⁰ and technical advice for the Commission on portfolio compression³¹ were prepared.

In the area of investment service provision, the CNB contributed to documents on the implementation of MiFID 2 and MiFIR. Among these were draft technical standards regarding the information to be provided by investment firms in applications for authorisation and the requirements applicable to investment firms' management, shareholders and members with qualifying holdings. They also included technical advice for the Commission as regards consumer protection requirements (including exemption of some persons from the applicability of MiFID 2, conflicts of interest, information duties to clients, best execution, inducements and provision of information to clients regarding the value of investment instruments in safekeeping).

In the area of fund investment, the CNB contributed to a number of documents on the application of the Alternative Investment Fund Managers Directive (AIFMD), the regulation on European social entrepreneurship funds (EuSEF) and the regulation on European venture capital funds (EuVECA) as well as the directive amending the directive on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities as regards depositary functions, remuneration policies and sanctions (UCITS V). As regards the AIFMD, the documents prepared included a consultation on the AIFMD EU passport and national private placement regimes, questions and answers on the application of the AIFMD and AIFMD memoranda of understanding signed between the competent supervisors and selected third-country supervisors. The documents prepared in the area of the EuSEF and EuVECA regulations included draft technical advice for the Commission on the definition of goods and services embodying a social objective and modified requirements replying to the management of conflicts of interest by

³⁰ A set of contractual relationships between a central counterparty, a clearing member, a client of a clearing member and an indirect client that allows the client of a clearing member to provide clearing services to an indirect client.

³¹ Partial or full termination of some or all derivatives between counterparties and their replacement with another derivative whose combined notional value is lower than the combined notional value of the terminated derivatives.

EuSEF and EuVECA managers, as well as technical standards on notifications under the EuSEF and EuVECA regulations. In the area of UCITS V, draft technical advice for the Commission was provided regarding measures to protect a UCITS fund from insolvency when delegating a depositary's safekeeping function and regarding the requirement for the management company and the depositary to act independently.

As regards financial innovation, the CNB contributed to an opinion aimed at competent supervisory authorities and also advice aimed at EU institutions (the European Parliament, the Council and the Commission) on investment-based crowdfunding. This document explains the legal framework applying to this area in the form of questions and answers. Additionally, the CNB helped prepare an ESMA statement on potential risks associated with investing in contingent convertible capital instruments (CoCos).³²

European Insurance and Occupational Pensions Authority (EIOPA)

In 2014 the CNB was actively involved in EIOPA's activities at the level of the Board of Supervisors and in standing committees and working groups. It prepared opinions and analyses for individual meetings and for decisions in written procedures. The key task of EIOPA is still the implementation of the new Solvency II regulatory framework, whose date of effect was postponed to 1 January 2016 by the Quick Fix 2 Directive.

Within working groups, the CNB was mainly involved in the preparation of level-three Solvency II regulations. The first set of guidelines, covering the issue of capital, the determination of the solvency capital requirement, the calculation of technical provisions, the use of internal models, the supervisory review process, equivalence assessments and the calculation of group solvency, was approved in 2014. In addition, EIOPA approved technical standards and guidelines focusing, among other things, on the approval of internal models, insurance company-specific parameters, special purpose vehicles and ancillary capital. Other level-three regulations, concerning, for example, system of governance and assessment of own risks and solvency, were sent for public consultation.

At the request of the Commission's Directorate-General for Translation, CNB representatives reviewed of the Czech translation of some parts of the level-two Solvency II regulations (delegated acts). The Commission approved them in October 2014 and then sent them to the EU Council and the European Parliament for trilogue discussion. Together with the EU's translators, the CNB was also actively involved in the Czech translation of terms from an EIOPA glossary aiming to facilitate the translation of guidelines.

The CNB also contributed to the half-yearly EIOPA reports on financial stability, the economic situation and developments in the insurance, reinsurance and occupational pensions sectors in EU Member States. In 2014 EIOPA also carried out stress tests of insurance and reinsurance companies, in which three insurance companies operating on the Czech market participated on an individual basis in a special test focused on low interest rates. Other domestic insurers took part in the tests only as members of their groups.

In 2014 the CNB was actively involved in the peer reviews through which the national supervisory authorities and EIOPA exchange experience in the regulation and supervision of various areas of insurance and occupational pension funds. In a peer review on pre-application of internal models, EIOPA published a report ranking the CNB among the national supervisory authorities which were implementing pre-application of internal models in the most appropriate and practical manner consistent with national specificities. As regards other peer review topics, supervisory colleges and the freedom to provide services are worth mentioning.

The consumer protection area remains important. The CNB contributed to a report containing good practices for national supervisors regarding insurance product comparison websites. Furthermore, a document was prepared on the product intervention powers of supervisory authorities of Member States. The CNB also participated in the preparation of the third report on consumer trends in insurance and occupational pensions.

³² A form of subordinated debt (bonds). Where the Common Equity Tier 1 (CET1) of a CoCo issuer, i.e. a bank, falls below a certain threshold, e.g. below a CET1 ratio of 5.125%, these bonds are converted to Tier 1 equity.

A bilateral meeting with EIOPA representatives mainly on the implementation of Solvency II took place at the CNB in mid-2014. EIOPA assessed the CNB's approach to this area as above-average, stating that some of the CNB's supervisory practices could serve as a model for other national supervisors.

Joint Committee of European Supervisory Authorities

The CNB was involved in the activities of working groups of the Joint Committee of the European Supervisory Authorities in 2014. The Committee is a forum for cooperation between the EBA, ESMA and EIOPA.

In the regulatory area, joint EBA and ESMA guidelines for complaints-handling in the securities and banking sectors and joint EBA, ESMA and EIOPA guidelines on the convergence of supervisory practices relating to the consistency of supervisory coordination arrangements for financial conglomerates were issued. The Committee also prepared and sent to the Commission draft regulatory technical standards on risk concentration and intra-group transactions in financial conglomerates. In the area of consumer protection, a reminder was issued on the obligations of financial institutions regarding self placement.

5.3 COOPERATION WITHIN THE EUROPEAN SYSTEMIC RISK BOARD

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

In line with the ESRB's mandate and tasks, the key area of activity in 2014 again consisted in the assessment and analysis of the primary sources of systemic risk and financial vulnerability in the EU and the development of a framework for the implementation of macroprudential policy instruments in the EU. The ESRB continued with its work on central counterparties and financing transactions – two areas which it had earlier identified as increasingly important to financial system stability. As regards insurance, the ESRB focused on systemic risk in this sector, the impact of the low-yield environment and the current effects of the Solvency II directive.

The ESRB continued to prepare the macroprudential tools laid down in the Capital Requirements Directive and the Capital Requirements Regulation and to define the principles for their application. In the *Flagship Report on Macroprudential Policy in the Banking Sector* and the *Handbook on Operationalising Macro-prudential Policy in the Banking Sector*, it published its principles for the use of the new macroprudential instruments. It also introduced a procedural framework for the issuing of opinions and recommendations regarding the use of certain macroprudential tools, i.e. for tasks newly entrusted to the ESRB under CRD/CRR. Several Member States announced their intention to apply these instruments. During 2014, the CNB also notified the ESRB and other relevant institutions that it had started to use the capital conservation buffer and had set the countercyclical capital buffer rate and the systemic risk buffer rate. Together with notifications from other Member States, these notifications are published in a special section of the ESRB website for the exchange of information on the use of macroprudential instruments in the EU.³³

In June 2014 the ESRB issued a recommendation on guidance for setting countercyclical buffer rates (ESRB/2014/1), which the CNB adhered to, among other things, when setting the rate for this type of capital buffer.

In July 2014 the ESRB published the results of an assessment of the implementation of the recommendation on the macroprudential mandate of national authorities. The implementation of the recommendation in the Czech Republic was assessed as compliant.

³³ <http://www.esrb.europa.eu/mppa/html/index.en.html>

In June and December 2014 the CNB fulfilled its reporting duties under the following ESRB recommendations issued in 2012 and 2013: Recommendation ESRB/2012/2 on funding of credit institutions and Recommendation ESRB/2013/1 on intermediate objectives and instruments of macroprudential policy.

Discussions on the review of ESRB legislation³⁴ continued in 2014. A report by the European Commission on the mission and organisation of the ESRB, addressed to the European Parliament and the Council and published on 8 August 2014, was submitted to members of the General Board of the ESRB. However, the relevant regulations were not changed before the end of 2014.

5.4 COOPERATION WITHIN THE EUROPEAN CENTRAL BANK (ECB)

Financial Stability Committee (FSC)

In 2014 the FSC, whose primary aim is to help ECB bodies to fulfil their mandate in the field of supervision of financial institutions and the stability of the EU financial sector, met only in its narrow euro area composition without the participation of CNB representatives. The CNB was only involved in data collection and a survey of analytical approaches to macroprudential policy across EU countries.

Within the STC/FSC, the CNB participates in the AnaCredit (Analytical Credit Datasets) project, which aims to collect and share granular data on credit and credit risk. The requirements of individual user groups were clarified in 2014 using a cost-benefit analysis. The project is at the end of the initial preparatory stage, in which the relevant ECB regulation is being finalised and methodological guidelines are being drafted. The preparatory work also involves the collection and analysis of available credit data, obtained primarily from national central credit registers.

Payment and Settlement Systems Committee (PSSC)

In 2014, the activities of the PSSC in its extended composition, where the CNB is represented, again consisted mainly in discussing SEPA (Single Euro Payments Area), general payment system issues, supervision of payment and settlement systems, and the development of the TARGET system.

The PSSC is monitoring the implementation of SEPA. The legislation has been completed and will take effect for non-euro area countries in 2016.

The PSSC prepares suggestions for meetings of the ERPB (European Retail Payments Board). The first meeting of the ERPB (which replaced the SEPA Council) took place in December 2014. The topics discussed included efforts to support instant payments and other innovative payments and revisions of SEPA monitoring statistics. The second ECB report on virtual currencies was under preparation. The development of TARGET2 in relation to T2S (TARGET2-Securities) was monitored; everything is running according to plan. The PSSC discussed shifts in powers towards the newly established EBA; for example, the conclusions and recommendations of the SecurePay forum are being taken over by the EBA and transformed into binding guidelines.

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

³⁴ Regulation (EU) No. 1092/2010 on European Union macro-prudential oversight of the financial system and establishing the European Systemic Risk Board, and Regulation (EU) No. 1096/2012 conferring specific tasks upon the European Central Bank concerning the functioning of the European Systemic Risk Board.

5.5 COOPERATION WITH THE EU COUNCIL AND ITS STRUCTURES

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

The CNB was involved in the preparations for ECOFIN Council decisions as part of the meetings of lower working bodies. It made proposals for changes and additions to the instructions for meetings of working groups and for COREPER II meetings. The CNB proposed that the mandate of the Ministry of Finance for ECOFIN meetings be extended or modified. The CNB drafted opinions and comments on the Ministry of Finance's instructions for EFC and FSC meetings.

When the final agreement on the SRM regulation (the second pillar of the banking union) was being shaped, it was advocated in the trilogue between the European Parliament, the Commission and the Council that the role and powers of the Council and the plenary meeting of the Single Resolution Board in bank resolution decision-making should not be limited. The CNB's representative at the intergovernmental conference discussing the Intergovernmental Agreement on the transfer and mutualisation of contributions to the SRF (IGA) argued against including the mutual securing mechanism in the IGA and thus eliminating the negative impacts of mutualisation on credit institutions in countries outside the banking union. At the same time, it was advocated that mutual lending between the SRF national compartments should be voluntary and there should be a level playing field for all EU Member States. As regards bridge financing of the SRF, the CNB supported the concept of individual responsibility of the EU Member States in the SRM for the creation of functional securing mechanisms in the event of a shortage of funds in the national compartments. In discussions about delegated acts of the Commission concerning the calculation of banks' contributions to the national restructuring funds, the CNB advocated that the system should not disadvantage institutions established outside the banking union.

As regards the proposal for a regulation on structural measures improving the resilience of EU credit institutions, the CNB expressed a conceptual reservation concerning the potential low effectiveness and unclear definition proposal. Instead of the introduction of across-the-board measures in the EU banking sector, the CNB advocated discretion for Member States and proposed that the objectives of the proposal should be addressed in existing regulatory rules and supervisory instruments.

In reaction to the Commission's initiative to support funding of small and medium-sized enterprises, the CNB recommended that appropriate measures should be adopted primarily at the national level and that fragmentation of EU prudential regulation should be prevented.

In negotiations leading to the introduction of a financial transactions tax as part of enhanced cooperation between eleven EU Member States, the CNB emphasised that any extraterritorial impacts on non-participating countries, including indirect impacts, would be unacceptable.

As regards the review of, and proposed changes to, the European System of Financial Supervision (ESFS), the CNB resisted a further strengthening of the role of the ESAs' management, an extension of the ESAs' direct supervisory powers and a change in the ESAs' funding. In the area of data exchange, the CNB argued against the creation of direct reporting duties of individual entities to the ESAs.

MONEYVAL Committee

The September 2014 plenary meeting of the MONEYVAL Committee discussed, among other things, the Czech Republic's follow-up report on progress in the AML/CFT area. The CNB presented an amendment to Decree No. 281/2008 Coll., on certain requirements for the system of internal principles, procedures and control measures against the legitimisation of the proceeds of crime and financing of terrorism, which took effect on 26 July 2014. In light of the results achieved, the Committee stated that the April 2015 plenary meeting would discuss excluding the Czech Republic from the obligatory follow-up reporting regime.

5.6 COOPERATION WITHIN OTHER INTERNATIONAL ORGANISATIONS AND ASSOCIATIONS

Committee on Financial Markets (CFM) – OECD

In April and October 2014, a CNB representative participated in the meetings of the OECD Committee on Financial Markets (CFM). The CFM focused mainly on funding of small and medium-sized enterprises, which significantly contribute to economic growth and job creation in advanced countries. The financial crisis led to a tightening of bank regulation and banks' lending policies, making it harder for small and medium-sized enterprises to access financing. The OECD recommends that its members should focus on strengthening non-bank financing of small and medium-sized enterprises through securitisation, secured bonds and stock markets, as well as on ensuring high-quality standardised information about small and medium-sized enterprises for investors. The CFM became an important platform for debating current trends on world financial markets. It was stated that quantitative easing had supported the US economic recovery and that the ECB's accommodative monetary policy had helped stabilise euro area financial markets but could not resolve the structural problems of some member economies.

The CFM also discussed persisting implicit state guarantees to banks and recommended that OECD member countries adopt regulatory and institutional measures to eliminate such non-market guarantees.

Basel Committee on Banking Supervision (BCBS) – BCG

The CNB was represented at the BCBS in the BCG (Basel Consultative Group), which maintains contacts with BCBS member and non-member countries. The BCG was regularly informed about and discussed the topical banking regulation issues being addressed by the Basel Committee. In 2014, these issues included simplification of regulatory approaches and restoring confidence in models, the completion of some areas of Basel III (e.g. liquidity standards), supervisory colleges, problems of weak banks, loan impairment (in connection with IFRS 9) and governance systems. The issue of the implementation of Basel III in small and emerging economies, where the CNB played a significant active role, continued from 2013. The work of the relevant expert team resulted in November 2014 in the publication of a working paper on the impacts and implementation challenges of Basel III in small and emerging economies, including related recommendations (such as phased implementation of the regulatory framework).

International Organisation of Pension Supervisors (IOPS)

As part of its cooperation with the IOPS, the CNB took advantage of the remote voting procedure to express its opinion on documents submitted for the regular annual IOPS meeting in Namibia in 2014. The CNB approved documents connected with the activities and appointment of IOPS representatives, but disagreed with the proposed decrease in the quorum for voting by the governing members and the members of the Technical Committee of the IOPS from a majority to one-third in order to preserve decision-making legitimacy. The CNB also provided explanations regarding the classification of the pension system pillars in the Czech Republic.

International Organization of Securities Commissions (IOSCO)

In 2014, the CNB was actively involved in IOSCO's work on a survey examining the practical use of the memorandum of understanding between capital market supervisors and a survey focusing on the priorities, challenges and risks related to financial market developments. Applications for information made by IOSCO members were dealt with on an ongoing basis. The CNB was actively involved in IOSCO's activities in the European Regional Committee, the Growth and Emerging Markets Committee and the IOSCO Annual Conference.

5.7 COOPERATION WITH NATIONAL SUPERVISORY AUTHORITIES

In 2014, the CNB was involved in ten supervisory colleges for European banking groups and one group headquartered in the USA.³⁵ This represents the same extent of cooperation as in 2013. As a consolidating supervisory authority, the CNB initiated the establishment of one supervisory college in 2014.³⁶ In 2014, the colleges focused mainly on carrying out joint assessments of the risk profiles of individual banking group members with a view to taking a joint decision on their minimum capital and liquidity levels.

November 2014 saw the launch of the SSM, in which the ECB took over the role of consolidating supervisor for the bulk of the EU banking sector, including most of the banking groups which domestic banks belong to. Even after the launch of the SSM, supervisory colleges are continuing with their work, under the leadership of the ECB. Representatives of supervisory authorities from the countries participating in the SSM (unlike the Czech Republic) are involved in the work of the colleges as observers. The CNB still has full member status with all its previous powers and responsibilities.

The CNB was also actively involved in the meetings of supervisory colleges for international insurance groups. In 2014, the colleges focused on preliminary assessment and approval of internal models for the calculation of capital requirements under Solvency II. They also discussed the process of preparation of individual entities for the new regulatory regime. In addition, the colleges evaluated the financial situation and risk profiles of insurance groups and their members.

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

An informal meeting of 11 supervisory authorities from Central and Eastern Europe (the CEE Forum) took place at the CNB in 2014. This time the debate focused on banking issues (MREL,³⁷ financial support within banking groups and liquidity). The participants also discussed other ways of enhancing cooperation before EBA meetings. In connection with the MREL, it was agreed that an informal network of experts would be formed to exchange opinions on future documents under preparation at the EBA.

³⁵ GE Capital.

³⁶ J&T Finance Group.

³⁷ Minimum requirement for own funds and eligible liabilities.

PART B
THE FINANCIAL MARKET IN 2014

1. THE ECONOMIC ENVIRONMENT IN 2014³⁸

The Czech economy returned to growth in 2014. Following almost two years of decline, 2013 Q4 saw renewed annual growth in economic activity. Real GDP growth of 2.0% was recorded for 2014 as a whole. This reflected the favourable impacts of an easing of the monetary conditions via a weakening of the koruna by the CNB, an unwinding of the restrictive effect of fiscal policy and a slight improvement in the economic situation in the euro area. All components of domestic demand contributed to the economic growth. Household consumption growth accelerated, whereas the dynamics of government consumption remained unchanged. Gross fixed capital formation also contributed to the favourable economic developments for the first time in a long time. Its growth was driven by year-on-year growth in investment in manufacturing and the government sector. On the other hand, the contribution of net exports to annual GDP growth was negative.

Inflation dropped compared to the previous year, averaging 0.4% in 2014. Both annual headline and monetary policy-relevant inflation were well below the lower boundary of the tolerance band around the CNB's target in 2014.

At all its monetary policy meetings in 2014, the CNB Bank Board decided to continue using the exchange rate as an additional instrument for easing the monetary conditions and confirmed the CNB's commitment to intervene on the foreign exchange market if needed to weaken the koruna against the euro so that the exchange rate of the koruna was kept close to CZK 27 to the euro. The average CZK/EUR exchange rate depreciated from 26.0 in 2013 to 27.5 in 2014. The average CZK/USD rate also weakened in year-on-year terms, to 20.7 (compared to 19.6 in 2013).

The current account ended 2014 in a surplus of 0.6% of GDP. In absolute terms the surplus amounted to CZK 26.1 billion. The financial account (including changes in reserve assets) recorded net lending, i.e. an outflow of funds abroad, amounting to CZK 48.0 billion in 2014, down by CZK 20.3 billion from a year earlier.

The general unemployment rate fell to 6.2% on average in 2014. After stagnating a year earlier, the average gross nominal wage in the national economy returned to growth (2.4%). With nominal wage growth outpacing the inflation rate, the average real wage rose again by 2.0% in 2014 as a whole. Aggregate labour productivity also increased by 1.6% in 2014. The seasonally adjusted gross saving rate of households was just above 10% in 2014.

The general government deficit rose to 2% of GDP in 2014, but this result was due to several extraordinary and one-off factors.

³⁸ The data in this section are based on CZSO data available as of 24 April 2015.

The overall effect of fiscal policy on economic activity was slightly expansionary owing to a marked increase in government investment and stronger wage growth in the government sector. However, the government debt-to-GDP ratio fell to 42.6% in 2014 due to the use of the government's liquidity reserves as a source of financing and to the renewed GDP growth.

The Czech National Bank left its key interest rates unchanged at technical zero in 2014. The two-week repo rate thus remained at 0.05% (since the Bank Board's decision of 2 November 2012) the discount rate at 0.05% and the Lombard rate at 0.25%.

2. CREDIT INSTITUTION SECTORS

Data from the reporting statements submitted by banks for CNB supervisory purposes were used to prepare this Report. The information on the Czech banking sector consists of data on all domestic banks (including the branches of these banks operating abroad) and foreign bank branches operating in the Czech Republic. The CNB is not included in the data. Some sections, dealing mainly with the sector composition of the banking sector's loans and deposits, use data from monetary statistics reporting statements (which is expressly stated). Supervisory reporting by banks underwent a fundamental change consisting in the CNB shifting to the new European supervisory reporting framework. This framework is laid down in a directly applicable regulation of the European Commission.

2.1 STRUCTURE OF THE BANKING SECTOR

At the end of 2014, the Czech banking sector consisted of 45 banks and foreign bank branches ("banks"). The CNB granted no new banking licences during 2014 and no bank closed down. A foreign bank branch, Sumitomo Mitsui Banking Corporation Europe Limited (SMBCE), Prague Branch, entered the Czech market under the single banking licence. SMBCE is a subsidiary of the Japanese SMBC and is based in London.

The structure of the banking sector has long been broadly unchanged. At the end of 2014 it consisted of four large banks, eight medium-sized banks and six small banks, along with five building societies and 22 foreign bank branches.³⁹ The group of four large banks⁴⁰ is still the largest component of the domestic banking sector. Its share in total banking sector assets was more than 57.1%.

Foreign capital, particularly from the EU countries, has a dominant position in the Czech banking sector. At the end of 2014, banks under the control of the Czech state or Czech private capital controlled only 8.2% of the banking sector's total assets. Foreign owners directly or indirectly controlled 91.8% of the assets of the Czech banking sector.⁴¹ Foreign owners from EU Member States accounted for 88.9%

TABLE II.1

NUMBER OF BANKS

	2012	2013	2014
BANKS, TOTAL	43	44	45
of which:			
banks	18	18	18
foreign bank branches	20	21	22
building societies	5	5	5

TABLE II.2

SHARES OF BANK GROUPS IN TOTAL ASSETS

(in %; banks as of given date)

	2012	2013	2014
BANKS, TOTAL	100,0	100,0	100,0
of which:			
large banks	57.1	58.7	57.1
medium-sized banks	20.6	19.9	21.1
small banks	2.5	3.1	3.4
foreign bank branches	9.4	9.2	9.8
building societies	10.4	9.2	8.6

³⁹ In 2012, the total assets necessary for inclusion in the groups of large and medium-sized banks were increased and some banks were transferred from the small to the medium-sized category due to an increase in their total assets. As from 2012, the breakdown of banks by total assets is as follows: large banks with total assets of more than CZK 250 billion, medium-sized banks with total assets of between CZK 50 billion and CZK 250 billion, and small banks with total assets of less than CZK 50 billion. The other two groups are foreign bank branches and building societies. For details see the methodological sheet "Basic indicators – banks" in the CNB's ARAD database http://www.cnb.cz/docs/ARADY/MET_LIST/icd_bs_en.pdf

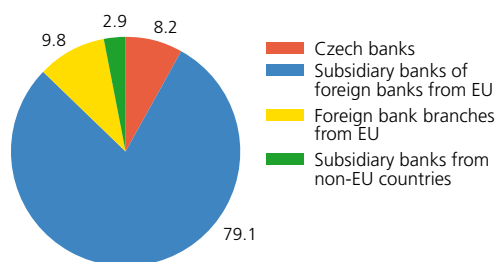
⁴⁰ At the end of 2014, the group of four large banks consisted of Česká spořitelna, ČSOB, Komerční banka and UniCredit Bank. For details see Part C – Annexes.

⁴¹ This refers to the share of the banking sector's assets controlled by foreign entities (i.e. foreign owners holding directly or indirectly at least 50% of the bank's shares) in the total assets of the banking sector.

CHART II.1

OWNERSHIP STRUCTURE BY SHARE IN TOTAL ASSETS OF CZECH BANKING SECTOR

(in %; banks as of 31 December 2014)



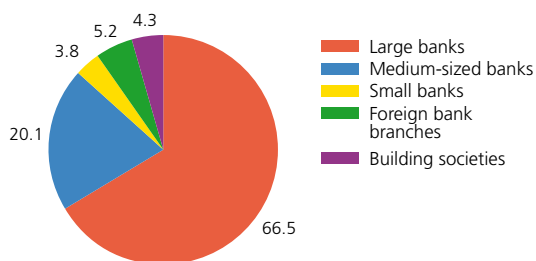
of assets. 79.1% were the assets of subsidiaries, including all four large banks and 9.8% were the assets of foreign bank branches. The share of foreign capital from non-EU countries was only 2.9%.

The Czech banking market is part of the EU single financial services market. Credit institutions with a single European licence can operate in the Czech market without establishing a branch in the Czech Republic. As of 31 December 2014, a total of 357 banks from EU Member States were offering their products and services in the Czech Republic in this way. These banks are not obliged to report to the CNB on their activities in the Czech banking market.

CHART II.2

SHARES OF BANK GROUPS IN TOTAL NUMBER OF EMPLOYEES OF CZECH BANKING SECTOR

(in %; banks as of 31 December 2014)



2.2 GROWTH AND CONCENTRATION OF THE CZECH BANKING MARKET

The market for banking products and services in the Czech Republic (the “banking market”) has long been growing and its growth is strongly positively correlated with Czech GDP growth. After 2008, the Czech banking market grew faster than GDP and the depth of banking intermediation as measured by the ratio of bank assets to GDP rose from 99.8% in 2008 to 125.8% in 2013. In 2014, it fell slightly to 124.5%. The depth of banking intermediation in the Czech Republic is low by comparison with advanced EU Member States.

The degree of concentration of the banking market has long been falling. In 2002–2014, the share of the three largest banks in the banking sector’s total assets dropped by 10 percentage points to 48%, that of the five largest banks by 5.5 percentage points to 61.3% and that of the ten largest banks by 4.6 percentage points to 76.3%.

The largest banks lost share in the market of deposits and other liabilities to clients. In the period under review, the share of the three largest banks in the banking sector’s total liabilities to clients decreased by 15.6 percentage points to 50%, that of the five largest banks by 9.9 percentage points to 63.6% and that of the ten largest banks by 7.5 percentage points to 79.4%.

The degree of concentration in the loans to clients market has long been declining, too. In 2002–2014, the share of the three largest banks in the banking sector’s total client receivables decreased by 8.2 percentage points to 45.4% and that of the five largest banks by 4.1 percentage points to 62.1%. By contrast, the share of the ten largest banks rose slightly by 0.4 percentage point to 81.9%.

CHART II.3

GDP AND BANKING SECTOR ASSETS

(in CZK trillions)

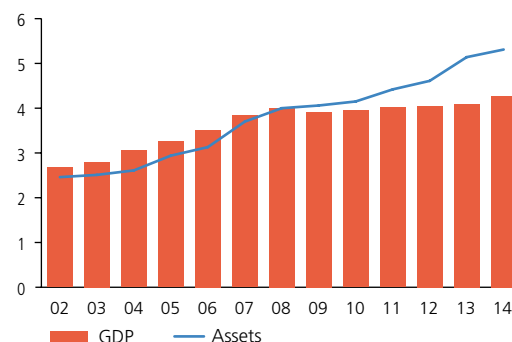


CHART II.4

SHARES OF ASSETS OF THREE, FIVE AND TEN LARGEST BANKS IN TOTAL BANKING SECTOR ASSETS

(in %)

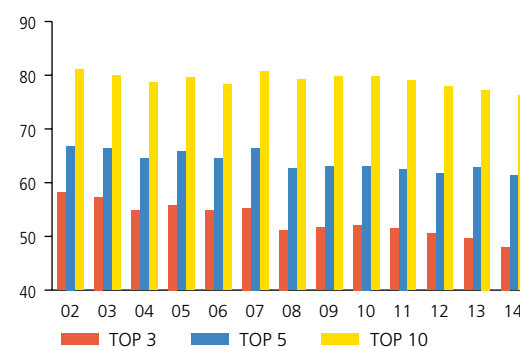


CHART II.5

SHARES OF CLIENT RECEIVABLES OF THREE, FIVE AND TEN LARGEST BANKS IN TOTAL BANKING SECTOR CLIENT RECEIVABLES

(in %)

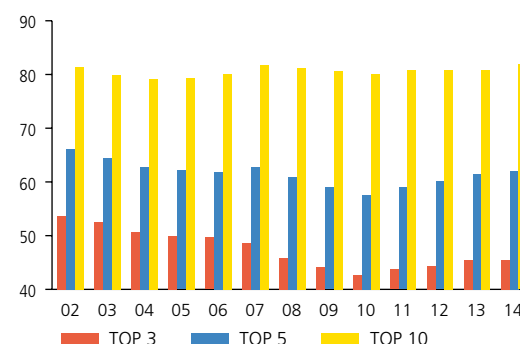


TABLE II.3

EMPLOYEES AND BUSINESS UNITS IN THE CZECH REPUBLIC
(as of the given date)

	2012	2013	2014
NUMBER OF EMPLOYEES	40,087	38,984	39,149
Number of business units	2,098	2,135	2,124
Number of employees per business unit	19.1	18.3	18.4
Number of citizens per bank (in thous.)	244.0	238.9	233.9
per business unit (in thous.)	5.0	4.9	5.0
per employee	262.2	269.6	268.8

TABLE II.4

DISTRIBUTION CHANNELS
(number)

	2012	2013	2014
Home banking	45	45	45
Internet banking	33	33	35
Telephone banking	19	19	19
Mobile banking	17	17	16
ATMs of reporting banks	4,106	4,399	4,442
ATMs of reporting banks in self-service zones	942	952	969
ATMs of reporting banks outside self-service zones	3,164	3,447	3,473
Self-service zones	323	310	313

TABLE II.5

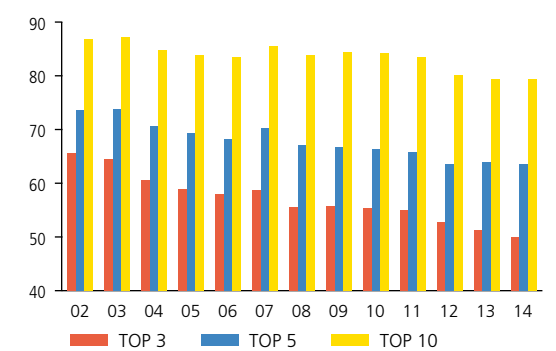
CARDS ISSUED BY BANKS TO THEIR CLIENTS
(in thousands)

	2012	2013	2014	Change 2014/2013 (in %)
Debit cards	8,115	8,723	9,342	7.1
Credit cards	1,363	1,330	1,293	-2.7
Cards, total	9,478	10,053	10,635	5.8

CHART II.6

**SHARES OF LIABILITIES TO CLIENTS OF THREE, FIVE
AND 10 LARGEST BANKS IN TOTAL BANKING SECTOR
LIABILITIES TO CLIENTS**

(in %)

**2.3 EMPLOYEES, DISTRIBUTION CHANNELS AND PAYMENT CARDS**

At the end of 2014, banks in the Czech Republic had 39,149 employees, 0.4% more than at the end of 2013.⁴² Large banks accounted for 66.5% of this total, medium-sized banks for 20.1%, foreign bank branches for 5.2%, building societies for 4.3% and small banks for 3.8%. A total of 1,203 employees were working for Czech banks abroad, mainly in Slovakia.

Banks provide their products and services via distribution channels. These include the sale of banking products at traditional branches or business units, and electronic banking allowing remote bank account management. Remote management is done via ATMs or through home, internet, telephone and mobile banking.

At the end of 2014, banks in the Czech Republic had a total of 2,124 business units, 11 less than in the previous year. There were about 5,000 Czech citizens per banking unit. Banks had 92 business units abroad – 91 in Slovakia and one in the Russian Federation. Unicredit Bank Czech and Slovakia owned 88 of the units in Slovakia. Fio banka, J&T Banka and Komerční banka had one unit each. Česká exportní banka had a representation in the Russian Federation.

ATMs are one of the basic distribution channels of electronic banking. The number of ATMs located in the Czech Republic and Slovakia rose slightly year on year in 2014, by 43 to 4,442. The total number of payment cards issued rose by 5.8% to 10.6 million. The number of debit cards increased by 7.1% to 9.3 million, while the number of credit cards dropped by 2.7% to 1.3 million. It is evident that domestic banks' clients prefer debit cards. The share of such cards in the total number of cards issued by banks for their clients increased from 85.6% in 2012 to 87.8% in 2014. The total number of card transactions made in the Czech Republic and abroad rose by 18.5% to 185.9 million in 2014. Transactions executed abroad grew almost twice as fast (by 35%) as transactions executed in the Czech Republic (by 17.5%). An upward trend is also apparent in the use of payment cards for making direct payments to retailers, to the detriment of cash withdrawals from ATMs. The number of such payments increased by 25.3% to 126.7 million in the Czech Republic and by 33.7% to 10.8 million abroad. The number of ATM withdrawals grew by only 1% and 1.3% respectively in the Czech Republic and abroad.

Home banking is another distribution channel. Its distinguishing feature is that communication between the client and the bank takes place through a special programme and not a web browser. In 2014, home banking was offered by 27 banks operating 45 special

⁴² The total number of banking sector employees (registered number of employees, full-time and part-time).

programmes. Home banking is used mainly by firms, as the special programmes are quite expensive to run. However, home banking may be cost-effective for a firm if, for example, it is integrated with the firm's accounting system.

Unlike in home banking, internet banking consists in remote bank account management via websites designed for this purpose. It has gradually won the trust of clients and replaced home banking, particularly in the case of households. In 2014, internet banking was offered by 35 banks, two more than in the previous year.

Telephone banking is another remote current account management method and is designed for clients who prefer this distribution channel to internet banking. Telephone banking offers similar services to internet banking, but clients only need a telephone to manage their accounts. A total of 19 banks were offering telephone banking in 2014, the same as in previous two years.

Mobile banking consists in remote account management via a special mobile phone application. It was offered by 16 banks in 2014, one fewer than in the previous two years.

Distribution channels are expensive to create and maintain, so it is important to use them to an extent that will ensure adequate economies of scale. The number of accounts is one of the main indicators of the use of distribution channels. In 2014, the total number of current and deposit accounts maintained by banks for residents and non-residents increased by 7.9% year on year to 21.1 million. The number of current accounts increased by 6.6% to 14.1 million and the number of deposit accounts by 10.5% to 7 million. Households, i.e. individuals and trades, accounted for 95% of the total. Their share was almost unchanged compared to the previous two years.

CHART II.7

SHARE OF DEBIT CARDS IN NUMBER OF PAYMENT CARDS OF BANK CLIENTS

(in %)

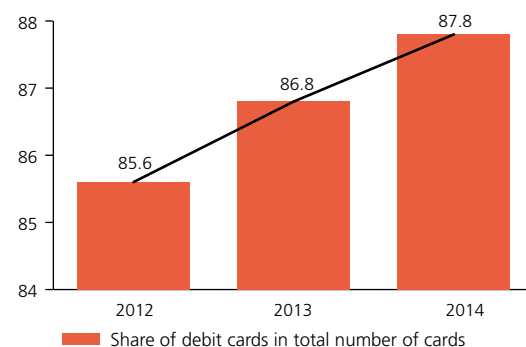


TABLE II.6

CARD TRANSACTIONS

(in millions)

	2012	2013	2014	Change 2014/2013 (in %)
NO. OF TRANSACTIONS				
TOTAL	138.4	156.8	185.9	18.5
of which: in the Czech Rep.	131.9	147.9	173.8	17.5
ATM withdrawals	45.5	45.2	45.7	1.0
over-the-counter withdrawals	1.7	1.5	1.4	-9.6
payments to retailers	84.7	101.1	126.7	25.3
of which: outside the Czech Rep.	6.6	8.9	12.1	35.0
ATM withdrawals	0.6	0.8	1.3	47.4
over-the-counter withdrawals	0.0	0.0	0.0	19.4
payments to retailers	6.0	8.1	10.8	33.7

TABLE II.7

NUMBERS OF ACCOUNTS MAINTAINED BY BANKS FOR RESIDENTS AND NON-RESIDENTS

(in thousands)

	2012	2013	2014	Change 2014/2013 (in %)
CURRENT AND DEPOSIT ACCOUNTS, TOTAL	17,999	19,555	21,101	7.9
Individuals	10,352	11,718	12,439	6.2
Trades	577	597	591	-1.0
Other economic sectors	809	866	1,027	18.6
Current accounts, total	11,737	13,180	14,057	6.6
Individuals	6,148	6,265	6,964	11.1
Trades	6	7	6	-10.3
Other economic sectors	108	102	74	-27.2
Deposit accounts, total	6,262	6,374	7,044	10.5

2.4 ACTIVITIES OF THE BANKING SECTOR

2.4.1 Banking sector assets

TABLE II.8

BANKING SECTOR ASSETS

(in CZK billions)

	2012	2013	2014	Change 2014/2013 (in %)
NET ASSETS, TOTAL	4,613.6	5,142.4	5,310.8	3.3
Cash	38.7	43.1	49.4	14.7
Cash balances with central banks	384.0	662.5	465.4	-29.7
Demand deposits of credit institutions	62.0	61.5	44.4	-27.8
Financial assets held for trading	263.1	201.7	191.7	-5.0
Financial assets designated at fair value through profit or loss	26.0	21.7	15.0	-30.8
Available-for-sale financial assets	531.6	497.8	486.6	-2.3
Loans and receivables	2,698.8	3,050.3	3,380.6	10.8
Held-to-maturity investments	405.2	403.2	445.8	10.6
Derivatives	47.4	32.5	53.1	63.2
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1.0	1.3	2.1	60.6
Investments in subsidiaries, joint ventures and associates	76.6	84.2	98.6	17.0
Tangible assets	29.6	29.4	27.9	-5.1
Intangible assets	15.8	15.2	15.3	0.9
Other assets	33.8	37.9	34.8	-8.3

The Czech banking sector's total assets⁴³ rose by CZK 168 billion (3.3%) year on year, reaching CZK 5,310.8 billion at the end of 2014.

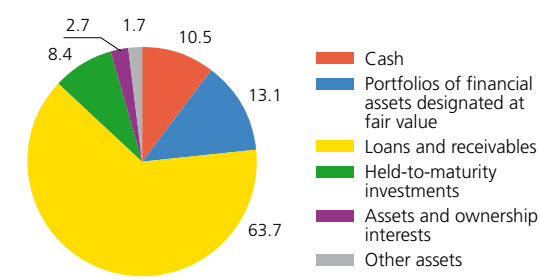
The asset structure reveals that the business model of Czech banks is based on traditional banking intermediation, i.e. on deposit-taking and lending. As of 31 December 2014, loans and other receivables accounted for 63.7% of total banking sector assets. Cash, i.e. cash balances and deposits at the CNB and credit institutions of up to 24 hours accounted for 10.5% of assets, held-to-maturity investments for 8.4% and tangible and intangible assets and ownership interests for 2.7%. By contrast, fair value financial asset portfolios, which are exposed to short-term price volatility on financial markets, accounted for only 13.1% of total assets. The remaining 1.7% were other assets. These assets include hedging derivatives, whose fair value accounted for about 1% of total assets of the banking sector.

The asset structure in 2014 was little changed from the previous year. The substantial year-on-year decrease in cash balances at central banks reflects a fundamental change in reporting, not a change the allocation of banks' assets. To a large extent, the same goes for the growth in loans and other receivables. The change in reporting consists in the CNB having shifted to the new European supervisory

CHART II.8

STRUCTURE OF BANKING SECTOR ASSETS

(in %, as of 31 December 2014)



⁴³ The assets of the banking sector comprise cash, receivables, securities, tangible and intangible assets and other assets.

reporting framework.⁴⁴ The newly introduced indicator “cash balances at central banks” reflects only part of banks’ receivables from the CNB, i.e. only deposits at the CNB up to 24 hours. However, banks also had receivables from the CNB with longer maturities. Total bank receivables from the CNB stood at CZK 690.4 billion according to the CNB’s audited accounts as of 31 December 2014. In the new reporting system, receivables from the CNB with maturities longer than one day have been transferred mainly to the loans and other receivables portfolio (banks showed a 10.8% year-on-year increase in this item).

The biggest contribution to the growth in banking sector assets came from medium-sized banks, whose assets rose by CZK 100 billion (9.8%) to more than CZK 1,121 billion. Small banks’ assets saw the fastest growth, increasing by CZK 25 billion (15.9%) to close on CZK 200 billion. The assets of large banks rose by only CZK 13 billion (0.4%) to just over CZK 3 trillion. Foreign bank branches increased their assets by CZK 46 billion (9.7%) to more than half a trillion koruna. The assets of building societies fell by CZK 16 billion (3.4%) to CZK 456 billion.

2.4.2 Structure and growth of loans to clients (sectoral breakdown)⁴⁵

Bank loans to clients increased by 4.8% year on year to CZK 2,635.1 billion as of 31 December 2014.

Loans provided to households (individuals, trades and owners’ associations⁴⁶) and non-financial corporations form the basis of total lending. Loans to households as a whole rose by CZK 47.4 billion during 2014, reaching CZK 1,228.1 billion. As in the previous year, the share of loans to households in the banking sector’s loan portfolio was 46.6%, loans to individuals were 43.3%, 1.3% were loans to trades and 2.0% were loans to other households (owners’ associations). The share of loans to the corporate sector in total loans has long been falling slightly in year-on-year terms and stood at 33.2% at the end of the year. Non-residents accounted for 12.2% of loans, financial institutions for 5.7%, general government for 2.2% and trades for 1.3%.

Loans to residents rose by 3.9% to CZK 2,313.2 billion. The upward trend in loans to non-residents continued. These loans went up by 12.1% to CZK 322.0 billion. Despite this strong growth, banks still focus mainly on lending to the domestic economy.

⁴⁴ Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

⁴⁵ Data from the monetary statistics reporting statements submitted by banks were used to prepare this section. 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.

⁴⁶ Since 2010, the household sector has been divided into trades, individuals and other households – owners’ associations.

TABLE II.9

ASSETS OF BANK GROUPS

(in CZK billions)

	2012	2013	2014	Change 2014/2013 (in %)
BANKS, TOTAL	4,614	5,142	5,311	3.3
Large banks	2,648	3,018	3,031	0.4
Medium-sized banks	955	1,021	1,121	9.8
Small banks	115	158	183	15.9
Foreign bank branches	416	474	520	9.7
Building societies	480	472	456	-3.4

TABLE II.10

CLIENT LOANS BY SECTOR

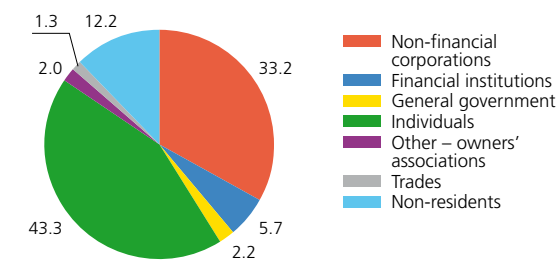
(in CZK billions)

	2012	2013	2014	Change 2014/2013 (in %)
CLIENT LOANS, TOTAL	2,360.0	2,514.3	2,635.1	4.8
A. RESIDENTS	2,147.8	2,227.2	2,313.2	3.9
Non-financial corporations	835.4	867.1	874.9	0.9
Financial institutions	116.4	119.7	149.0	24.4
General government	61.5	57.5	59.1	2.7
Households	1,132.2	1,180.7	1,228.1	4.0
Trades	36.1	36.5	35.1	-4.0
Individuals	1,045.0	1,092.4	1,141.3	4.5
Consumer credit to individuals	194.7	195.4	194.0	-0.7
Current account overdrafts	12.8	12.1	11.4	-5.6
Card debt	25.8	24.6	22.8	-6.9
Consumer credit	156.1	158.7	159.7	0.6
House purchase loans to individuals	810.0	852.3	900.0	5.6
Mortgage loans for house purchase	700.5	746.6	796.9	6.7
Standard building savings loans	36.0	31.6	28.0	-11.4
Bridging building savings loans	49.7	49.4	50.0	2.0
Consumer credit for housing purposes	23.8	24.6	25.0	0.0
Other loans to individuals	40.3	44.7	47.3	4.4
Other – owners’ associations	51.1	51.9	51.8	-0.1
Non-profit institutions serving households	2.3	2.1	2.0	-2.8
B. NON-RESIDENTS	212.3	287.1	322.0	12.1

CHART II.9

LOANS BY ECONOMIC SECTOR

(in %; as of 31 December 2014)



Loans to non-financial corporations rose by only 0.9% to CZK 874.9 billion. By contrast, loans to financial institutions recorded a very large increase of 24.4% to CZK 149.0 billion.

Loans to individuals also recorded solid growth (of 4.5% to CZK 1,141.3 billion). These loans comprise loans for house purchase and consumer credit. The growth in loans to individuals was due to growth in loans for house purchase. These loans rose by 5.6% to CZK 900.0 billion. Mortgage loans, representing the main form of loans for house purchase, increased by 6.7% to CZK 796.9 billion. By contrast, traditional loans from building savings schemes dropped significantly by 12.5% to CZK 28.0 billion. A 2% increase in bridging loans from building societies to CZK 50.0 billion offset the decline in traditional building society loans to only a small extent. Consumer credit provided for housing purposes remained at CZK 25.0 billion.

Consumer credit has long been flat and dropped by 0.5% year on year to CZK 194.0 billion in 2014. This decline was due to an 8.3% decrease in overdrafts and an 8% fall in credit card receivables. In addition to overdrafts and cards, consumer credit covers loans used to purchase cars and other durable goods. These loans represent a larger proportion of consumer credit and rose by 0.6%.

Loans to general government grew by 2.7% to CZK 59.1 billion. By contrast, loans to trades fell by 4% to CZK 35.1 billion and loans to non-profit institutions by 2.8% to CZK 2.0 billion. In the latter case, however, the percentage decrease represents only a small volume (CZK 58 million).

TABLE II.11

SECURITIES AND INVESTMENTS

(in CZK billions)

	2012	2013	2014	Change 2014/2013 (in %)
SECURITIES AND INVESTMENTS, TOTAL	1,197.0	1,209.0	1,306.5	8.1
Debt securities, total	1,110.0	1,115.3	1,207.0	8.2
Debt securities issued by credit institutions	235.0	269.1	305.7	13.6
Debt securities issued by general government	842.6	810.0	862.2	6.4
Debt securities issued by other clients	32.4	36.2	39.1	8.1
Equity instruments	9.4	9.4	8.4	-10.7
Investments in subsidiaries, joint ventures and associates	77.6	84.4	91.1	8.0
Investments in subsidiaries	3.2	8.4	8.6	2.0
Investments in subsidiaries – credit institutions	0.0	5.5	6.3	13.5
Other investments in subsidiaries	3.2	2.9	2.3	-19.9
Investments in associates	74.4	75.9	82.5	8.6
Investments in associates – credit institutions	33.2	33.3	36.6	10.0
Other investments in associates	41.2	42.7	45.9	7.5

2.4.3 Structure and growth of securities and equity portfolios

At the end of 2014, banks held securities and equity ("total investment" or "investment") amounting to CZK 1,306.5 billion, i.e. 8.1% more than in December 2013.⁴⁷ Banks invested on their own account mainly in bonds, especially those issued by general government. These bonds represented two-thirds of investment in securities and equity. Another 23.4% of such investment was in bonds issued by credit institutions and only 3.0% in bonds issued by private non-bank institutions. Debt instruments thus accounted for 92.4% of investment. Interests in associates and subsidiaries and in joint ventures accounted for 7% of bank investment. Banks invest very little in stock markets and

47 The total securities and equity indicator covers all securities and equity held by the bank on its own account, i.e. domestic and foreign securities, marketable and non-marketable securities (including bills of exchange) and equity that does not have the form of securities (e.g. shares in limited liability companies). In accordance with accounting standards, securities provided in repo operations are included. By contrast, securities received in repo operations are not included in this indicator.

collective investment on their own account: equity instruments held in banks' trading portfolios (held-for-trading shares designated at fair value through profit or loss and available-for-sale shares) accounted for only 0.6% of total bank investment in securities.

The total value of debt securities increased by 8.2% year on year. Investment in debt issued by credit institutions recorded the biggest growth (13.6%). Investment in debt issued by non-banks rose by 8.1%. The slowest growth (6.4%) was seen for investment in general government debt.

In 2014, banks reduced their total investment in equity instruments by 10.7% and simultaneously restructured their equity instrument portfolios. The proportion of shares increased, while that of units and other equity instruments decreased. Investment in shares rose by 35.3% and investment in units dropped by 34.4%. Investment in other equity instruments fell by one-third.

Domestic banks increased the value of their interests in associates and subsidiaries by 8.0% to CZK 91.1 billion in 2014. Of this total, 90.6% were controlling shares.

In 2014, as in previous years, ownership interests were held mainly by large banks. Their ownership interests stood at CZK 70.5 billion, accounting for 77.4% of the banking sector's total ownership interests. Large banks also accounted for 97.3% of controlling shares in credit institutions.

2.4.4 Structure and growth of banking sector liabilities

TABLE II.12

BANKING SECTOR LIABILITIES

(in CZK billions)

	2012	2013	2014	Change 2014/2013 (in %)
LIABILITIES AND EQUITY, TOTAL	4,613.6	5,142.4	5,310.5	3.3
Liabilities, total	4,186.6	4,679.7	4,798.1	2.5
Financial liabilities held for trading	248.7	294.5	153.8	-47.8
Financial liabilities designated at fair value through profit or loss	20.9	16.8	9.7	-42.5
Financial liabilities measured at amortised cost	3,822.9	4,281.6	4,533.3	5.9
Deposits measured at amortised cost	3,460.2	3,863.9	4,061.1	5.1
Debt securities issued and other liabilities	362.7	417.7	472.2	13.1
Derivatives - hedge accounting	26.0	27.5	33.3	81.9
Provisions	10.2	11.3	11.7	3.6
Tax liabilities	9.3	7.8	8.8	14.0
Other liabilities	48.6	40.3	47.5	17.9
Equity, total	427.0	462.7	512.4	10.7
Capital	87.8	94.3	96.3	2.1
Share premium	41.1	50.8	54.0	6.2
Retained earnings	160.5	179.5	204.4	13.9
Reserve funds	42.9	55.6	55.3	-0.5
Profit or loss	64.5	61.0	63.2	3.5
Other equity	30.3	21.5	39.2	82.3

CHART II.10

SECURITIES AND INVESTMENTS

(in %, as of 31 December 2014)

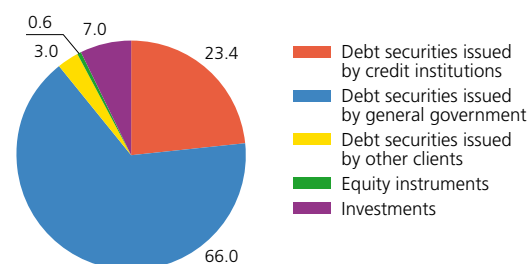
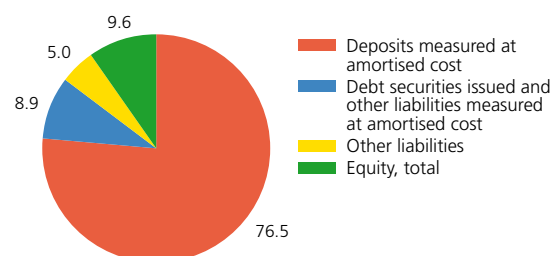


CHART II.11

STRUCTURE OF BANKING SECTOR LIABILITIES

(in %; as of 31 December 2014)



Banking sector liabilities consist of banks' liabilities to other entities (the central bank, clients, non-bank financial institutions and credit institutions) and banks' equity. The total liabilities of the banking sector rose to CZK 5,310.5 billion in 2014. Liabilities increased by 2.5% to CZK 4,798.1 billion and equity by 10.7% to CZK 512.4 billion.

Like the structure of assets, the structure of liabilities shows that banks' business models are based on traditional bank intermediation, i.e. deposit-taking and lending. Deposits measured at amortised cost accounted for 76.5% of banking sector liabilities, debt securities and other liabilities measured at amortised cost for 8.9% and equity for 9.6%. Other liabilities, i.e. liabilities held for trading, liabilities measured at fair value through profit or loss and hedging derivatives, accounted for only 5.0% of banking sector liabilities.

The Czech banking sector has long had sufficient funds.⁴⁸ In addition to the aforementioned large volume of CNB liabilities to banks, this is indicated by minimal take-up of the CNB's liquidity-providing facility and by a high ratio of client deposits to client loans.

The CNB's receivables from domestic banks were mostly zero in the individual ten-day periods in 2014. The CNB provided a very small volume of liquidity to banks in only five such periods, i.e. CZK 10 million in each. In its annual accounts as of 31 December 2014, the CNB posted zero receivables from domestic banks. These receivables had also been at zero at the end of 2013.

Domestic banks have sufficient deposits to finance loans. The ratio of client deposits to client loans (broken by sector) has changed very little over the last three years. It was 132.5% in 2012 (with loans of CZK 2,360.0 billion), edged up to 132.8% in 2013 (with loans rising by CZK 154.3 billion to CZK 2,514.3 billion) and fell back to 130.4% in 2014 (with loans rising by CZK 120.8 billion to CZK 2,635.1 billion).

TABLE II.13

RATIO OF CUMULATIVE NET POSITION UP TO 3 MONTHS, INCLUDING OFF-BALANCE SHEET, TO TOTAL ASSETS

(in %)

	2012	2013	2014
BANKS, TOTAL	-41.6	-41.4	-46.9
Large banks	-48.9	-46.9	-56.0
Medium-sized banks	-18.1	-20.9	-23.8
Small banks	-61.2	-61.1	-60.5
Foreign bank branches	-35.1	-38.9	-40.0
Building societies	-48.6	-46.6	-45.8

⁴⁸ Data from the monetary statistics reporting statements submitted by banks were used to prepare the part of this section dealing with the breakdown of client deposits by sector. These statements use a different methodology than the banking supervision statements, so some of the resulting values are not fully comparable with the data in other parts of the text.

Banks have not only sufficient stable funding sources, but also a good short-term liquidity position, which enhances their resilience to a sudden outflow of client deposits or other resources. The cumulative net position up to three months including the off-balance sheet was -46.9% in 2014 for the banking sector as a whole. The negative value, which indicates large coverage of short-term assets by short-term liabilities, was recorded in all bank groups – the highest absolute value (60.5%) in small banks and the lowest (23.8%) in medium-sized banks.

At the close of 2014, client deposits totalled CZK 3,435.3 billion. Household deposits accounted for 56.0% of total client deposits, deposits of non-financial corporations for 24.4% and deposits of general government for 9.9%. The shares of deposits of the other sectors were in single figures – financial institutions accounted for 4.3%, non-residents for 4.6% and non-profit organisations for only 0.9% of total client deposits.

Client deposits increased by 6.8% year on year to CZK 3,435.3 billion in 2014. This was due chiefly to household deposits, which rose by 6.1% to CZK 1,923.2 billion. Deposits of non-financial corporations contributed as well, rising by 8.0% to CZK 838.4 billion. Non-residents' deposits also grew significantly (by 18.7% to CZK 156.9 billion), as did non-profit institutions' deposits, which rose by 17.3% to CZK 30.8 billion. By contrast, banks recorded a large outflow of deposits of general government, which fell by 20.7%, or CZK 88.8 billion, to CZK 339.3 billion. Financial institutions' deposits also dropped sharply – by 10.9% to CZK 146.7 billion.

Deposits from credit institutions are the second most important component of external funds. These deposits fell by 1.5% year on year to CZK 589.0 billion at the end of 2014.

Banks raised further funds by issuing debt securities, which amounted to CZK 437.7 billion at the end of 2014.

Capital represents an internal source of funding for banks' business activities. As of 31 December 2014, banks' capital was 10.7% higher than in the previous year and totalled CZK 512.4 billion. Retained earnings (CZK 204.4 billion) accounted for the largest share of capital. Bank capital and share premium totalled CZK 150.3 billion and reserve funds represented another CZK 55.3 billion. Banks' capital also includes the net profit of CZK 63.2 billion they generated in 2014 plus CZK 39.2 billion in other equity.

CHART II.12

DEPOSITS BY ECONOMIC SECTOR

(in %; as of 31 December 2014)

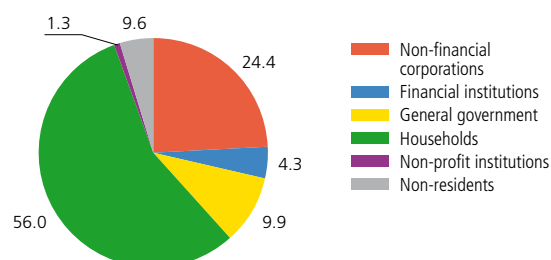


TABLE II.14

DEPOSITS BY SECTOR

(in CZK billions)

	2012	2013	2014	Change 2014/2013 (in %)
DEPOSITS, TOTAL	3,127.6	3,340.1	3,435.3	6.8
A. Residents	3,021.5	3,207.9	3,278.4	2.2
Non-financial corporations	716.0	776.7	838.4	8.0
Financial institutions	138.2	164.6	146.7	-10.9
General government	373.5	428.1	339.3	-20.7
Households	1,770.3	1,812.2	1,923.2	6.1
Trades	89.1	92.2	102.3	11.0
Individuals	1,650.6	1,687.1	1,783.7	5.7
Other households – owners' associations	30.6	33.0	37.2	12.7
Non-profit institutions serving households	23.4	26.3	30.8	17.3
B. Non-residents	106.1	132.1	156.9	18.7

CHART II.13

SHARES OF NON-RESIDENTS IN BANKING SECTOR ASSETS IN 2014

(in %)

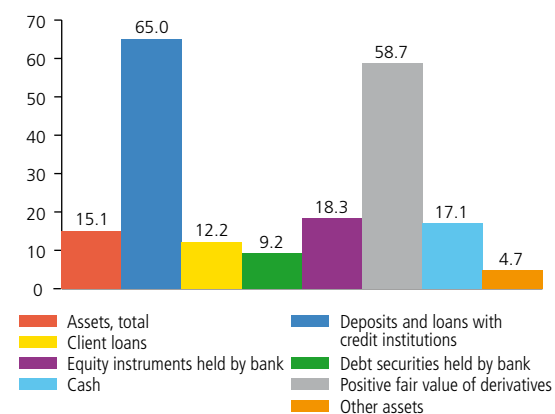
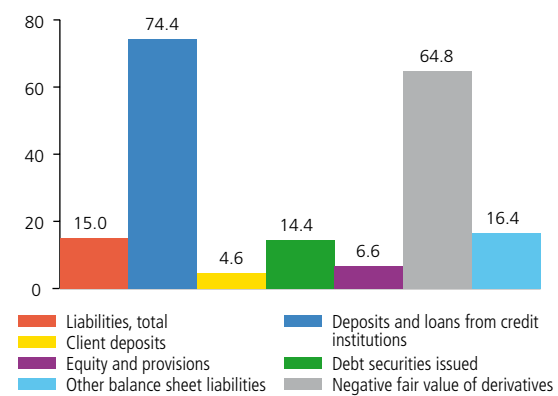


CHART II.14

SHARES OF NON-RESIDENTS IN BANKING SECTOR LIABILITIES IN 2014

(in %)



2.4.5 Assets and liabilities vis-à-vis non-residents

Non-resident assets rose by 6.1% to CZK 814.5 billion at the end of 2014 and their share in the total assets of the banking sector increased by 0.3 percentage points to 15.1%. Client loans, which rose by 12.1% to CZK 322 billion, accounted for the largest share of non-resident assets. Deposits and loans with foreign credit institutions are another large item in non-resident assets, although they dropped by 9.4% to CZK 267.2 billion. Banks increased the amount of foreign debt securities in their portfolios by 14.5% to CZK 107.1 billion. Foreign entities are important partners in derivatives transactions. Banks were relatively active in such transactions with non-residents, as evidenced by a 51.1% increase in the positive value of derivatives to CZK 81.1 billion. The share of foreign capital instruments in bank assets was small. Such instruments decreased by 8.2% to CZK 20.7 billion in 2014.

In 2014, non-resident liabilities rose by 17.6% to CZK 806.6 billion and their share in the total liabilities of the banking sector increased by 1.8 percentage points to 15.0%. Deposits accepted from credit institutions, which rose by 17.5% to CZK 438.4 billion, accounted for more than half of these liabilities. Sizeable growth (of 18.7% to CZK 156.9 billion) was also seen for client deposits from non-residents. Securities issued by domestic banks and held by foreign investors also increased by 30.7% to CZK 63.1 billion. The negative value of derivatives with non-resident counterparties rose by 11.4% to CZK 80 billion. The data on derivatives reveal that the balance of derivatives transactions of domestic banks with non-residents switched from a loss in 2013 to a modest profit in 2014.

The analysis of assets and liabilities of banks vis-à-vis non-residents leads to a conclusion that some structural changes have occurred in the last three years in the still very limited share of non-residents in banking sector assets and liabilities. In 2014, the banking sector's external liabilities were almost equal to its external receivables. The difference between banking sector assets and liabilities narrowed from CZK 193 billion in 2012 to CZK 8 billion in 2014. Also, whereas banking sector receivables from foreign banks had been CZK 53.2 billion higher than liabilities to foreign banks in 2012, this ratio reversed in 2014 to CZK 171.3 billion in favour of liabilities.

TABLE II.15

BANKING SECTOR ASSETS AND LIABILITIES – NON-RESIDENTS

(in CZK billions)

	2012	2013	2014	Change 2014/2013 (in %)
ASSETS, TOTAL	726.9	767.8	814.5	6.1
Cash	6.3	6.9	7.3	5.9
Deposits and loans with central banks	0.0	0.1	0.1	-30.2
Deposits and loans with other credit institutions	288.5	295.0	267.2	-9.4
Loans and other client receivables, total	212.3	287.1	322.0	12.1
Debt securities held by bank	108.7	93.5	107.1	14.5
Equity instruments held by bank	16.8	22.5	20.7	-8.2
Positive fair value of derivatives	86.6	53.5	81.1	51.6
Other assets	7.7	9.2	9.2	-0.6
LIABILITIES, TOTAL	533.8	686.1	806.6	17.6
Deposits and loans from central banks	0.0	0.0	0.0	41.7
Deposits and loans from other credit institutions	235.3	373.2	438.4	17.5
Deposits and loans from clients	106.1	132.1	156.9	18.7
Debt securities issued	36.3	48.3	63.1	30.7
Equity and provisions	38.4	42.9	42.4	-1.2
Negative fair value of derivatives	90.4	71.8	80.0	11.4
Other liabilities	27.2	17.8	25.8	44.9

2.4.6 Role of foreign currencies in banking sector activities

Koruna assets and liabilities play the main role in the activities of the banking sector. Foreign currency assets and liabilities accounted for less than 20% of banking sector assets and liabilities. The foreign currency assets of the banking sector increased by 0.6% to CZK 942.0 billion in 2014. This means they grew more slowly than the banking sector's total assets. This slow increase was mainly a result of a decline in interbank deposits and loans of 12.4% to CZK 224.6 billion. It was also due to a slight decrease in debt securities (of 2.8% to CZK 156.0 billion).

TABLE II.16

BANKING SECTOR ASSETS AND LIABILITIES – FOREIGN CURRENCIES

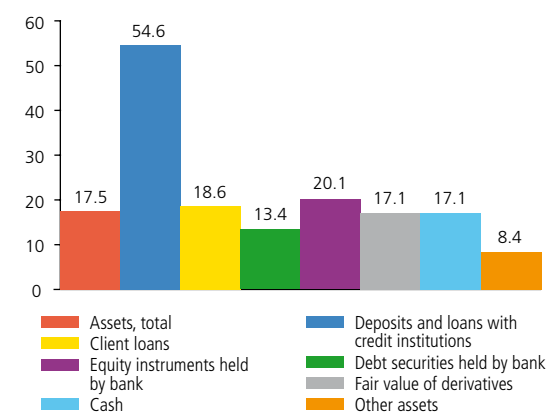
(in CZK billions)

	2012	2013	2014	Change 2014/2013 (in %)
ASSETS, TOTAL	742.7	936.0	942.0	0.6
Cash	6.3	6.9	7.3	5.9
Deposits and loans with other credit institutions	179.4	256.4	224.6	-12.4
Loans and other client receivables, total	345.7	457.6	491.2	7.3
Debt securities held by bank	154.1	160.4	156.0	-2.8
Equity instruments held by bank	16.4	22.5	22.8	1.0
Positive fair value of derivatives	24.5	17.7	23.6	33.4
Other assets	16.3	14.4	16.5	14.8
LIABILITIES, TOTAL	549.4	770.9	869.7	12.8
Deposits and loans from other credit institutions	146.9	261.1	279.1	6.9
Deposits and loans from clients	278.5	371.8	421.2	13.3
Debt securities issued	62.3	83.8	93.4	11.4
Equity and provisions	11.8	17.9	28.7	60.7
Negative fair value of derivatives	25.7	19.4	22.5	16.0
Other liabilities	24.3	16.9	24.8	46.8

CHART II.15

SHARES OF FOREIGN CURRENCY ASSETS IN BANKING SECTOR ASSETS IN 2014

(in %)



However, client loans, which rose by 7.3% to CZK 491.2 billion, accounted for the largest share of foreign currency assets. The value of derivatives also rose sharply, by 33.4% to CZK 23.6 billion.

Foreign currency liabilities increased by 12.8% year on year to CZK 869.7 billion. The downward trend in the difference between the value of foreign currency assets and liabilities thus continued. Whereas in 2012 assets had exceeded liabilities by CZK 193.3 billion, in 2014 this difference shrank to CZK 72.3 billion.

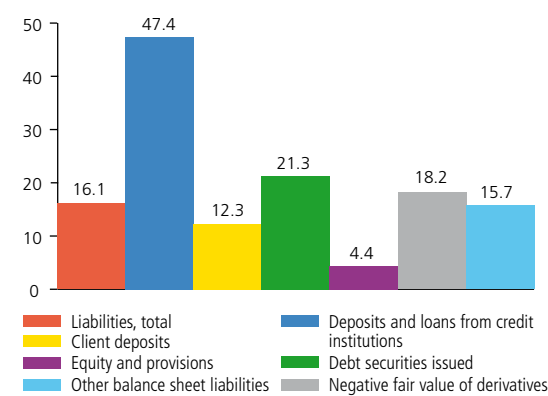
Interbank loans and deposits received grew by 6.9% to CZK 279.1 billion. Client deposits even saw a stronger increase, rising by 13.3% to CZK 421.2 billion. Increases in securities issued (of 11.4% to CZK 93.4 billion) and in the negative value of derivatives (of 16% to CZK 22.5 billion) are also worth mentioning.

At the end of 2014, foreign currency assets accounted for 17.5% of the total assets of the banking sector. Foreign currencies had the biggest share (54.6%) in interbank loans. Their share in client loans was also relatively high (18.6%). Their sizeable (20%) share in equity instruments is not as significant as the two items above, as the amount of equity instruments held by banks is small. The proportion of debt securities denominated in foreign currencies was relatively low, at 13.4%. Also significant were derivatives, with a positive fair value and a 17.1% share, and cash, also with a 17.1% share.

CHART II.16

SHARES OF FOREIGN CURRENCY LIABILITIES IN BANKING SECTOR LIABILITIES IN 2014

(in %)



Foreign currency liabilities accounted for 16.1% of total banking sector liabilities at the end of 2014. On the liabilities side, foreign currencies had the largest share in interbank loans and deposits (47.4%). Banks also issued relatively large number of securities in foreign currency. These securities accounted for 21.3% of banks' securities portfolios. The negative value of foreign currency derivatives also had a relatively large share (18.2%).

2.4.7 Banking sector off-balance sheet

Under the new European reporting framework, the only items monitored in the off-balance sheet are commitments and financial guarantees given and received, broken down by economic sector. For the domestic sector, however, the time series are linked only for the total value, as the sector classification was not monitored before 30 June 2014.⁴⁹

⁴⁹ Off-balance sheet items are reported at nominal value, which is defined as the amount that best describes the reporting entity's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements. For loan and other commitments received, the nominal amount is the undrawn amount the reporting entity may receive. For financial guarantees received, the nominal amount is the maximum amount the reporting entity will receive if the guarantee is called on. Included are off-balance sheet liabilities that are deferred or contingent and do not occur in the balance sheet until or unless they become actual liabilities which the reporting entity has received from its clients. They consist primarily of revocable and irrevocable loan and other commitments received and guarantees received.

Loan commitments are contractual commitments to provide funding. They are either binding (or irrevocable), or revocable. At the end of 2014, banks had given loan commitments totalling CZK 660.0 billion. This represented a year-on-year increase of 42.8%. In this case again, however, this is due in part to the change in reporting. The 2014 figure is higher than in previous years partly because under the new reporting framework total loan commitments include revocable loan commitments in addition to irrevocable ones. Besides loan commitments, banks gave other financial commitments, for example a commitment to provide a financial guarantee of CZK 190.3 billion.

Financial guarantees are the remaining item of the redesigned off-balance sheet. Financial guarantees given by banks fell by 30.4% year on year to CZK 179.0 billion.

Loan commitments were requested mainly by non-financial corporations, primarily in project tenders as a way of proving that their bids had financial coverage. As of 31 December 2014, loan commitments to corporations accounted for 62.8% of the loan commitments given by banks. Households also applied for loan commitments on a large scale, mainly in connection with intended house purchases. The share of these loan commitments was 18.4%. Besides the above two sectors, non-bank financial institutions and general government accounted for sizeable shares of the loan commitments given by banks (8.0% and 5.7% respectively). The shares of other sectors, i.e. credit institutions and central banks, were small.

Non-financial corporations also accounted for most (87.2%) of the financial guarantees given by banks. Other recipients included credit institutions and non-bank financial institutions, with shares of 5.0% and 4.5% respectively. Households accounted for only 2.3% of bank financial guarantees.

Banks have sufficient liquidity, so loan commitments received by them amounted to only CZK 7.8 billion. This represented a year-on-year decrease of 1.7%. Financial guarantees received by banks played a much greater role, totalling CZK 451.7 billion. They, too, recorded a year-on-year decline (of 2.8%). Other commitments received by banks were of limited significance, amounting to CZK 1.3 billion.

TABLE II.17

BANKING SECTOR OFF-BALANCE SHEET

(in CZK billions)

	2012	2013	2014	Change 2014/2013 (in %)
OFF-BALANCE SHEET ASSETS				
Loan commitments given	456,3	462,2	660,0	42,8
Financial guarantees given	229,7	257,4	179,0	-30,4
Other commitments given	NA	NA	190,3	NA
OFF-BALANCE SHEET LIABILITIES				
Loan commitments received	17,0	8,0	7,8	-1,7
Financial guarantees received	409,3	464,7	451,7	-2,8
Other commitments received	NA	NA	1,3	NA

CHART II.17

SECTOR STRUCTURE OF LOAN COMMITMENTS GIVEN

(in %; as of 31 December 2014)

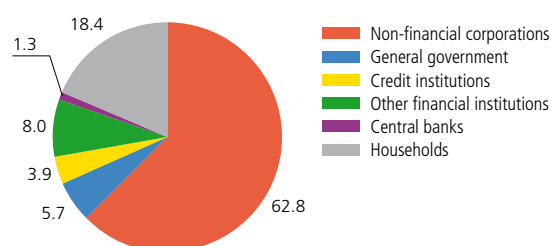


CHART II.18

SECTOR STRUCTURE OF FINANCIAL GUARANTEES GIVEN

(in %; as of 31 December 2014)

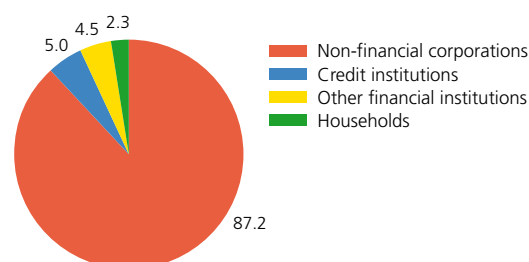


CHART II.19

NON-PERFORMING CLIENT LOANS

(in CZK billions)

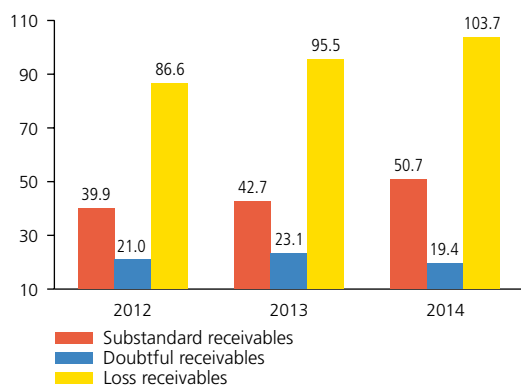


TABLE II.18

CLASSIFICATION OF RECEIVABLES

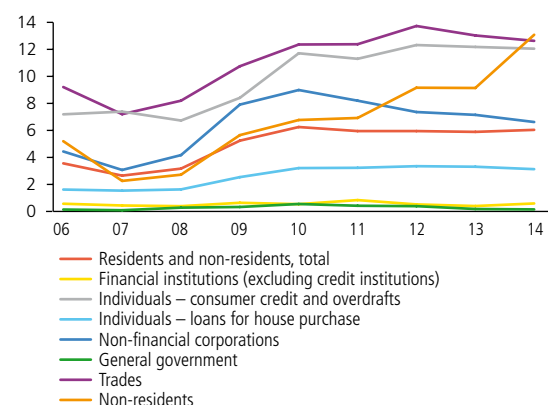
(in CZK billions)

	2012	2013	2014	Change 2014/2013 (in %)
Non-default	2,695.2	2,944.7	2,941.1	-0.1
Standard receivables	2,595.4	2,823.5	2,838.8	0.5
Watch receivables	99.8	121.2	102.3	-15.6
Default receivables	148.7	161.7	174.1	7.7
Substandard receivables	40.1	42.9	50.7	18.0
Doubtful receivables	21.3	23.1	19.6	-15.1
Loss receivables	87.3	95.6	103.8	8.6
Investment portfolio default receivables from clients	147.6	161.3	173.8	7.8
Substandard receivables	39.9	42.7	50.7	18.7
Doubtful receivables	21.0	23.1	19.4	-15.9
Loss receivables	86.6	95.5	103.7	8.6
Allowances and loss of value, total	81.7	92.9	92.4	-0.5
Share of default receivables from clients in total investment portfolio receivables	5.2	5.2	5.6	7.4

CHART II.20

LOAN QUALITY IN SECTORS OF ECONOMY

(NPL ratio in %)



2.5 ASSET QUALITY

2.5.1 Non-default and default receivables

When performing financial market supervision, the Czech National Bank has long paid great attention to regularly reviewing the quality of banking sector assets. Banks' receivables are subject to particularly careful review. The CNB applies strict regulatory criteria to the assessment of loan quality in the review process.⁵⁰ Receivables are classified as default (or non-performing) or non-default on the basis of these criteria and an assessment of the quality of the receivables.

The quality of the Czech banking sector's loan portfolio is good but deteriorated slightly in 2014. The share of default receivables in the total investment portfolio increased year on year, while that of non-default receivables was virtually flat. Non-default receivables fell by 0.1% to CZK 2,941.1 billion. By contrast, default (non-performing) receivables rose by 7.9% to CZK 174.1 billion and accounted for 5.6% of total receivables.

Receivables from clients, which increased by 7.8% to CZK 173.8 billion, accounted for the majority of default receivables. Substandard receivables from clients grew by 18.7% to CZK 50.7 billion and loss receivables were up by 8.6% to CZK 103.8 billion. Doubtful receivables fell by 15.9% to CZK 19.4 billion. Default receivables from credit institutions dropped sharply to just CZK 360 million at the end of 2014.

Banks create allowances to cover their loan portfolio losses. Although the quality of the loan portfolio deteriorated slightly, allowances saw a modest decline of 0.5% to CZK 92.4 billion. Of this amount, CZK 92.3 billion were allowances for receivables from clients and only CZK 100 million were allowances for receivables from banks.

Loan quality as measured by the ratio of default receivables to receivables from clients showed mixed developments across the individual groups of banks in 2014. It improved in large banks, where the share of non-performing loans fell by 0.3 percentage point to 4.7%, and in small banks, where it dropped by 1.6 percentage points to 4.8%. Medium-sized banks and foreign bank branches saw a deterioration of 1.4 percentage points to 11% and 0.2 percentage point to 4.7% respectively. Building societies have long had the highest-quality credit portfolio, but their lead over other banks decreased, with the share of default receivables rising by 0.5% to 3.3%.

50 See Decree No. 163/2014 Coll., on the pursuit of business of banks, credit unions and investment firms.

2.5.2 Sector structure of non-performing loans

Loan quality has long differed across economic sectors. The quality of loans provided to general government and non-bank financial institutions has long been above average relative to the average quality of the loan portfolio of the banking sector as expressed as the ratio of total non-performing loans (NPLs) to total loans to residents and non-residents. NPLs have long accounted for 0.1%–0.9% of these loans.

Loans to households for house purchase also have above-average quality. However, the quality of loans for house purchase had been deteriorating since 2009 and the share of NPLs in these loans reached an all-time high of 3.4% in 2012. This was more than double the 2006 figure of 1.6%. In 2013–2014, the trend reversed and the quality of loans for house purchase improved slightly. NPLs accounted for 3.1% of these loans at the end of 2014.

The quality of loans to non-financial corporations oscillates around the average depending on the phase of the business cycle. In 2006–2008, before the financial crisis erupted, the share of NPLs in loans to non-financial corporations was only slightly above average. During the recession and stagnation in 2009–2012, it rose quite significantly, peaking at 9% in 2010. In the following two years, the trend reversed and the quality of loans to corporations improved. At the end of 2014, 6.6% of loans to non-financial corporations were non-performing. This figure corresponded to the average level for 2006–2014.

Loans to trades and consumer credit to households have long recorded an above-average share of NPLs. Their quality, like that of loans to corporations, worsened significantly during recession and stagnation of the domestic economy. The share of NPLs in loans to trades peaked at 13.7% in 2012. This represented a substantial increase compared to the minimum of 7.2% seen in 2007. Loans to trades improved somewhat in 2013–2014, recording an NPL ratio of 12.6% at the end of 2014.

Until 2011, loans to non-residents were higher in quality than loans to non-financial corporations. Since then, however, they have deteriorated markedly. In 2014, the share of NPLs in loans to non-residents reached 13.1% and was higher than that of NPLs to trades (12.6%) and consumer credit (12.1%).

CHART II.21

SECTOR STRUCTURE OF NON-PERFORMING LOANS IN 2014 (NPL ratio in %)

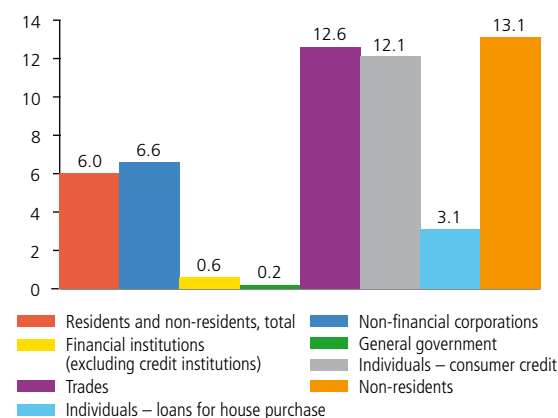


TABLE II.19

REGULATORY CAPITAL OF BANKING SECTOR

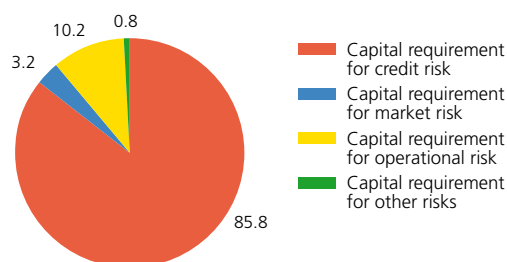
(in CZK billions)

	2012	2013	2014	Change 2014/2013 (in %)
Capital	320.9	368.2	397.1	7.9
Tier 1 capital	306.4	356.3	386.9	8.6
Tier 2 capital	14.5	11.9	10.2	-14.1

CHART II.22

STRUCTURE OF CAPITAL REQUIREMENTS

(in %; as of 31 December 2014)

2.6 CAPITALISATION OF BANKS⁵¹

The ratio of capital to risk exposures⁵² is one of the principal pillars of banking regulation and supervision.

The Czech banking sector has long been well capitalised. The sector's regulatory capital increased again in 2014 – by 7.9%, or CZK 28.9 billion, to CZK 397.1 billion at the end of the year.

The capital of domestic banks⁵³ is made up largely (97.4%) of Tier 1. This is the highest-quality component of capital, which means it has the largest loss-absorbing capacity. During 2014, Tier 1 grew at a faster pace than total regulatory capital, rising by 8.6% to CZK 386.9 billion.

The use of Tier 2 capital, which consists primarily of subordinated debt, has long been declining in the Czech banking sector and dropped by a further 14.1% to CZK 10.2 billion in 2014. The share of Tier 2 in the total regulatory capital of the banking sector was 2.6%.

The risk exposures of the banking sector rose by 2.3% (CZK 5.03 billion) year on year to CZK 2,206.4 billion.

Risk exposures to credit risk, including counterparty risk and other risks, rose by 2.1% to CZK 1,893.6 billion, while risk exposures to position risk, foreign exchange risk and commodity risk increased by 7.7% to CZK 70.4 billion. By contrast, risk exposures to operational risk decreased by 4.6% to CZK 225.4 billion. Other risk exposures amounted to CZK 16.9 billion.

51 In section 2.6 *Capitalisation of banks* and section 2.8.5 *Capitalisation of the credit union sector*, the methodology used for the indicators follows the prudential rules in effect in the given year, i.e. until 2013 those set forth in Decree No. 123/2007 Coll., on prudential rules for banks, credit unions and investment firms, as amended, and since 2014 those laid down in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR).

All items for which time series are provided are calculated according to the prudential rules in effect in the given period, i.e. they are not recalculated according to the current prudential rules. When analysing the data it is therefore necessary to take into account potential methodological factors between 2013 and 2014. The structure of capital is monitored in different detailed breakdowns under the different reporting frameworks, so only the main capital values could be linked up. The time series of other data run from 2014.

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

53 Only banks and building societies report their capital ratios to the Czech National Bank. No foreign bank branches operating in the Czech Republic report their capital ratios, as they are mostly branches of banks incorporated in the EU. The activities of such branches are covered by the regulatory capital of their head offices, and that capital is monitored and assessed by the competent foreign supervisory authority.

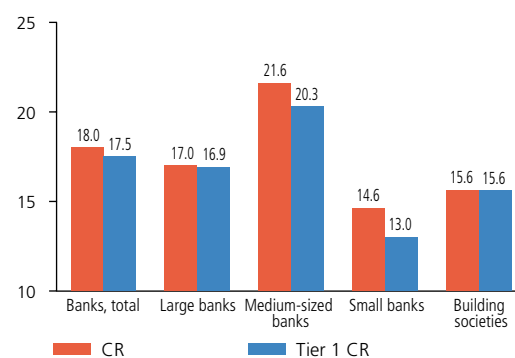
As in previous years, the capital requirements structure in 2014 reflected the conservative business model of banks, which is based on collecting deposits and providing loans. Risk exposures to credit risk accounted for 85.8% of total risk exposures. Risk exposures to operational risk were the second largest with a share of 10.2%. Risk exposures to position, foreign exchange and commodity risk accounted for only 3.2% and other risk exposures for only 0.8%.

The Czech banking sector as a whole is stably well capitalised. The total capital ratio increased steadily, reaching 18% at the end of 2014, up by 0.9 percentage point compared to the end of 2013. The Tier 1 capital ratio rose by 1.2 percentage point to 17.5%. Large banks had a total capital ratio of 17.0% (Tier 1 capital ratio 16.9%), medium-sized banks 21.6% (20.3%), small banks 14.6% (13%) and building societies 15.6% (15.6%). All banks were compliant with the required minimum total capital ratio of 8% and the required minimum Tier 1 capital ratio of 6%.

CHART II.23

CAPITAL RATIOS

(in %; as of 31 December 2014)



2.7 BANKING SECTOR PERFORMANCE AND PROFITABILITY

TABLE II.20

BANKING SECTOR PROFITS

(in CZK billions)

	2012	2013	2014	Change 2014/2013 (in %)
Financial and operating profit	167.1	168.2	168.0	-0.1
Interest profit	107.8	105.5	110.4	4.7
Interest income	170.0	154.8	159.0	2.7
Interest expenses	62.2	49.3	48.5	-1.6
Dividend income	6.6	8.8	6.7	-23.7
Fee and commission profit	37.3	37.1	36.1	-2.6
Fee and commission income	49.1	49.9	49.0	-1.8
Fee and commission expenses	11.9	12.8	12.9	0.6
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	0.6	5.7	1.9	-67.7
Gains or (-) losses on financial assets and liabilities held for trading, net	7.6	-9.6	4.1	x
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	0.9	-0.6	-0.2	-67.7
Gains or (-) losses from hedge accounting, net	-0.4	-1.1	-0.3	-74.8
Exchange differences [gain or (-) loss], net	5.2	23.1	8.2	-64.3
Gains or (-) losses on derecognition of non-financial assets, net	1.4	0.1	0.3	214.9
Other operating income	4.5	5.3	3.0	-43.7
Other operating expenses	4.4	6.1	2.3	-62.3
Administrative expenses	66.5	65.8	70.4	6.9
Staff expenses	34.4	34.3	34.7	1.1
Other administrative expenses	32.1	31.5	35.7	13.2
Depreciation	6.7	6.5	6.4	-1.3
Provisions or (-) reversal of provisions	0.7	1.6	1.3	-16.9
Impairment	16.2	21.0	13.7	-35.0
Profit or (-) loss before tax	76.8	73.3	76.2	4.0
Tax expense	12.3	12.3	13.1	6.7
Profit or (-) loss for the year	64.5	61.0	63.2	3.5

In 2014, as in the previous year, banks operated in an environment of very low interest rates. Their profit from financial activities dropped by just 0.1% year on year to CZK 168 billion. Interest profit, which is traditionally the main component of bank profit, rose by 4.7% to CZK 110.4 billion. This rise reflects an increase in interest income of 2.7% to CZK 159 billion and a decline in interest expenses of 1.6% to CZK 48.5 billion.

Profit from fees and commissions has long been the second largest source of bank profit, and is additionally relatively stable. It dropped by 2.6% year on year to CZK 36.1 billion in 2014 owing to a 1.8% decline in fee and commission income to CZK 49 billion and a 0.6% rise in fee and commission expenses to CZK 12.9 billion.

Dividend income, which is conversely a relatively unstable source of profit, dropped by 23.7% to CZK 6.7 billion. Unlike in 2013, gains on financial instruments held for trading made a considerable contribution to profit from financial activities in 2014. In 2013, the loss from financial instruments held for trading had totalled CZK 9.6 billion, whereas in 2014 a profit of CZK 4.1 billion was recorded. Gains from valuation changes total CZK 8.2 billion in 2014. This was 62.3% lower than the extraordinarily high figure recorded

the previous year (CZK 23.1 billion), but it was a better outcome than in 2012, when gains of CZK 5.2 billion had been posted. Banks again incurred a loss on hedging transactions, but succeeded in reducing the loss significantly compared to 2013 to a mere CZK 300 million.

In 2014, 42% of the profit from financial activities was used to cover administrative expenses. Despite flat profit from financial activities, these expenses rose by 6.9% to CZK 70.4 billion. Banks saved on their personnel expenses, which rose by only 1.1% to CZK 34.7 billion. However, other administrative expenses increased by 13.2% to CZK 35.7 billion, and, unlike in previous two years, exceeded personnel expenses.

While administrative expenses reflect banks' ability to manage and efficiently perform current operational activities, asset impairment losses reflect the quality of risk management in the allocation of internal and external funds. These losses fell by 35% year on year to CZK 13.7 billion in 2014.

In an environment of low interest rates, banks managed to increase their interest profit, improve their financial instrument trading results, skilfully manage exchange rate risk and reduce their impairment losses. Thanks to the above factors, banks' pre-tax profit increased by 4% to CZK 76.2 billion.

Banks ranked among the major corporate income tax payers again in 2014. They paid a total of CZK 13.1 billion in this tax, a rise of 6.7%, or CZK 800 million, compared to 2013. The banking sector's after-tax profit was CZK 63.2 billion, up by 3.5% compared to the previous year.

Despite the solid profit, the efficiency of bank business decreased slightly in 2014. Return on banking sector assets, as measured by the ratio of net profit to assets, decreased by 0.1 percentage point year on year to 1.2% in 2014. Return on equity, as measured by the ratio of net profit to Tier 1 capital, declined as well – by 1.8 percentage points to 16.8%. The ratio of administrative expenses to total assets was slightly more favourably, remaining almost flat at 1.3% despite the relatively fast growth in administrative expenses.

The biggest contributor to the banking sector's net profit was the group of large banks, which generated a net profit of CZK 45.2 billion, accounting for 71.5% of the net profit of the banking sector as a whole. Medium-sized banks generated profit of CZK 11.9 billion, accounting for 18.8% of banking sector profit. Small banks generated profit of CZK 110 million accounting for only 0.2% of banking sector profit. The profit of foreign bank branches totalled CZK 2.7 billion, i.e. 4.3% of banking sector profit. The contribution of building societies was CZK 3.3 billion, representing 5.2% of the total.

Most banks posted a net profit in 2014. Nine banks – seven foreign bank branches and two small banks – recorded losses. The loss-making banks in 2014 make up an insignificant part of the banking sector. This group of nine banks manages less than 2% of the banking sector's assets. All large banks generated a profit in 2014.

CHART II.24

PROFITABILITY OF BANKING SECTOR

(in %)

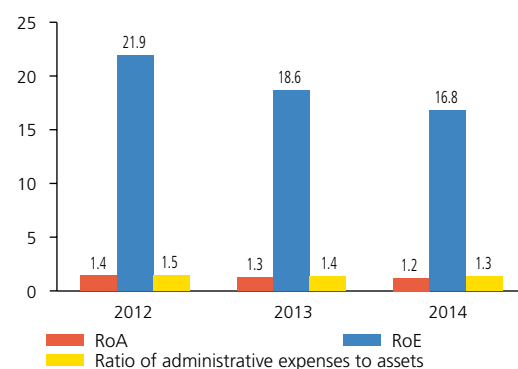
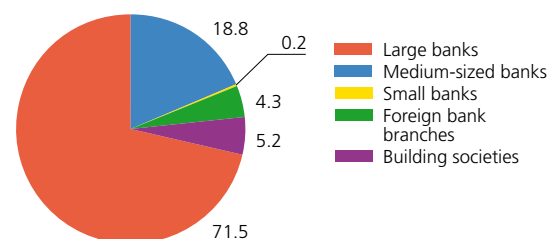


CHART II.25

SHARES OF BANK GROUPS IN NET PROFIT OF BANKING SECTOR

(in %; as of 31 December 2014)



2.8 THE CREDIT UNIONS SECTOR

2.8.1 Structure of the credit union sector

A total of 11 credit unions were active in the Czech Republic at the end of 2014. They fell in number by one in 2014, as the Czech National Bank revoked the credit union licence of WPB Capital.

Credit unions accounted for only 0.6% of total assets of credit institutions (banks plus credit unions).

The credit union sector is highly concentrated: the three largest credit unions account for almost 77% of the sector's total assets and generated almost 85% of its profit. The eight largest credit unions represent virtually the entire sector.

The number of credit unions has decreased by one every year since 2011, so the sector's structure is changing. The performance of the credit union sector in the last three periods has been significantly affected by the closure of Metropolitní spořitelní družstvo in 2013 and WPB Capital in 2014. As of 31 December 2012, these two entities accounted for more than 40% of the assets of the entire sector.

The degree of concentration of the credit union sector, as measured by the Herfindahl index⁵⁴ based on total assets, increased to 0.238 in 2014. The degree of concentration based on loans and on deposits is also increasing.

Credit unions' business activities are focused on the domestic market. The only exception is Akcenta, which also operates abroad through a branch in Slovakia.

The number of employees of credit unions is falling steadily, mainly because of the decreasing number of credit unions on the market. At the end of 2014, the year-on-year decrease in the number of employees of credit unions was 14.4%. Most employees work in head offices (almost 83% of the registered number of employees in the sector at the end of 2014). The branch network is not extensive. Besides head offices, a further 20 business units were providing services to credit union clients as of 31 December 2014.

⁵⁴ 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. In the case of deposits, comparable data are not available for the three-month period under the current methodology (deposits at amortised cost).

TABLE II.21

NUMBER OF CREDIT UNIONS (CUs as of given date)

	2012	2013	2014
CREDIT UNIONS, TOTAL	13	12	11
Number of members of CUs	54,402	53,594	57,179
Number of new memberships	16,001	9,978	16,158
Number of memberships terminated	1,963	1,336	1,719
Number of employees of CUs (in CZ) ⁱ⁾	654	541	463

i) Registered number of employees.

CHART II.26

CONCENTRATION OF CREDIT UNION SECTOR (CUs as of 31 December 2014; in %)

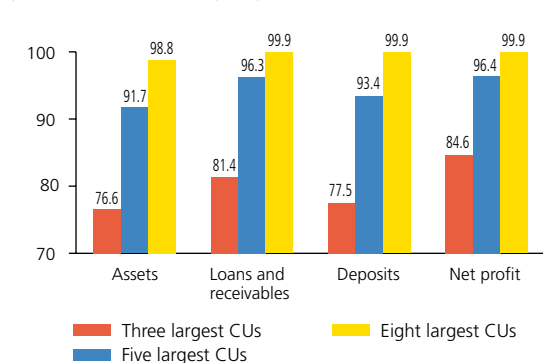
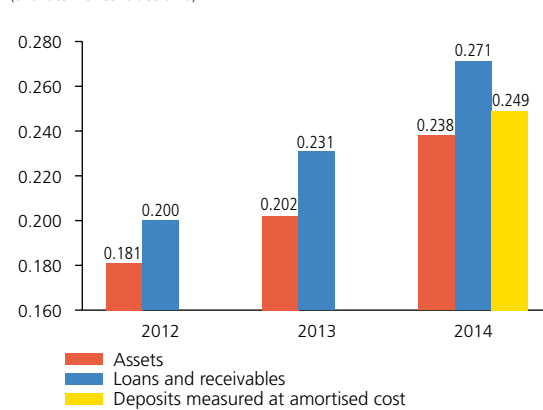


CHART II.27

Herfindahl Index (ukazatel koncentrace trhu)



2.8.2 Activities of the credit union sector⁵⁵

TABLE II.22

CREDIT UNION SECTOR ASSETS

(CUs as of given date; in CZK billions)

	2012	2013	2014	Structure 2014 (in %)
NET ASSETS, TOTAL	39.3	31.6	31.3	100.0
Cash, cash balances at central banks and other demand deposits	5.2	5.6	6.6	21.2
Financial assets held for trading	0.1	0.4	0.7	2.2
Financial assets designated at fair value through profit or loss	0.4	0.4	0.6	2.0
Available-for-sale financial assets	0.0	0.1	0.1	0.2
Loans and receivables	31.8	24.0	22.3	71.1
Held-to-maturity investments	0.7	0.0	0.1	0.2
Tangible and intangible assets	0.9	0.8	0.7	2.1
Tax assets	0.0	0.1	0.1	0.2
Other assets	0.1	0.2	0.2	0.7

The total assets of the credit union sector dropped by CZK 0.3 billion (0.9%) to CZK 31.3 billion at the end of 2014. This was due chiefly to the closure of WPB Capital (at the end of 2013 its assets have accounted for almost 14% of the sector's assets). Nine credit unions increased their assets. The year-on-year growth rates of the individual credit unions' assets ranged from just above zero to almost 59% in 2014. Only two institutions, accounting for less than 0.4% of credit unions' total assets, recorded year-on-year decreases in assets.

When one compares the group made up of the same credit unions operating in the market as of 31 December 2014, the assets of this group of 11 active credit unions saw year-on-year growth in both 2014 (15.1%) and 2013 (15.5%).

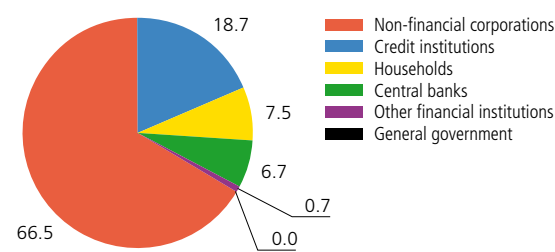
As in previous years, the business of credit unions in 2014 was based on collecting deposits and providing loans. Loans and other receivables accounted for more than 71% of the asset side of the balance sheet at the end of 2014. Loans decreased year on year both in absolute terms (by CZK 1.8 billion) and relative to the sector's total assets (their share fell by 4.9 percentage points). Five of the 11 credit unions recorded an increase in lending and five a decrease (one credit union does not report loans or other receivables).

Loans provided to non-financial corporations form the basis of the overall lending of domestic credit unions. Their share exceeded 66% at the end of 2014.

CHART II.28

LOANS BY ECONOMIC SECTOR

(CUs as of 31 December 2014; in %)



⁵⁵ The figures given in the *Credit unions* section apply to the entire credit union sector in the given period (time series). Where it is necessary for analytical purposes to compare only the credit unions active as of 31 December 2014 (i.e. 11 credit unions excluding WPB and Metropolitní spořitelní družstvo), this "adjustment" is expressly stated in the text.

TABLE II.23

CREDIT UNION SECTOR LIABILITIES

(CUs as of given date)

	Amount (in CZK billions)			Structure 2014
	2012	2013	2014	(in %)
LIABILITIES AND EQUITY	39.3	31.6	31.3	100.0
Liabilities, total	38.7	31.3	31.1	99.3
Financial liabilities held for trading	0.0	0.0	0.0	0.1
Financial liabilities measured at amortised cost	34.4	27.5	27.5	87.8
Derivatives – hedge accounting	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0
Tax liabilities	0.1	0.1	0.0	0.1
Share capital repayable on demand	3.8	3.4	3.4	10.8
Other liabilities	0.4	0.3	0.2	0.5
Equity, total	0.5	0.3	0.2	0.7
Accumulated other comprehensive income	0.0	0.0	0.0	0.0
Retained earnings	0.1	0.1	0.1	0.2
Other reserves	0.2	0.3	0.1	0.3
Profit or loss	0.3	0.0	0.1	0.2

CHART II.29

DEPOSITS IN CU BALANCE SHEET

(CUs as of given date; in CZK billions; in %)

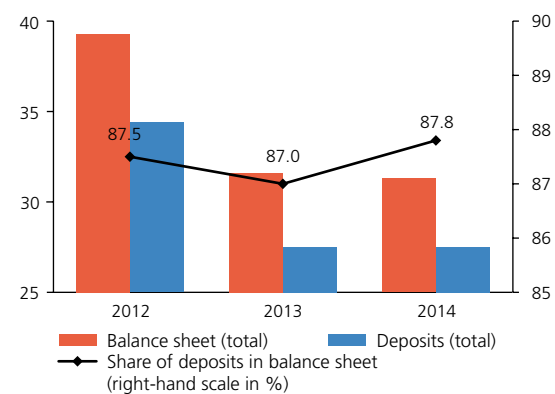
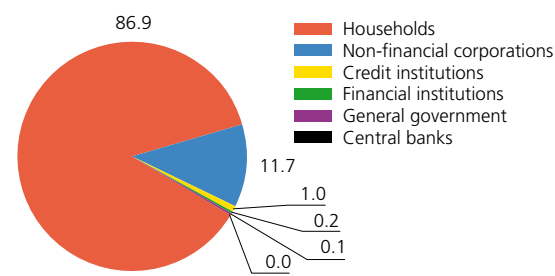


CHART II.30

DEPOSITS BY ECONOMIC SECTOR

(CUs as of 31 December 2014; in %)



Cash, which makes up more than 21% of total balance sheet assets, remains an important item of credit union assets. The increase in cash is also a result of the change in reporting methodology that came into effect in 2014.⁵⁶

Deposits dominate the liability side of credit unions' balance sheet. At the end of 2014, the 87.8% share of deposits in the balance sheet represented the total amount of CZK 27.5 billion.⁵⁷ With deposits insured under European law, credit unions attracted a large number of households by offering high deposit rates. The deposits of credit unions active as of 31 December 2014 (i.e. excluding WPB Capital) increased by 15.9%, or CZK 3.8 billion during 2014, and deposits worth a total of CZK 26.3 billion met the eligibility conditions for client deposit insurance. Credit unions channel these funds, which are obtained mostly from households, mainly into loans to non-financial corporations.

Only commitments and financial guarantees given and received are now monitored in the off-balance sheet.⁵⁸ Most of the loan commitments given (75.1%) were to non-financial corporations. Financial guarantees given and received also mostly pertained to non-financial corporations (61.6% and 76.1% respectively). Loan commitments received related solely to credit institutions. In the off-balance sheet, there was an increase in financial guarantees received in 2014 (11.7%).

⁵⁶ In contrast to the methodology in effect until 30 June 2014, the item cash, cash balances at central banks and other demand deposits now includes demand deposits of credit institutions, which were previously reported under loans and receivables.

⁵⁷ Under the new reporting methodology, deposits now also include deposits at central banks.

⁵⁸ Only commitments and financial guarantees given and received are now monitored in the off-balance sheet. Until 30 June 2014, only irrevocable commitments were reported, but since 30 September 2014, both irrevocable and revocable commitments have been reported. This explains the increase in this period. Until 30 June 2014, all commitments were reported in aggregate form, but since 30 September 2014, loan commitments and other commitments have been monitored separately.

TABLE II.24

CREDIT UNION SECTOR OFF-BALANCE SHEET

(CUs as of given date; in CZK millions)

	2012	2013	2014
Loan commitments given	929.5	1,345.8	582.1
Financial guarantees given	33.3	66.6	58.4
Other commitments given	0.0	0.0	7.9
Loan commitments received	274.0	311.5	285.0
Financial guarantees received	2,482.2	496.7	554.7
Other commitments received	0.0	0.0	0.6

2.8.3 Profits of the credit union sector⁵⁹

The performance of the credit union sector improved in 2014 compared to 2013. After recording a loss in 2013, credit unions as a whole generated a net profit of CZK 63.8 million as of the end of 2014.

The environment of historically low interest rates was reflected in a year-on-year decline in both interest income (of 17.6%) and interest expenses (of 29.2%). Income from fees and commissions and related costs also went down (by 9.8% and 27.8% respectively). Trading in financial assets recorded a profit at the end of 2014. By contrast, a large loss due to write-offs of both financial and non-financial assets reduced the overall profit. Valuation changes contributed to the profit, but their absolute value dropped by almost 66% compared to the end of 2013. Following a large year-on-year rise in 2013, loan impairment losses decreased by almost 38% in the period under review. However, the sector as a whole can be considered heterogeneous in this respect, as one credit union accounted for more than 50% of the sector's total losses. Credit unions as a whole cut their administrative expenses by 18.0% year on year.

2.8.4 Risks of the credit union sector

The quality of the credit unions' credit portfolio as of 31 December 2014 (i.e. excluding WPB Capital) deteriorated further.⁶⁰ Loans in default increased by 25.5% year on year, while total investment portfolio receivables rose at roughly half that rate (12.8%). Standard and watch loans rose the most in absolute terms in the period under review (by CZK 903.8 million and CZK 961.1 million respectively), followed by loss loans (by CZK 842.0 million). Allowances set aside to cover loan portfolio losses grew by more than 40% in the period under review; these allowances were created almost solely for individual receivables.⁶¹

⁵⁹ Data are always reported from the start of the year to the end of the period under review. The information content of the data for 2012 in 2013 is affected by the different accounting period applying to institutions in the credit union sector.

⁶⁰ The data on the categorisation of receivables are methodologically comparable over the whole time series, as the rules for categorisation of receivables did not change in the given period.

⁶¹ For comparison across credit institutions, the quality of the banks' loan portfolio is discussed in detail in section 2.5 *Asset quality*.

TABLE II.25

CREDIT UNION SECTOR PROFITS

(CUs as of given date; in CZK millions)

	2012	2013	2014
FINANCIAL PROFIT	1,168.6	1,450.2	1,150.0
of which:			
interest profit	1,090.2	1,268.8	1,152.8
fee and commission profit	73.9	105.2	99.0
gains on financial assets not measured at fair value through profit or loss	-11.4	61.4	-80.9
gains on financial assets held for trading	0.6	-1.1	19.9
gains on financial assets designated at fair value through profit or loss	9.5	-15.0	-5.0
gains from hedge accounting	2.1	0.0	-1.1
gains from other activities	118.9	178.3	120.1
ADMINISTRATIVE EXPENSES	606.6	775.2	635.3
DEPRECIATION AND PROVISIONS	47.5	48.8	44.7
IMPAIRMENT	122.4	589.0	367.6
GROSS PROFIT before tax	392.1	37.3	102.3
tax expense	88.3	57.1	38.5
NET PROFIT	303.8	-19.8	63.8

TABLE II.26

CLASSIFICATION OF RECEIVABLES

(CUs as of 31 December 2014)

	Amount (in CZK billions)			Change 2014/2013 (in %)
	2012	2013	2014	
A. INVESTMENT PORTFOLIO RECEIVABLES BY DEFAULT STATUS	21.5	24.5	27.7	12.8
non-default	18.9	19.5	21.4	9.6
standard	14.9	14.5	15.4	6.2
watch	4.0	5.0	6.0	19.2
default	2.5	5.0	6.3	25.5
substandard	1.0	2.2	2.7	19.1
doubtful	0.5	1.0	1.1	0.4
loss	1.0	1.7	2.6	49.3
B. INVESTMENT PORTFOLIO DEFAULT RECEIVABLES FROM CLIENTS	2.5	5.0	6.3	25.5
substandard	1.0	2.2	2.7	19.1
doubtful	0.5	1.0	1.1	0.4
loss	1.0	1.7	2.6	49.3
C. ALLOWANCES AND LOSS OF VALUE	0.4	0.8	1.2	40.4
allowances for individually assessed financial assets	0.4	0.8	1.2	41.6
allowances for individually non-impaired assets	0.0	0.0	0.0	-100.0
allowances for portfolio of individually immaterial assets	0.0	0.0	0.0	-78.9
D. DEFAULT RECEIVABLES (in %)				
share of default receivables in total investment portfolio	11.9	20.4	22.7	11.2

Credit risk is the biggest risk faced by the credit union sector.⁶² The risk-weighted exposure to credit risk accounts for 92.7% of the sector's total risk exposure, which amounted to CZK 26.9 billion at the end of 2014. Risk exposure to operational risk accounts for 6.7% of this amount, while other risk exposures are insignificant.

2.8.5 Capitalisation of the credit union sector

The capital ratio remains one of the principal pillars of banking regulation and supervision under the new methodology in force since 2014.⁶³ The new regulatory framework, which is based on Basel III and CRD IV, requires institutions to hold more and better-quality capital. The duty to hold more and better-quality capital will enable competent authorities to use that capital to cover any losses.⁶⁴

The credit union sector (for credit unions as of 31 December 2014) increased its capital by CZK 343.1 million year on year. The capital of credit unions thus grew at a lower rate (10.1%) than total balance sheet assets (15.1%) in 2014. Capital is made up largely (92.1%) of high-quality Tier 1 capital, which increased by 13.0% in 2014, i.e. faster than total capital.

The capital ratios of the credit union sector as a whole exceeded the required thresholds at the end of 2014. The Tier 1 capital ratio was 12.77% and the total capital ratio 13.86%. All credit unions were compliant with the required minimum total capital ratio of 8% and the required minimum Tier 1 capital ratio of 6%.

TABLE II.27

CAPITAL STRUCTURE

(CUs as of 31 December 2014; in CZK millions; in %)

	2012	2013	2014
Capital	2,884.3	3,387.9	3,731.0
Tier 1 (T1) capital	2,553.4	3,041.2	3,436.9
Tier 2 (T2) capital	330.9	346.7	294.1
T1 capital ratio	12.87	12.38	12.77
Surplus (+) / deficit (-) of T1 capital	966.0	1,075.3	1,821.9
Total capital ratio	14.54	13.79	13.86
Surplus (+) / deficit (-) of total capital	1,296.9	1,421.9	1,577.7

TABLE II.28

CAPITAL RATIOS IN 2014

(CUs as of 31 December 2014; in CZK millions; in %)

	2014	Structure 2014 (in %)
CAPITAL	3,731.0	100.0
Tier 1 (T1) capital	3,436.9	92.1
Common equity Tier 1 (CET1) capital	3,436.9	92.1
Capital instruments eligible as CET1 capital	3,365.7	90.2
Retained earnings	28.7	0.8
Other reserves	929.6	24.9
Funds for general banking risk	0.1	0.0
Adjustments to CET1 due to prudential filters	-0.2	0.0
Other transitional adjustments to Tier 1 (CET1) capital	-50.4	-1.4
Tier 2 (T2) capital	294.1	7.9
Capital instruments and subordinated loans eligible as T2 capital	294.1	7.9
CET1 capital ratio	12.77	n.a.
Surplus (+) / deficit (-) of CET1 capital	2,225.7	59.7
T1 capital ratio	12.77	n.a.
Surplus (+) / deficit (-) of T1 capital	1,821.9	48.8
Total capital ratio	13.86	n.a.
Surplus (+) / deficit (-) of total capital	1,577.7	42.3
Combined buffer requirement	241.8	6.5
Capital conservation buffer	279.6	7.5

⁶² Capital requirements were monitored until 2013 and risk-weighted exposures have been monitored since 2014. Capital requirements were converted into risk-weighted exposures using a 12.5 of coefficient. This may give rise to differences in sum totals.

⁶³ The capital ratio is always calculated as the ratio of the relevant capital to total risk exposures in per cent over the entire time series.

The relevant capital surplus/shortfall is the difference between the relevant capital reported by the reporting entity (and given in the *Capital structure* dataset) and the capital that institutions must hold at all times under Article 92 of Regulation No. 575/2013, i.e. such that they satisfy a Common Equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6% and a total capital ratio of 8%.

⁶⁴ In the interests of comparability with the new methodology, the Tier 1 capital ratio until 2013 is converted into Tier 1 that can be used for the calculation of capital adequacy (i.e. adjusted for items deductible from the sum of Tier 1 and Tier 2). As a result, it may differ to some extent from the previously published ratio.

3. THE CAPITAL MARKET

3.1 INVESTMENT FIRMS

3.1.1. Licensed investment firms

There were 58 investment firms registered on the Czech capital market as of the end of 2014, 13 of them banks, 20 non-bank investment firms, 15 foreign bank branches and 10 branches of foreign non-bank investment firms. Eight domestic management companies managing assets of clients under contract (asset management companies, AMCs⁶⁵) held investment firm licences at the end of 2014.

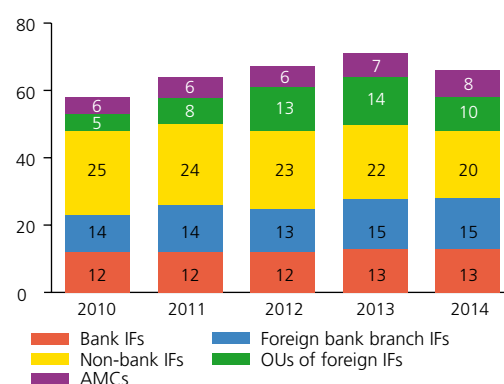
As of the end of 2014 entities licensed as investment firms⁶⁶ had more than 1 million clients, of which 240,100 were clients of domestic non-bank investment firms, 737,200 were clients of bank investment firms and 800 were clients of AMCs. Foreign bank branches and branches of foreign investment firms had 20,400 and 8,900 clients respectively at the end of 2014.

3.1.2 Client assets and managed funds

At the end of 2014, the assets of clients of investment firms totalled CZK 3,329.9 billion, up by 11.5% on the same period a year earlier. Of the total, the assets of clients of domestic non-bank investment firms amounted to CZK 457.6 billion (up by 9.7%), the assets of clients of domestic banks CZK 2,424.7 billion (up by 16.5%) and the assets of clients of AMCs CZK 250.1 billion (up by 11.0%). The assets of clients of branches of foreign banks and branches of foreign investment firms amounted to CZK 197.3 billion and CZK 0.2 billion respectively, representing a decrease of 24.9% and an increase of 14.3% year on year respectively.

CHART III.1

Investment firms
(numbers of firms at end of period)



⁶⁵ Management companies which provide the core investment service of asset management for a client if an investment instrument is part of such assets pursuant to Article 4(2)(d) of the Capital Market Undertaking Act (referred to as "asset management companies" or "AMCs").

⁶⁶ 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.

As of 31 December 2014, investment firms managed funds totalling CZK 676.6 billion (up by 9.8% on a year earlier), of which CZK 362.6 billion fell to domestic non-bank investment firms (up by 8.9% on a year earlier), CZK 68.3 billion to domestic bank investment firms (up by 19.3% on a year earlier) and CZK 245.6 billion to AMCs (up by 8.5% on a year earlier). Only minimal or zero levels of managed funds were registered by foreign bank branches and foreign investment firms.

As regards the breakdown of securities by type, bonds accounted for most of the managed funds (81.4%, or CZK 551.0 billion of all investment securities). Collective investment securities, shares and cash and receivables also had significant shares, accounting for 13.5%, 2.9% and 2.6% respectively.

3.1.3 Volumes of trading in securities

Investment firms carried out trades for their clients totalling CZK 39,186.3 billion in 2014 (a year-on-year rise of 31.1%).⁶⁷ Trades under a management relationship accounted for most of this figure (64.9%).

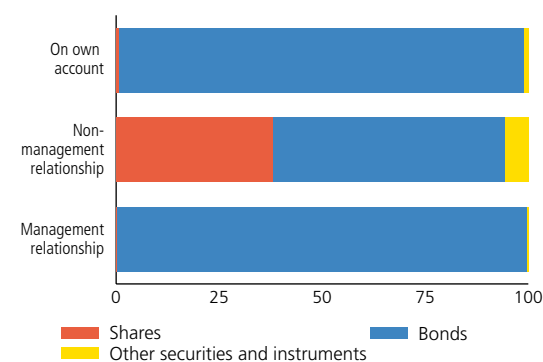
Securities trades carried out for clients by bank investment firms totalled CZK 4,574.5 billion. Non-bank investment firms carried out trades for their clients amounting to CZK 32,861.0 billion, while client trades of AMCs reached CZK 76.7 billion and client trades of foreign bank branches totalled CZK 1,674.0 billion. Organisational units of foreign investment firms carried out no trades for their clients.

Investment firms carried out trades for their own account totalling CZK 53,813.2 billion in 2014, up by 26.6% year on year. The largest proportion (94.3%) of the total volume of trades for own account were executed by bank investment firms. Non-bank investment firms carried out trades for their own account amounting to CZK 353.5 billion, while trades for their own account of foreign bank branches over the same period totalled CZK 2,681.3 billion.

CHART III.2

Securities trades

(in %; structure in 2014)



⁶⁷ The overall volume of trades comprises spot transactions, custody transfers, repos, buy/sell-back trades and sell/buy-back trades.

3.1.4 Capital, ratios and profits of investment firms⁶⁸

The investment firm sector was sufficiently capitalised in 2014. The regulatory capital of non-bank investment firms totalled CZK 2.9 billion, of which Common Equity Tier 1 (CET1) accounted for 99.3%. The capital of AMCs totalled CZK 0.8 billion, with common equity accounting for 97.0%.

Calculated risk exposures⁶⁹ for individual types of risk amounted to CZK 10.3 billion for domestic non-bank investment firms (CZK 1.8 billion for AMCs), of which CZK 2.1 billion (CZK 1.4 billion for AMCs) were risk exposures for investment firms with a restricted licence to provide investment services and investment firms with a restricted licence for own-account trading under Articles 95(2) and 97 and Articles 96(2) and 97 of the CRR respectively. Risk-weighted exposures to credit risk accounted for the largest part of risk exposures (44.9% for non-bank investment firms and 70.9% for AMCs). Risk exposures to operational risk for non-bank investment firms also recorded significant levels (36.1%), while lower risk exposures were calculated for position, foreign exchange and commodity risk (9.4%). Additional risk exposures accounted for 8.0% of total risk exposures for non-bank investment firms due to the application of overheads and 28.7% of total risk exposures for AMCs.

Domestic non-bank investment firms recorded rather worse profits in 2014 than in 2013. The total net profit of non-bank investment firms declined by 12.7% year on year to CZK 0.7 billion. This was largely due to a year-on-year decline in profit from financial and operating activities of 3.1% to CZK 2.7 billion and an increase in administrative expenses of 4.0% to CZK 1.7 billion.

Turning to the costs of domestic non-bank investment firms, administrative expenses accounted for 20.5% of their average assets and 63.7% of profit from financial and operating activities. Profit from financial and operating activities represented 32.2% of the average assets of domestic non-bank investment firms. Profit after tax amounted to 8.6% of the average assets of domestic non-bank investment firms and 25.4% of Tier 1.

CHART III.3

CET1 CAPITAL RATIO
Non-bank investment firms
(numbers of IFs; as of 31 December 2014)

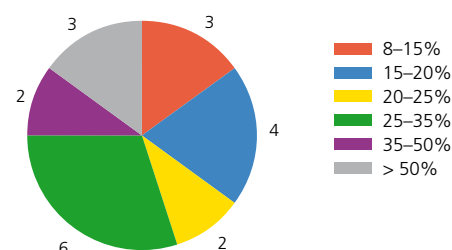
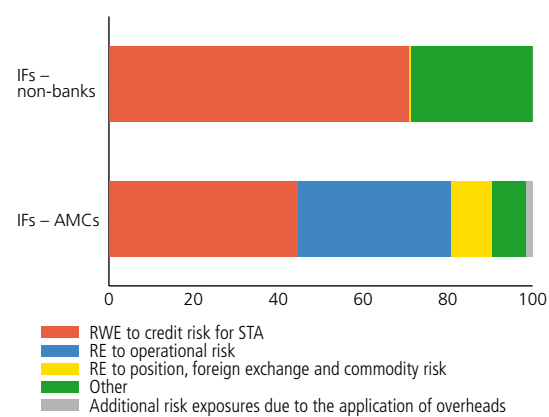


CHART III.4

RISK EXPOSURES
Investment firms
(structure in %; as of 31 December 2014)



⁶⁸ This section analyses the capital and profits of domestic non-bank investment firms, unless stated otherwise.

⁶⁹ Following a change in methodology due to the coming into effect of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR), risk exposures have been monitored for non-bank investment firms since 2014 (capital requirements were monitored until 2013).

3.2 FUND INVESTMENT

3.2.1 Management companies and investment funds

A total of 26 management companies and 275 investment funds, of which 191 were mutual funds and 84 were investment funds having legal personality, were registered on the Czech capital market at the end of 2014. Almost three-quarters of the total number of mutual funds were collective investment (mutual) funds (of which 50 were UCITS funds) and more than a quarter (53) were funds for qualified investors. All 84 investment funds with legal personality were funds for qualified investors. Domestic collective investment (mutual) funds were managing assets totalling CZK 177.6 billion at the end of 2014 (up by 27.1% year on year). Market concentration in terms of the value of the assets managed by collective investment funds recorded a decline during 2014, partly due to an increase in the number of management companies. At the end of 2014, the three companies with the largest market shares were managing 66.5% (down by 4.3 percentage points) and the seven largest companies 87.4% (down by 3.2 percentage points) of the assets of domestic collective investment (mutual) funds.

3.2.2 Assets of collective investment funds⁷⁰

The assets of collective investment funds amounted to CZK 177.6 billion at the end of 2014, up by CZK 37.9 billion on the end of 2013. The assets of collective investment (mutual) funds increased by 27.1% year on year. The value of assets was 49.6% higher at the end of 2014 than at the end of 2012.

As regards fund type, mixed funds managed the largest amount of assets at the end of 2014. They accounted for 39.4% of the total assets of collective investment funds. At the end of 2014, mixed funds were managing assets of CZK 69.9 billion.

Bond funds were managing assets totalling CZK 66.5 billion, 17.3% higher than in the same period of 2013. The share of assets in bond funds in the total assets of domestic collective investment funds fell slightly by 3.1 percentage point year on year to 37.5%.

Assets of CZK 33.0 billion were being managed by equity funds at the end of 2014. This represents 18.6% of the assets of collective investment funds. Real estate funds were managing CZK 6.0 billion of the assets of collective investment funds (3.4%). The other types of funds had relatively low asset levels at the end of 2014.

⁷⁰ In the course of the year, the funds of funds category was dissolved into other types of collective investment funds, primarily mixed funds. The funds of funds category was reclassified in accordance with the AKAT fund classification methodology. An "Other funds" category was introduced. Under the AKAT methodology, this category contains life-cycle funds, structured funds, guaranteed funds and special real estate funds, among others.

CHART III.5

CONCENTRATION OF MANAGEMENT COMPANIES BY VOLUME OF ASSETS MANAGED

(in %; at end of period)

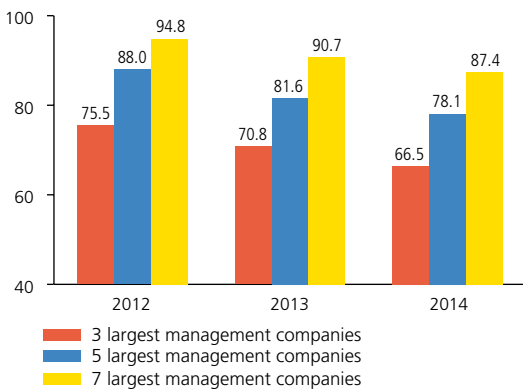
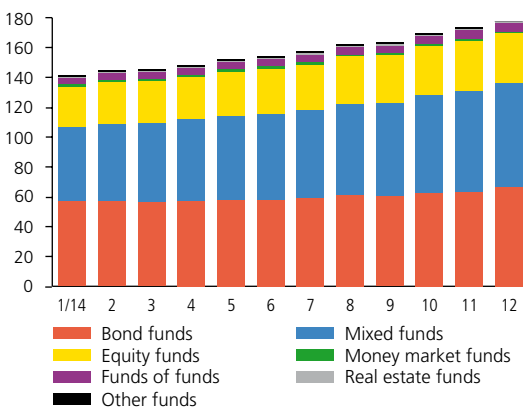


CHART III.6

ASSETS BY FUND TYPE – MONTHLY

Collective investment funds

(in CZK billions; 2014; at end of period)



3.2.3 Structure of collective investment fund assets

As regards the structure of investment, the largest part (43.3%) of the assets of collective investment funds was invested in debt securities at the end of 2014, with 25.4% invested in bonds issued by general government and 18.0% in bonds issued by other entities. The share of debt securities in total assets fell by 2.4 percentage points year on year. Investments in shares and similar investment securities amounted to 16.1% of assets at the end of 2014, down by 1.9 percentage points from the end of 2013.

Collective investment funds had 25.9% of their assets invested in securities of collective investment funds, 5 percentage points more than in the same period of 2013. In all, 12.5% of assets were invested in deposits and other receivables, roughly the same share as in 2013. Other investments, for instance real estate and holdings in other companies, accounted for the remainder (about 2%) of the assets of collective investment funds.

The structure of the assets in the individual types of funds is consistent with their investment orientation. The bulk of bond funds' assets (84.0%) are invested in debt securities, followed by deposits at banks (10.7%) and collective investment fund units (5.3%). Mixed funds invest a large part of their assets in units (47.6%), bonds (28.7%) and deposits at banks (12.3%). By contrast, equity funds invest mainly in equity (63.5%) and to a lesser extent in units (25.4%) and in deposits at banks (10.6%).

3.2.4 Sales and redemptions of fund units

The assets of collective investment funds are significantly affected by the net value of unit purchases and sales. Positive net sales of units (except for money market funds) were recorded in 2014. The total amount paid out of the assets of collective investment funds for units redeemed (CZK 36.1 billion) was lower than the amount received for units issued (CZK 71.9 billion). The resulting balance of units issued and redeemed was thus positive at CZK 35.8 billion (up by CZK 20.2 billion year on year), contributing to a rise in the total balance sheet assets of collective investment funds.

Investment of collective investment fund assets generated a net profit of CZK 4.6 billion in 2014, up by 23.6% on a year earlier. As regards fund type, equity funds made the biggest contribution to the sector's profit, generating a net profit of CZK 1.8 billion in 2014. They were followed by bond funds (CZK 1.5 billion) and mixed funds (CZK 1.4 billion).

CHART III.7

ASSET STRUCTURE
Collective investment funds
(in %; at end of period)

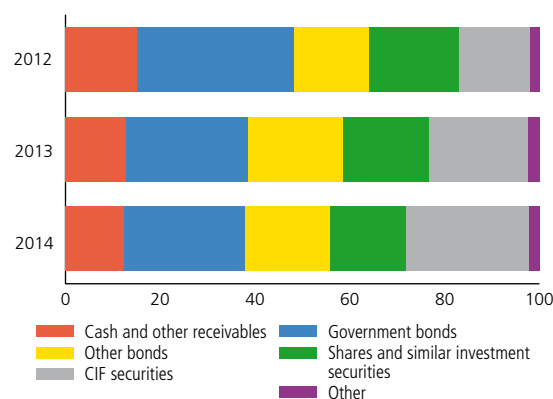


CHART III.8

ASSET STRUCTURE BY FUND TYPE
Collective investment funds
(in %; as of 31 December 2014)

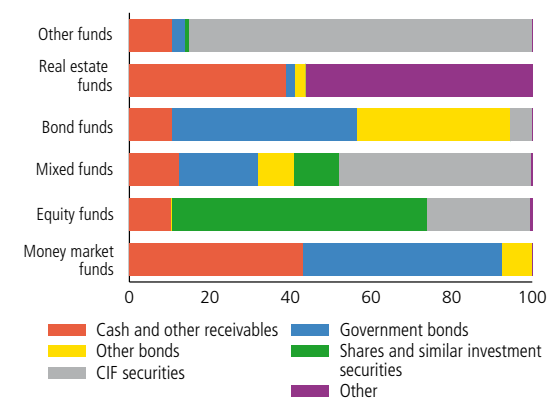


TABLE III.1

UNIT SALES AND REDEMPTIONS IN 2014
(in CZK millions)

	Units issued	Units redeemed	Balance
COLLECTIVE INVESTMENT FUNDS, TOTAL	71,869.8	36,091.8	35,778.0
Money market	511.1	1,053.9	-542.8
Equity	9,295.8	5,070.2	4,225.6
Mixed	32,193.4	10,498.3	21,695.1
Bond	26,727.2	18,332.1	8,395.1
Funds of funds	284.7	33.1	251.5
Real estate	2,533.8	951.3	1,582.5
Others	323.9	152.9	171.0

3.3 PENSION MANAGEMENT COMPANIES AND RETIREMENT FUNDS

For the private pension scheme and savings sector, 2014 was the second year of the second pillar allowing fund retirement saving and of the reformed third pillar in the form of a supplementary pension savings system. In addition to transformed funds (the previous private pension schemes), pension management companies thus manage retirement funds (second pillar) and participation funds (reformed third pillar), which pool contributions from retirement saving planholders and supplementary pension saving planholders.

3.3.1 Pension management companies

A total of nine pension management companies (PMCs) were active in the private pension scheme and savings sector as of 31 December 2014. Five of them offered all types of savings, including private pension schemes, three offered supplementary pension savings, including private pension schemes, and one offered supplementary pension savings only.

PMCs generated an after-tax profit of CZK 0.6 billion in 2014. The net profit generated from fees and commissions amounted to CZK 1.6 billion, with payments for intermediation (CZK 0.6 billion) and payments for portfolio management (CZK 0.3 billion) being the highest expense items in this category. Administrative expenses, another important item, amounted to CZK 1.1 billion.

The total capital of PMCs reached CZK 8.3 billion, representing a capital ratio of 140.0% relative to the specified capital requirements (CZK 6.0 billion).

During 2014 the number of planholders increased gradually for both retirement saving (from 82,600 in 2014 Q1 to 83,200 at the end of the year) and supplementary pension saving (from 116,300 to 224,300). By contrast, as policies were terminated and no new planholders could enter the scheme, the number of pension scheme planholders fell further from 4.8 million in 2014 Q1 to 4.6 million in Q4.

At the end of 2014, PMCs were managing assets in 62 funds, the largest part of which were participation funds (34), around one-third were retirement funds (20) and the rest were transformed funds (8).

CHART III.9

FUNDS OPERATED BY PENSION MANAGEMENT COMPANIES (numbers of funds; as of 31 December 2014)

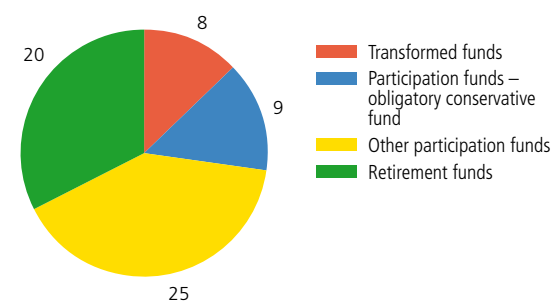


TABLE III.2

NUMBERS AND STRUCTURE OF PARTICIPANTS IN 2014 (in thousands)

Numbers of second and third pillar participants	
Number of retirement savings planholders	83.2
Number of supplementary pension savings planholders	224.3
Number of private pension scheme planholders	4,569.4
Third pillar participants by contribution type	
Planholders with own contribution	4,680.3
Planholders with employer contribution	1,318.8
Planholders with state contribution	3,733.8

3.3.2 Assets of PMC funds

The assets in funds managed by PMCs totalled CZK 339.2 billion at the end of 2014, of which a large majority (98.0%) were in transformed funds, 1.5% were in participation funds and 0.5% were in retirement funds.

The bulk of the assets of PMC funds were invested in debt securities (89.0% of total assets). Only 1.6% of the total assets were invested in shares and units and 8.3% were invested in time deposits and on term accounts. PMC funds had 0.6% of their assets invested in real estate. The remaining 0.5% consisted of other items.

3.3.3 Contributions in PMC funds

In 2014 PMC funds received contributions totalling CZK 55.6 billion, of which 90.9% went into transformed funds, 6.6% into participation funds and 2.5% into retirement funds.

With regard to structure, the majority of the contributions were planholders' own contributions (62.8%), while contributions from employers represented 14.0% and state contributions accounted for 12.2%. Roughly 8.5% were returns on contributions credited to transformed fund planholders. About 1.4% were funds transferred from transformed funds to participation funds and 0.4% were transfers among PMCs. The remainder (0.7%) were funds received from other sources and as yet unidentified payments.

PMC funds paid out a total of CZK 18.8 billion to planholders in 2014, of which 90.0% (CZK 17 billion) were funds paid to planholders and CZK 1 billion funds transferred from transformed funds to participation funds and transfers among PMCs. The remainder were funds returned to the state budget (3.1%), funds returned to planholders (1.2%) and other funds paid. The balance of funds received and paid was CZK 36.8 billion in 2014. The difference between planholders' own funds and the funds paid to them amounted to CZK 18 billion in 2014.

Transformed funds of PMCs paid a total of CZK 16.9 billion to planholders in 2014. Lump-sum settlements represented the largest part of this figure (74.7%). Surrenders also accounted for a significant proportion (19.6%).

Participation funds of PMCs paid out a total of CZK 74.0 billion to planholders in 2014, with retirement pensions accounting for the largest share (63.6%), followed by surrenders (32.8%).

CHART III.10

ASSETS OF FUNDS OPERATED BY PENSION MANAGEMENT COMPANIES

(in %; as of 31 December 2014)

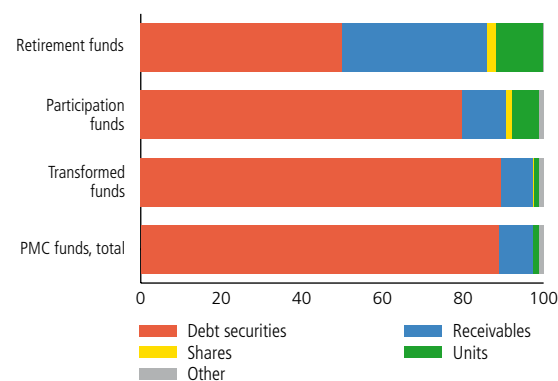
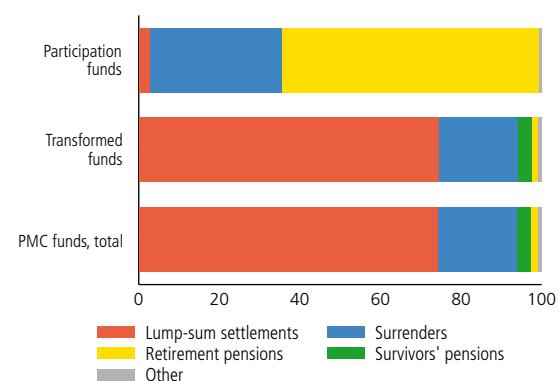


CHART III.11

BENEFITS PAID TO PLANHOLDERS

Funds operated by pension management companies
(in %; as of 31 December 2014)



3.4 REGULATED MARKETS

3.4.1 Trading on the Prague Stock Exchange⁷¹

A total of 23 share issues could be traded on the share and unit market of the Prague Stock Exchange (PSE) at the end of 2014, i.e. three fewer than at the end of 2013, of which 13 were domestic issues. Bonds of 116 issues could be traded on the bond market, i.e. six more than a year earlier. As regards the other PSE segments, 23 issues of non-leveraged and 32 issues of leveraged investment certificates, 13 issues of warrants and 16 issues of separated coupons had been accepted for trading as of 31 December 2014.

The total volume of share/unit trades on the PSE continued to decline, falling by 12.2% year on year to CZK 153.5 billion. As usual, ČEZ shares were the most traded issue on the PSE, accounting for more than one-third (39.4%) of the total volume of share trades in 2014. The volume of trading on the PSE remained concentrated on the most traded issues in 2014, with the three most traded share issues (ČEZ, KB, Erste Bank Group) accounting for 83.7%, the five most traded issues for 95.4% and the ten most traded issues for 99.4% of the total volume of share trades.

The market capitalisation of shares traded on the PSE decreased by 4.9% year on year to CZK 1,040.3 billion at the end of 2014, approaching the minimum observed in 2008 (CZK 1,060.8 billion). Domestic issues accounted for 60.4% (CZK 627.9 billion) of the total market capitalisation. After a one-year hiatus, the ČEZ issue was again the largest in terms of market capitalisation, accounting for 30.6% of total market capitalisation, followed by ERSTE GROUP BANK with a share of 21.9% and KB with a share of 17.3%. The three largest share issues accounted for 69.8%, the five largest issues for 89.6% and the ten largest issues for 97.0% of the total PSE market capitalisation.

The PSE's overall PX index ended 2014 below 1,000 points again. It went down by 42.3 points (4.3%) year on year, from 989.0 points to 946.7 points at the end of 2014. The PX index recorded its yearly maximum of 1,046.1 points on 21 February 2014 and its yearly minimum of 901.3 points on 16 October 2014.

Corporate issues totalling CZK 8.2 billion were the only bonds traded on the PSE bond market in 2014.

CHART III.12

NUMBERS OF ISSUES ON PSE

(at end of period, x-axis – total number of issues)

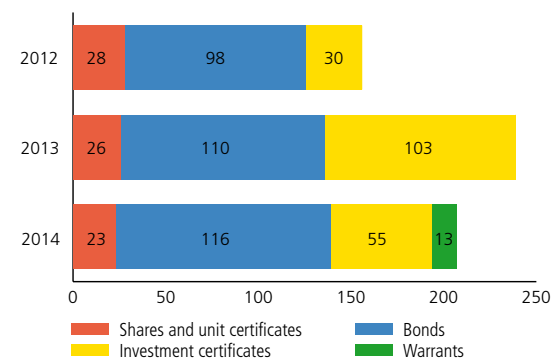
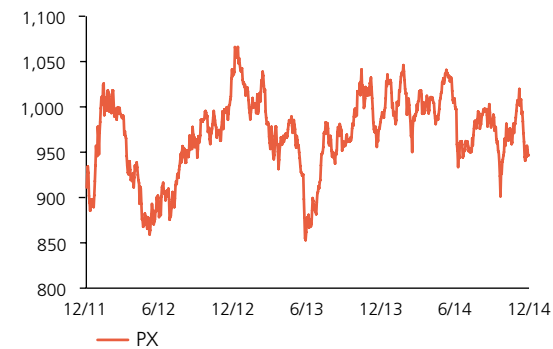


CHART III.13

PX INDEX



⁷¹ Burza cenných papírů Praha, a.s. (Prague Stock Exchange, PSE), a member of CEE Stock Exchange Group together with the exchanges in Budapest, Ljubljana and Vienna.

Trading on the other products market saw a further slight recovery in 2014. The total volume of trading in investment certificates was several times higher year on year, rising from CZK 122.2 million to CZK 564.5 million. There was also renewed trading in warrants on the PSE in 2014, albeit in minimal volumes (CZK 0.12 million). By contrast, as in 2013, the volume of trading in separated coupons was zero.

3.4.2 Trading on the RM-SYSTÉM exchange⁷²

Total trading on the other domestic regulated market (RM-S) amounted to CZK 4.1 billion in 2014 (down by 13.5% from a year earlier). Shares represented 99.1% of the trading volume. The RM index went down by 228.9 points (11.2%) to 1,819.7 points at the end of 2014 compared to the end of 2013.

⁷² RM-SYSTÉM, česká burza cenných papírů a.s.

TABLE IV.1

MARKET STRUCTURE BY TYPE OF INSURANCE UNDERTAKING

	2012	2013	2014
NUMBER OF DOMESTIC INSURANCE UNDERTAKINGS	34	33	32
of which:			
non-life	16	16	15
life	3	2	2
both life and non-life	15	15	15
NUMBER OF BRANCHES OF INSURANCE UNDERTAKINGS FROM EU AND THIRD COUNTRIES	18	18	20
of which:			
non-life	15	15	16
life	3	3	4
both life and non-life	0	0	0
NUMBER OF INSURANCE UNDERTAKINGS, TOTAL ^{a)}	52	51	52
of which:			
non-life	31	31	31
life	6	5	6
both life and non-life	15	15	15

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

4. THE INSURANCE MARKET

4.1 INSURANCE MARKET ENTITIES AND THEIR OWNERSHIP STRUCTURE

A total of 32 domestic insurance undertakings and 20 branches of foreign insurance undertakings (all from the EU countries) were operating in the Czech market as of the end of 2014. This figure excludes the Czech Insurers' Bureau.⁷³

Compared to 2013, the number of branches of foreign insurance undertakings operating in the Czech insurance market increased by two, while the number of domestic insurance undertakings decreased by one. Insurance undertakings from the UK (four branches), Germany, Austria and Slovakia (three branches each) enjoy the largest representation via branches in the Czech insurance market. Most branches (a total of 16) focus on non-life insurance, while four specialise in life insurance. Most domestic insurance undertakings focus either on non-life insurance or on both life and non-life insurance. Each of these two categories contains 15 entities.

The number of insurance undertakings and branches of insurance undertakings from EU and EEA countries offering insurance in the Czech Republic under the freedom to provide services continued to climb in 2014. There were 783 such undertakings and branches at the end of 2014. Most of these insurance undertakings operating in the non-life insurance market.

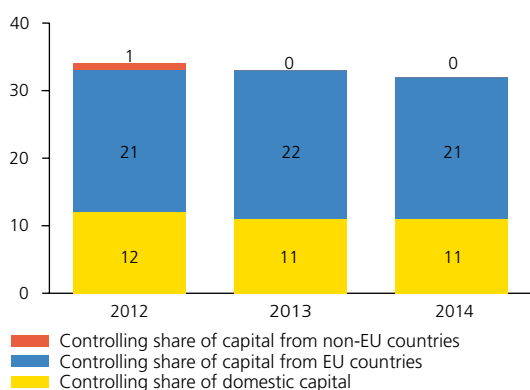
As before, only one reinsurance undertaking, VIG RE zajišťovna, a.s., was active in the Czech insurance market. It opened for business in 2008 and is authorised to assume reinsurance risks in all segments of both the life insurance and non-life insurance markets as well as to carry on related activities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

The total registered capital of domestic insurance undertakings was down by 5.5% from a year earlier as of 31 December 2014. The previous year, the registered capital level had been virtually unchanged (growth of 0.1%). Foreign capital accounts for 78.1% of the total. The Czech share in the total registered capital of domestic insurance undertakings edged up by 1.3 percentage points compared to 2013,

⁷³ 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. For details on its activities and financial performance, see www.ckp.cz.

CHART IV.1

NUMBERS OF DOMESTIC INSURANCE UNDERTAKINGS BY OWNERSHIP STRUCTURE



to 21.9%. Shareholders from Austria have larger holdings than domestic ones, with a total share of 25.5%. In the case of the Netherlands, the share in registered capital is almost the same as that of Czech shareholders (21.6%). The significant share of Dutch shareholders is due to the fact that a direct shareholder of Česká pojišťovna a.s. has its registered office in the Netherlands. As in 2013, shareholders from Belgium and France had shares of more than 5% in registered capital.

TABLE IV.2

OWNERSHIP STRUCTURE OF DOMESTIC INSURANCE UNDERTAKINGS BY SHARE IN REGISTERED CAPITAL

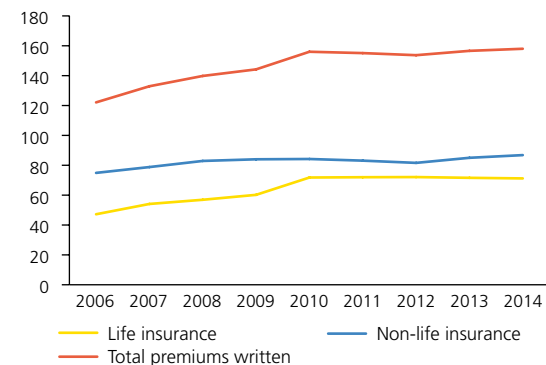
(as of 31 December 2014)

Country	Share in capital (in CZK thousands)	Share in capital (in %)
Austria	5,832,554	25.5
Czech Republic	5,010,069	21.9
Netherlands	4,945,000	21.6
Belgium	2,921,401	12.8
France	2,433,642	10.6
Germany	976,000	4.2
Slovenia	472,500	2.1
Ireland	155,820	0.7
Denmark	120,000	0.5
Cyprus	30,000	0.1
CAPITAL, TOTAL	22,896,986	100.0

CHART IV.2

GROSS PREMIUMS WRITTEN

(in CZK billions)



4.2 PREMIUMS WRITTEN

Gross premiums written are one of the key indicators of the insurance market. Along with an economic recovery, 2014 brought growth in gross premiums written, which increased by 0.9%. Premiums written rose by 1.9% last year. The increase in total gross premiums written was driven by a rise in non-life insurance of 2.1%, while premiums written in life insurance fell slightly by 0.6%. Total gross premiums written amounted to CZK 158.0 billion in 2014.

Premiums written in life insurance decreased by CZK 0.4 billion year on year to CZK 71.2 billion at the end of 2014. The slight drop in premiums written in life insurance in 2014 was due to a decline in single premium payments and an environment of low interest rates.

Compared to 2013, the growth rate of premiums written in non-life insurance slowed by 2.1 percentage points. As in 2013, the growth was due mainly to higher premium collection in motor third party liability insurance. Total gross premiums written in non-life insurance amounted to CZK 86.8 billion at the end of 2014.

Life insurance accounted for 45.1% of total premiums written, a year-on-year decline of 0.6 percentage point. However, this share has long been rising steadily, although it is still below the usual level in advanced EU insurance markets.

A proportion of premiums written are ceded to reinsurers. In 2014, non-life insurance premiums ceded to reinsurers edged up by 0.9% year on year to CZK 26.2 billion. This represents 30.2% of total non-life insurance premiums written. The share of life insurance premiums ceded to reinsurers in gross premiums written was significantly lower at 7.0% at the end of 2014. In absolute terms, this represents CZK 5.0 billion.

The largest category of the non-life insurance market is motor third party liability insurance, which accounted for 26.2% of non-life insurance premiums written in 2014. Premiums written in this sector totalled CZK 22.8 billion. 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 25.2% and 17.0% of total non-life insurance premiums. In absolute terms, premiums written in motor third party liability insurance rose by CZK 1.8 billion (8.5%) and premiums written in loss of property insurance increased by CZK 0.4 billion (1.9%) in 2014.

The upward trend in investment life insurance, whose share in premiums written in this segment reached a historical high of 52.9% at the end of 2014, continued in the life insurance market. By contrast, traditional products such as assurance on death, assurance on survival or earlier death and marriage assurance, recorded a year-on-year decline of 13.1%. Premiums written in investment life insurance rose

CHART IV.3

GROSS PREMIUMS WRITTEN IN 2014

(in CZK billions)

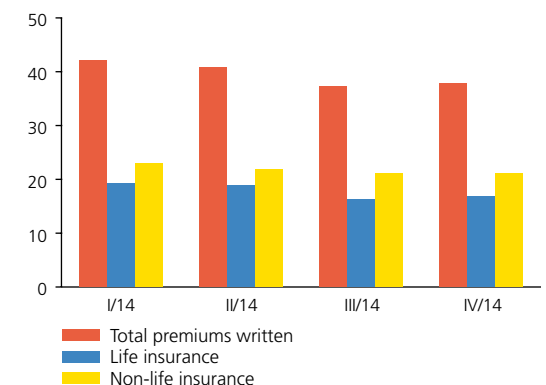
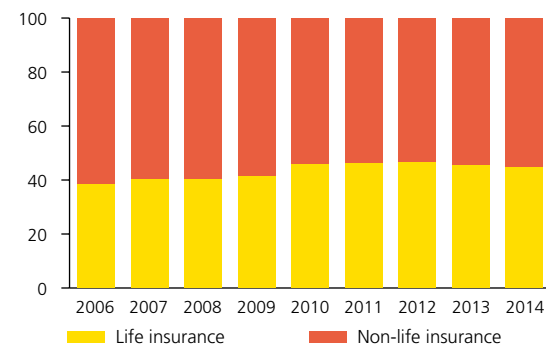


CHART IV.4

SHARES OF LIFE INSURANCE AND NON-LIFE INSURANCE IN TOTAL PREMIUMS WRITTEN

(in %)



by 8.2% to CZK 37.6 billion in 2014. By contrast, the combined share of assurance on death or survival, marriage assurance and assurance on capital operations decreased by 4.4 percentage points from 34.6% in 2013 to 30.2% in 2014.

Total insurance penetration, as measured by the ratio of gross premiums written to GDP at current prices, is an important insurance market indicator. Insurance penetration in the Czech insurance market has long been broadly unchanged and stood at 3.7% in 2014. Compared to Western European countries, insurance penetration in the Czech Republic remains low.

TABLE IV.3

TOTAL INSURANCE PENETRATION IN THE CZECH REPUBLIC

	Amount (in CZK billions)			Change 2014/2013 (in %)
	2012	2013	2014	
Premiums written	153.7	156.6	158.0	0.9
GDP (at current prices)	4,048	4,086	4,266	4.4
	in %			
Premiums written/GDP	3.8	3.8	3.7	x

CHART IV.5

SHARES OF PREMIUMS WRITTEN IN GDP

(in %)

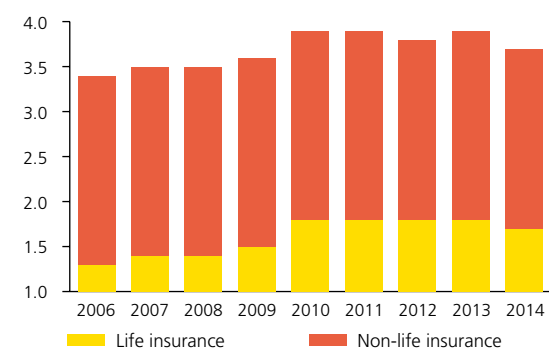


CHART IV.6

SHARES OF CLASSES OF LIFE INSURANCE IN PREMIUMS WRITTEN

(in %)

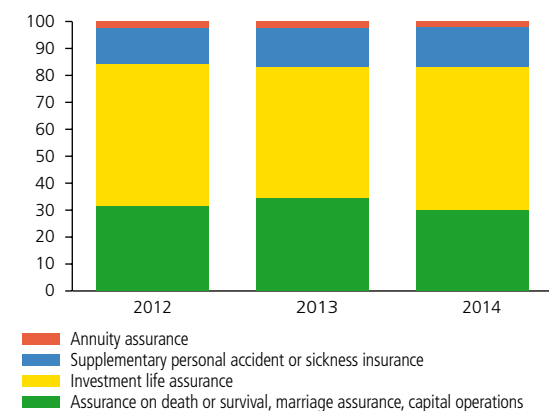
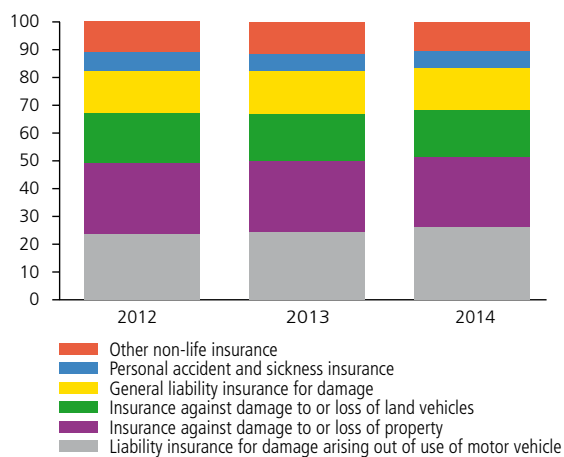


CHART IV.7

SHARES OF CLASSES OF NON-LIFE INSURANCE IN PREMIUMS WRITTEN

(in %)



4.3 CLAIM SETTLEMENT COSTS

Claim settlement costs totalled CZK 105.0 billion in 2014, rising by 4.4% year on year. In this section, claim settlement costs are given on a gross basis inclusive of the reinsurer's share. The increase in claim settlement costs was due to life insurance, where costs rose by 13.4%, whereas costs in non-life insurance fell by 5.1% year on year. The decline in claim settlement costs in non-life insurance was largely due to relatively low losses caused by natural disasters.

The share of reinsurers in non-life insurance claim settlement costs was CZK 12.1 billion in 2014, down by 18.4% from CZK 14.9 billion in 2013. The share of reinsurers in total non-life insurance claim settlement costs was 26.0% in 2014. This is roughly 4.2 percentage points lower than their share in premiums written. Reinsurers accounted for just 2.9% of life insurance claim settlement costs.

4.4 ASSETS OF INSURANCE UNDERTAKINGS

TABLE IV.4

PREMIUMS WRITTEN BY INSURANCE CLASS

Insurance class	Amount (in CZK millions)			Change 2014/2013 (in %)
	2012	2013	2014	
LIFE INSURANCE, TOTAL	72,056	71,577	71,182	-0.6
Assurance on death or survival, marriage assurance, capital operations	22,860	24,732	21,501	-13.1
Annuity assurance	1,810	1,775	1,505	-15.2
Investment life assurance	37,799	34,764	37,632	8.2
Supplementary personal accident and sickness insurance	9,587	10,306	10,544	2.3
NON-LIFE INSURANCE, TOTAL	81,554	85,002	86,812	2.1
Liability insurance for damage arising out of use of motor vehicle	19,418	20,976	22,760	8.5
Insurance against damage to or loss of property	20,855	21,453	21,864	1.9
Insurance against damage to or loss of land vehicles	14,482	14,530	14,736	1.4
General liability insurance for damage ^{a)}	12,435	12,885	13,146	2.0
Accident and sickness insurance	5,425	5,481	5,333	-2.7
Other non-life insurance	8,939	9,677	8,973	-7.3

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

The total assets of insurance undertakings stood at CZK 487.9 billion as of 31 December 2014. This represents a year-on-year rise of 1.8%. The growth in total assets had been slightly faster a year earlier, at 2.2%. The total assets of domestic insurance undertakings amounted to CZK 451.6 billion at the end of 2014 (up by 2.1% year on year) and those of branches of insurance undertakings CZK 36.3 billion (down by 1.4%).

Financial placement (investment)⁷⁴ is the largest asset item in the balance sheet of domestic insurance undertakings. Its share in total assets was almost 75.4% at the end of 2014. This share edged up by 0.7 percentage points year on year, mainly at the expense of a decrease in the share of financial placement linked with investment life insurance. Debt securities are the largest financial placement (investment) item. Their value increased by 4.8% compared to 2013 and their share in total assets increased by 1.6 percentage points to 60.5%. The major financial placement items also include shares and participating interests (accounting for 5.3% and 4.7% of total assets respectively). The value of financial placement of unit-linked life insurance dropped by 2.2% in 2014 and the share of this item in total assets fell slightly to 15.2%.

As technical provisions for life insurance are of a long-term nature, longer maturity bonds dominate investments arising from technical provisions for life insurance, and equity securities also have a large share. Investments arising from technical provisions for non-life

⁷⁴ Financial placement (investment) is defined differently than financial placement of assets arising from technical provisions. Financial placement (investment) excludes reinsurance receivables.

CHART IV.8

CLAIM SETTLEMENT COSTS

(in CZK billions)

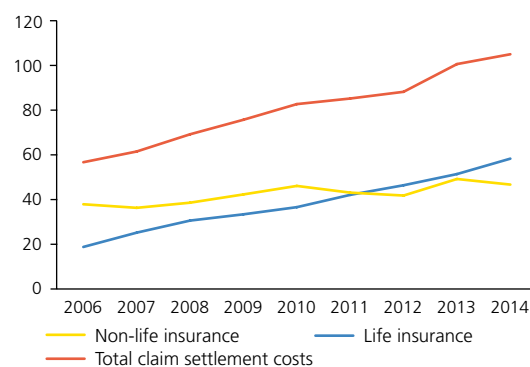


TABLE IV.5

SHARES OF INSURANCE UNDERTAKINGS IN TOTAL ASSETS

	Amount (in CZK billions)			Share 2014 (in %)
	2012	2013	2014	
ASSETS, TOTAL	469.0	479.1	487.9	100.0
Domestic insurance undertakings	428.1	442.3	451.6	92.6
Branches of insurance undertakings	40.9	36.8	36.3	7.4

TABLE IV.6

ASSET STRUCTURE OF DOMESTIC INSURANCE UNDERTAKINGS

	Amount (in CZK millions)			Structure 2014 (in %)
	2012	2013	2014	
ASSETS, TOTAL	428,112	442,255	451,632	100.0
Financial placements (investment)	325,155	330,465	340,481	75.4
of which:				
real estate	4,882	5,112	5,076	1.1
participating interests	16,778	20,068	21,351	4.7
shares, variable-yield securities	20,056	22,701	23,921	5.3
bonds and other fixed-income securities	259,726	260,588	273,026	60.5
deposits at financial institutions	23,342	22,690	15,160	3.4
other financial placements	371	-694	1,947	0.4
Financial placements of unit-linked life insurance	63,861	70,284	68,762	15.2
Debtors (receivables)	14,663	15,547	15,056	3.3
Other assets	24,433	25,959	27,333	6.1

insurance are made up of more liquid financial placement items, such as deposits and treasury bills, than investments arising from life insurance technical provisions. Reinsurance receivables, including reinsurers' share in technical provisions, also have a significant share.

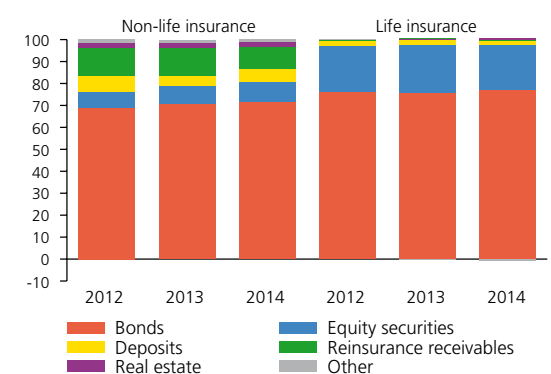
The investments of domestic insurance undertakings arising from technical provisions are dominated by bonds. This applies to both life insurance and non-life insurance. Bonds account for 71.7% of investments arising from technical provisions for non-life insurance. This ratio increased by 1.2 percentage points compared to the previous year. Reinsurance receivables are the second-largest investment item arising from technical provisions for non-life insurance, with a share of 10.9%. Equity securities are also represented in financial placement (9.2%) and deposits also have a share (5.9%).

Bonds play an even more significant role in the investments of domestic insurance undertakings arising from technical provisions for life insurance than in the case of non-life insurance, accounting for 77.2%. Equity securities have a significant 20.4% share. Reinsurance receivables have a negligible share of just 1.1%. Investments arising from technical provisions for life insurance also include items linked with investment life insurance.

CHART IV.9

INVESTMENTS OF DOMESTIC INSURANCE UNDERTAKINGS

(in %)



4.5 LIABILITIES OF INSURANCE UNDERTAKINGS

The most important item in insurance undertakings' liability structure is technical provisions, which represent the future obligations of insurance undertakings arising from insurance or reinsurance activities which are either likely to be incurred or certain to be incurred but uncertain as to amount or as to the date on which they will arise. Technical provisions are reported gross and net of reinsurers' share in technical provisions. A specific item is the technical provision for unit-linked life insurance. 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 liabilities of domestic insurance undertakings edged up by 0.9 percentage point year on year to 58.1% as of the end of 2014. The share of net technical provisions for unit-linked life insurance in the total liabilities of domestic insurance undertakings amounted to 15.2%.

Another important liability item besides technical provisions, is equity capital, which accounted for 17.6% of the total liabilities of domestic insurance undertakings at the end of 2014. This represents a decrease of 0.7 percentage point from a year earlier. Equity capital recorded a slight year-on-year decrease of 1.1%. Registered capital and other capital funds have the largest shares in equity (28.8% in both cases). Other major equity items include the reserve fund created from profit (accounting for 12.4%) and retained earnings (accounting for 19.3%).

The share of the creditors (liabilities) item in total liabilities was unchanged year on year, standing at 5.1% at the end of 2014. The share of other liabilities in total liabilities edged up by 0.4 percentage point to 4.0%.

At the end of 2014, the total gross technical provisions of domestic insurance undertakings, including the provision for unit-linked life insurance, were up by 2.4% year on year to CZK 364.0 billion. The rate of growth of gross technical provisions decreased by 1.7 percentage points compared to the previous period. Gross technical provisions for life insurance and non-life insurance increased by 1.8% and 4.0% respectively. The total net technical provisions of domestic insurance undertakings rose by about 2.3% during 2014.

TABLE IV.7

LIABILITY STRUCTURE OF DOMESTIC INSURANCE UNDERTAKINGS

	Amount (in CZK millions)			Structure 2014 (in %)
	2012	2013	2014	
LIABILITIES, TOTAL	428,112	442,255	451,632	100.0
Shareholder's equity	78,797	80,458	79,598	17.6
Technical provisions ^{a)}	249,252	253,415	262,349	58.1
Provision for unit-linked life insurance ^{a)}	63,861	70,284	68,762	15.2
Creditors (liabilities)	20,553	22,403	23,014	5.1
Other liabilities	15,649	15,695	17,909	4.0

a) net amount

TABLE IV.8

TECHNICAL PROVISIONS OF DOMESTIC INSURANCE UNDERTAKINGS

	Amount (in CZK millions)			Change 2014/2013 (in %)
	2012	2013	2014	
GROSS TECHNICAL PROVISIONS, TOTAL	341,202	355,340	364,002	2.4
of which:				
non-life insurance	97,556	101,350	105,424	4.0
life insurance	243,646	253,990	258,578	1.8
NET TECHNICAL PROVISIONS, TOTAL	313,113	323,699	331,110	2.3
of which:				
non-life insurance	71,279	72,472	76,581	5.7
life insurance	241,834	251,227	254,529	1.3

CHART IV.10

NET TECHNICAL PROVISIONS OF DOMESTIC INSURANCE UNDERTAKINGS

(in CZK billions)

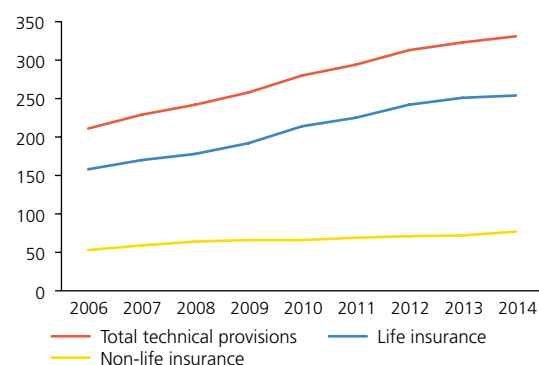


TABLE IV.9

PROFIT OF INSURANCE UNDERTAKINGS

	Amount (in CZK millions)			Structure 2014 (in %)
	2012	2013	2014	
NET PROFIT, TOTAL	12,184	10,779	6,780	100.0
Domestic insurance undertakings	11,564	10,248	6,174	91.1
Branches of insurance undertakings	620	531	606	8.9

4.6 PROFITS OF INSURANCE UNDERTAKINGS

Insurance undertakings operating on the Czech insurance market (including branches of foreign insurers) recorded net profit of CZK 6.8 billion in 2014. Net profit fell by 37.1% year on year.⁷⁵ The profit on the technical account⁷⁶ for non-life insurance declined by 49.0% year on year to CZK 2.6 billion. The technical account for life insurance ended 2014 in a profit of CZK 5.5 billion (down by 16.7% year on year).

TABLE IV.10

SELECTED PROFITABILITY AND EFFICIENCY INDICATORS FOR DOMESTIC INSURANCE UNDERTAKINGS

(in %)

	2012	2013	2014
INSURANCE SECTOR, TOTAL			
Net profit/assets (RoA)	2.7	2.3	1.4
Net profit/shareholder's equity (RoE)	14.7	12.7	7.8
Net profit/earned premiums	9.9	8.8	5.2
NON-LIFE INSURANCE			
Profit on technical account for non-life insurance/earned premiums	12.0	9.3	4.2
Claims incurred, including change in TPs/earned premiums	59.9	60.8	65.0
Net operating costs/earned premiums	31.6	31.8	31.2
Acquisition costs for insurance contracts/earned premiums	25.8	25.0	24.9
Administrative expenses/earned premiums	16.2	16.2	15.1
LIFE INSURANCE			
Profit on technical account for life insurance/earned premiums	9.5	9.8	8.1
Claims incurred, including change in TPs/earned premiums	65.8	70.9	83.7
Net operating costs/earned premiums	22.5	22.2	22.1
Acquisition costs for insurance contracts/earned premiums	17.6	17.3	17.3
Administrative expenses/earned premiums	6.5	6.7	6.8

The net profit recorded by the sector as a whole was chiefly due to domestic insurance undertakings, which accounted for 91.1% of the total. Their profit decreased by 39.8% year on year in 2014. The net profit of branches of insurance undertakings increased by 14.1% to CZK 0.6 billion.

Return on assets (RoA) of domestic insurance undertakings, as measured by the ratio of net profit to assets, decreased from the 2.3% reported in 2013 to 1.4% at the end of 2014. The ratio of net profit to shareholders' equity (RoE) fell by 4.9 percentage points year on year to 7.8% in 2014 and the ratio of net profit to earned premiums⁷⁷ declined by 3.6 percentage point year on year to 5.2%.

75 The decline in the profit in the insurance undertakings sector was largely due to Exportní garanční a pojišťovací společnost, a.s.

76 The profit and loss account of insurance undertakings is subdivided by type of business into a technical account for non-life insurance, a technical account for life insurance and a non-technical account, which comprises income and expenses that cannot be assigned to life or non-life insurance.

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

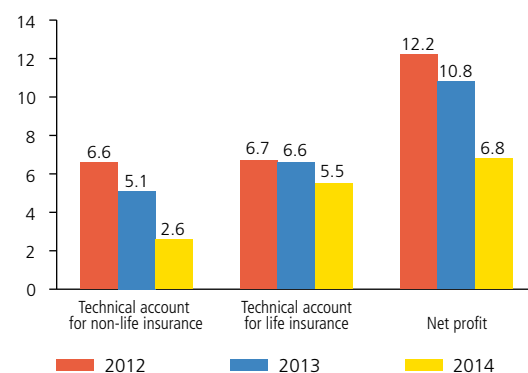
As regards non-life insurance, the ratio of profit on the technical account to earned premiums fell by 5.1 percentage points to 4.2%. The ratio of claims incurred, including change in technical provisions, to earned premiums rose by 4.2 percentage points to 65.0%. The ratio of net operating costs to earned premiums improved slightly, decreasing by 0.6 percentage point to 31.2%. The ratio of acquisition costs for insurance contracts to earned premiums was virtually unchanged at 24.9%.

The technical account for life insurance of domestic insurance undertakings ended 2014 in a profit of CZK 5.5 billion. Compared to 2013, the ratio of the technical account for life insurance to earned premiums deteriorated by 1.7 percentage points to 8.1%. The ratio of claims incurred, including change in technical provisions, to earned premiums worsened, increasing by 12.8 percentage points year on year to 83.7%. The ratios of net operating costs to earned premiums and of acquisition costs for insurance contracts to earned premiums were virtually unchanged from 2013.

CHART IV.11

PROFITS OF INSURANCE UNDERTAKINGS

(in CZK billions)



ABBREVIATIONS

AIF	alternative investment fund
AIFMD	Alternative Investment Fund Managers Directive
AKAT	Czech Capital Market Association
AMA	Advanced Measurement Approaches
AML Act	Act No. 235/2008 Coll., on Certain Measures Against Money Laundering and Terrorist Financing, as amended
AML/CFT	Anti-money laundering/combating the financing of terrorism
APRC	annual percentage rate of charge
ATC	Advisory Technical Committee
AWG	Analysis Working Group
BCBS	Basel Committee on Banking Supervision
BCG	Basel Consultative Group
BRRD	Directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms
CCPFI	Committee on Consumer Protection and Financial Innovation
CCR	Central Credit Register
CET 1	Common Equity Tier 1
CFD	contract for difference
CFM	Committee on Financial Markets
CIB	Czech Insurers' Bureau
CNB	Czech National Bank
CoCos	contingent convertible capital instruments
COREPER	Comité des représentants permanents
CRA	credit rating agency
CRD IV/CRR	Capital Requirements Directive/Capital Requirements Regulation
CSD	Central Securities Depository
CU	credit union
CVA	credit valuation adjustment
CVR	Central Vehicle Register
CZK	Czech koruna
CZSO	Czech Statistical Office
DGSD	Directive on Deposit Guarantee Schemes
EBA	European Banking Authority
EC	European Commission/European Communities
ECB	European Central Bank

ECOFIN	Economic and Financial Affairs Council
EEA	European Economic Area
EFC	Economic and Financial Committee
EFRAG	European Financial Reporting Advisory Group
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds
EMIR	European Market Infrastructure Regulation
EP	European Parliament
ERPB	European Retail Payment Board
ESAs	European Supervisory Authorities
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EUR	euro
EuSEF	European Social Entrepreneurship Fund
EuVECA	European Venture Capital Fund
FAU MF	Financial Analytical Unit at the Ministry of Finance
FSC	Financial Stability Committee
GDP	gross domestic product
HI	Herfindahl index
IASB	International Accounting Standards Board
IBNR	incurred but not reported
ICAAP	Internal Capital Adequacy Assessment Process
IFRS/IAS	International Financial Reporting Standards/International Accounting Standards
IGA	Inter-Governmental Agreement
ILA	independent loss adjuster
IMD 2	Insurance Mediation Directive
IMF	International Monetary Fund
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commissions
IRB	Internal Ratings Based Approach
IS/IT	information systems and technology
ITS/RTS	implementing and regulatory technical standards
IWG	Instruments Working Group

MAD	Market Abuse Directive
MAR	Market Abuse Regulation
MCD	Mortgage Credit Directive
MF	Ministry of Finance
MiFID II	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MoU	Memorandum of Understanding
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
OECD	Organisation for Economic Cooperation and Development
OTC	over the-counter (derivatives)
OTF	organised trading facility
PIN	personal identification number
P/L	profit/loss
PRIPs	Packaged Retail Investment Products Regulation
PSE	Prague Stock Exchange (Burza cenných papírů Praha, a.s.)
PSSC	Payment and Settlement Systems Committee
PXE	Power Exchange Central Europe
RM-S	RM-SYSTÉM, česká burza cenných papírů a.s.
RoA	return on assets
RoE	return on equity
SEPA	Single Euro Payments Area
SKD	Short-term Bond System
SREP	supervisory review and evaluation process
SRF	Single Resolution Fund
SMEs	small and medium-sized enterprises
SRMR	Single Resolution Mechanism Regulation
SSM	Single Supervisory Mechanism
STC	Statistical Committee
SVYT	Transaction Settlement System
TARGET	Trans-European Automated Real-time Gross Settlement Express Transfer System
UCITS	Undertakings for Collective Investment in Transferable Securities Directive
UK	United Kingdom
USD	US dollar
VaR	value at risk
VIP	very important person

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).

5. ASSESSMENT OF INFORMATION FROM COMPLAINTS MADE BY MEMBERS OF THE PUBLIC

5.1 ASSESSMENT OF INFORMATION FROM COMPLAINTS MADE BY MEMBERS OF THE PUBLIC SUBMITTED TO THE CNB IN 2014

5.1.1 Introduction

From the perspective of numbers and seriousness of complaints, the situation appears to be most problematic in the insurance sector, which accounts for more than half of the complaints against financial market participants each year. The problems in the insurance industry relate mainly to the distribution of insurance products by insurance intermediaries and to the governance of distribution networks by insurance companies. The most problematic insurance product is investment life insurance. Given its complexity, long-term nature and riskiness, problems often arise in the negotiation of such insurance, as it puts heavy demands not only on intermediaries (in terms of their competence), but also on insurance companies (in terms of responsibility for creating such products). Insurance companies should thus ensure through effective governance of their distribution networks that prospective clients are always provably provided with the information they need when negotiating a product. The positive decline in the number of complaints made in the insurance sector in 2013 can be attributed to the application of very intensive supervisory measures, such as frequent supervisory calls and notifications of shortcomings detected, supervisory benchmarks and official information (aimed at guiding the legal interpretation of professional care in the field of insurance) and alerts and information for the public. Although insurance products, product bundling and product distribution chains are constantly increasing in complexity, the number of complaints made by members of the public concerning the insurance sector stabilised in 2014. The CNB still lacks some key supervisory and enforcement powers in the insurance sector, such as additional regulations relating to administrative offences and delicts. The desired harmonisation of sector-specific legal regulations has yet to occur, unlike in the other sectors of the financial market. Insurance (as far as insurance companies are concerned) is the only area of the financial market where the CNB is unable to publish final decisions on the imposition of remedial measures and fines.

The number of complaints concerning credit and payment institutions decreased in 2014 on a year-on-year basis. A large proportion of the submissions related to the provision of payment services and to failure by credit institutions to comply with contractual terms. In the case of building societies, a significant number of complaints related to withdrawals from building savings contracts and to early repayment of bridging loans. The number of complaints from the public concerning the provision of services on the capital market, i.e. the activities of investment firms, investment intermediaries, management companies and investment funds, decreased further in 2014. The capital market sector has been showing a decline in the number and seriousness of complaints made by the public since 2010. The CNB puts this down to high-quality legislation and supervisory and sanction powers and to high-quality supervisory work. In 2014, the CNB received the lowest number of complaints from the public with regard to the retirement savings, pension savings and private pension scheme sector, i.e. the activities of pension management companies and intermediaries of retirement savings, supplementary pension savings and private pension schemes. Following a one-off fluctuation caused by the conduct of pension market participants in connection with the introduction of supplementary pension savings and retirement savings, the number of complaints returned to the very low level seen before 2012–2013.

One of the CNB's main supervisory goals is to contribute through its supervisory and regulatory work to enhancing the transparency of the entire financial market and to remedying any systemic shortcomings that may arise in the financial market.

5.1.2 Definition of professional care supervision

The CNB's statutory competences include performing supervision of supervised entities¹ in the area of professional care in the provision of services in the financial market.

Although there is no uniform definition of "provision of services with professional care", this term can be defined as the performance of activities in accordance with the supervised entity's internal governance system.² Supervision of compliance with professional care can be defined as supervision of maintenance of the internal governance system and also as supervision of compliance of the conduct of supervised entities with their internal governance systems, with rules of conduct towards clients/investors and with legal regulations.

The provision of services with professional care thus involves in particular:

- i) preparing contract documentation (the creation of intelligible, high-quality, professional and legally compliant documentation)
- ii) offering and promoting services;
- iii) concluding contracts with clients;
- iv) negotiating with clients;
- v) handling assets entrusted;
- vi) informing clients.

5.1.3 Significance of complaints made by members of the public for supervision of conduct of business in the financial market area and the manner of dealing with such complaints

For the conduct of supervision,³ whether in the form of on-site examinations (supervision based on personal and written communication and analysis of information) or in the form of off-site surveillance (supervision based on written communication and analysis of information), of compliance with the duties of supervised entities in the professional care area, complaints made by members of the public constitute a major source of information on compliance with the duties of supervised entities towards their clients.

1 Pursuant to Article 44(4)(c) of the CNB Organisational Statute, supervision of supervised entities means supervision of credit institutions, electronic money institutions, foreign electronic money institutions operating in the Czech Republic through a branch, small-scale electronic money issuers, payment institutions, foreign payment institutions operating in the Czech Republic through a branch, small-scale payment service providers, bureaux de change, investment firms, securities issuers, central depositories, central counterparties, non-financial contracting parties, other entities keeping a register of investment instruments, management companies, investment funds, operators of settlement systems with settlement finality, operators of investment instrument markets, investment and insurance intermediaries, tied agents, rating agencies, insurance companies, reinsurance companies, pension funds and other entities active in insurance, supplementary pension savings, retirement savings and private pension schemes.

2 "Professional care" is a so-called indefinite legal concept which, given its diversity and the potential range of actions it covers, cannot objectively be defined expressly and in advance by law. By using such a term, the legislator intentionally leaves room for an administrative as well as a judicial authority to assess whether a particular case falls within the scope of the term while paying due regard to the purpose of the legislation. As regards the entities supervised by the CNB, the law assumes that they are professionals who know their field of activity well and who act professionally (in the sense of knowing and knowing how), carefully (actively and dutifully) and in accordance with fundamental principles of professional care, i.e. skilfully, fairly, honestly, responsibly and in the best interest of their clients or investors. In order to be able to comply with the above prerequisites for carrying on activities, the supervised entity must have an appropriate internal governance system, including the necessary material and personnel resources, effective internal control measures, a clear management structure and proper maintenance of records of activities. The supervised entity must also apply the internal governance system in practice, and not merely have it established in internal regulations.

3 Within the Financial Market Supervision Department.

The information obtained by the CNB in the course of dealing with complaints made by members of the public is used in the supervisory area in several ways:

- If any shortcomings are uncovered in the activities of a supervised entity, the entity is initially usually notified of the shortcomings identified and called upon to provide information on remedial measures adopted or proposed. Based on such notifications, most shortcomings are eliminated in the course of supervision by the supervised entity bringing its internal procedures into conformity with the CNB's legal opinions contained in the notifications.
- In some cases, findings obtained in the course of off-site surveillance are used as a basis for surveys on the breadth of occurrence of a particular type of unlawful conduct in the financial market.
- Based on its findings, the CNB identifies potential systemic shortcomings in the financial market or identifies problem areas where it deems it useful to prepare and issue interpretations or to clarify or tighten particular legal provisions.
- Supervisory findings are also used in the preparation of legislative proposals and in the interpretation of the existing legal rules.
- Findings from supervisory practice are also used in the selection of specific supervised entities or specific areas of their activity where it deems it useful to conduct on-site examinations. On-site examinations also check whether supervised entities are complying with remedial measures adopted on the basis of notifications of shortcomings identified and calls to eliminate shortcomings.
- Supervisory findings are used when assessing the credibility of persons proposed as senior officers and persons with qualifying holdings in supervised entities.
- Information on particularly serious or systemic shortcomings is assessed and described in internal petitions for the opening of administrative proceedings.

5.1.4 Cooperation with ESAs

a) Cooperation with the European Banking Authority (EBA)

The CNB announced in 2014 that it would follow the guidelines of the European Banking Authority and the European Securities and Markets Authority for dealing with complaints pertaining to securities and banking.

In 2014, the CNB continued to collect and analyse an extended range of data associated with the execution of payments in line with European regulations⁴ for the purposes of providing relevant data to the EBA. The data are collected and analysed to an extent allowing the CNB to identify trends not only in the provision of payment services, but also in the area of credit institutions, including issues concerning consumer law such as the provision of consumer credit. The CNB used information it obtained when investigating complaints made by members of the public to comment on the EBA's report on consumer trends in 2014.

⁴ Directive 2007/64/EC of the European Parliament and of the Council on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/ES, and Regulation (EC) No. 924/2009 of the European Parliament and of the Council on cross-border payments in the Community and repealing Regulation (EC) No. 2560/2001.

b) Cooperation with the European Securities and Markets Authority (ESMA)

The CNB submits to the ESMA quarterly data on the number and nature of complaints received from the public broken down by type of entity (banks, non-bank investment firms and others), area of activity and type of investment instrument to which the complaints pertained.

The CNB also uses the investigation of complaints from the public to collect information on new trends in the capital market for supervisory purposes, which it also provides to the ESMA. In 2014, the ESMA was informed in this manner about an expansion in the provision of investment services regarding financial contracts for difference and binary options. The CNB also published an alert for the public on this issue.

c) Cooperation with the European Insurance and Occupational Pensions Authority (EIOPA)

In 2014, the CNB continued to contribute to the preparation of materials, observations and comments on documents prepared as part of the work led by the EIOPA. In this regard, the CNB provided the EIOPA with an input consisting of relevant quantitative and qualitative data concerning consumer trends and financial innovation in the insurance sector in the Czech Republic in 2013. This information was sourced from data obtained by the CNB's own activities (in particular outputs from financial statements concerning the activities of insurance corporations, complaints received from the public, off-site surveillance and on-site examinations and internal analyses) and from specific data requested from supervised entities. The pooled data and national-level methodology should make it possible to assess year-on-year trends and financial innovations in the relevant sector and to respond appropriately to potential sources of emerging risks, especially from the perspective of professional care, and should facilitate the planning of the CNB's supervisory work in this area.

The Committee on Consumer Protection and Financial Innovation (CCPFI) processed the information submitted by all the competent authorities of EU/EEA Member States engaged in supervising the insurance sector, and identified European consumer trends and financial innovations in 2013. These are summarised in the EIOPA 2013 Third Consumer Trends Report. This report helps the CCPFI to assess year-on-year trends in this area at the European level. It is an important source for the CCPFI's activities (aimed mainly at ensuring a comparable level of consumer protection across the EU and consistent approaches across competent supervisory authorities) and facilitates analysis of the pooled data for the purposes of drafting expert recommendations for the EIOPA and the European Commission.

5.1.5 Cooperation with institutions in the Czech Republic**a) Cooperation with the Office of the Financial Arbitrator**

A meeting between CNB representatives and representatives of the Office of the Financial Arbitrator was held in 2014 regarding cooperation in the collection and transfer of data on complaints received in the insurance and capital market areas for the purposes of data provision to the relevant European supervisory authorities (EIOPA and ESMA). The CNB submits data in the structure required by the European supervisory authorities once a year at present. Data on complaints (except for data from the Financial Arbitrator) were submitted for 2013 in early 2014 for the first time. Data from the Financial Arbitrator, together with other data, were submitted to the EIOPA and the ESMA for the first time for 2014 as a whole.

b) Cooperation with the Office of the Public Defender of Rights

The CNB continued to work in cooperation with the Office of the Public Defender of Rights (Ombudsman), a process which had started in 2013 in connection with the enforcement of contributions to the guarantee fund from the uninsured individuals by the Czech Insurers' Bureau

(CIB) with regard to causes that led to the summoning of the wrong individuals. CNB representatives and representatives of the Public Defender of Rights and the Transport Ministry had met to discuss this matter in 2013. Further meetings followed in 2014 to identify the causes of the inaccuracies and to ensure that they were eliminated. The issues on the agenda included data transmission errors, the preparation of a new system for data transmission between the CIB and the Transport Ministry, and shortcomings uncovered in extracts from the register of motor vehicles and inconsistent procedures used by registration offices, in respect of which the Transport Ministry announced the adoption of relevant methodological measures.

The CNB also worked with the Public Defender of Rights on investigations opened by the latter. For example, the CNB informed the Public Defender of Rights about the manner of conduct of CNB supervision (off-site surveillance and on-site examinations). The CNB assured the Public Defender of Rights that although it does not commence on-site examinations for every shortcoming it finds (partly due to capacity constraints), it does deal with all the complaints it receives from the public and investigates them wherever possible. It usually demands documents from the supervised entities, analyses them and takes further action in the form of supervisory calls. Complainants are informed about the results of investigations within the limits of the statutory obligation of confidentiality. One of the possible approaches used by the CNB if any shortcomings are detected is to open an administrative proceeding. Another option is voluntary remedy, which is done by notifying the entity concerned of the shortcomings identified and calling upon it to provide information on the remedy. On-site examinations are used to check the activities of a supervised entity in more detail. Administrative proceedings are opened in the case of systemic shortcomings or if voluntary remedy is not implemented.

c) Cooperation with the Czech Trade Inspectorate, the Ministry of Finance and the Office for Personal Data Protection

The CNB often receives complaints made by members of the public that do not fall within its competence. In accordance with the Administrative Procedure Code⁵ such complaints are passed on to the competent authorities, in particular the Czech Trade Inspectorate, the Ministry of Finance and the Office for Personal Data Protection. These institutions also forward to the CNB complaints which they feel do not fall within their competence.

d) Cooperation with professional organisations

Where necessary, the CNB discusses its supervisory findings from investigating complaints made by the public at a general level with professional organisations in the financial market from the perspective of self-regulatory standards.

5.1.6 General assessment of information from complaints made by members of the public by financial market sector

In the area of supervision of conduct of business, the CNB received a total of 1,506 complaints in 2014, 139% more than in 2009. The table below shows the numbers of complaints received in 2009–2014 for the individual financial market sectors and by types of entities.⁶

⁵ Article 12 of Act No. 500/2004 Coll., the Administrative Procedure Code, as amended.

⁶ The sector of private pension schemes, retirement savings and supplementary private savings is referred to as the private pension insurance sector.

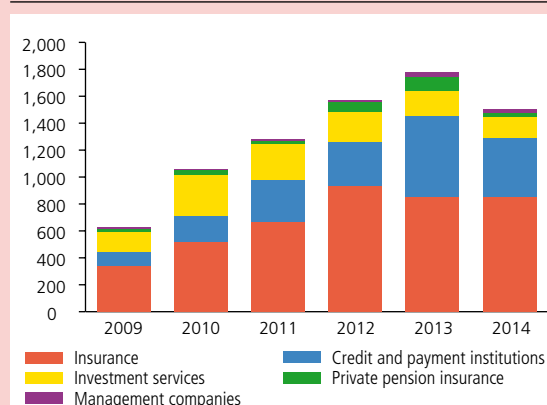
Table V.1 – Numbers of complaints

Financial market sector	Type of entity	Number of complaints						Relative change (in %)
		2009	2010	2011	2012	2013	2014	
Insurance	Insurance companies and insurance intermediaries	338	517	669	939	854	852	152
Credit and payment institutions	Credit and payment institutions	108	195	313	322	603	440	307
Capital market	Management companies and investment and mutual funds	13	7	10	9	30	24	85
	Investment firms and investment intermediaries	147	305	263	226	185	155	5
Private pension insurance	Pension management companies and private pension scheme intermediaries	24	35	27	73	105	35	46
Total		630	1,059	1,282	1,569	1,777	1,506	139

The public's complaints pertained mainly to the insurance sector, which accounts for roughly half of all the complaints received by the CNB over the long term. The decrease in the number of complaints in 2013 and 2014 can be attributed to the application of very intensive supervisory measures, including preventive ones.

In the sector of credit and payment institutions, the number of complaints submitted decreased in 2014, following a sharp increase (of almost 90%) in the number of complaints in this sector in 2013 due to administrative proceedings conducted against two credit unions. Despite the above decrease, the number of complaints in this sector was up by 307% compared to 2009. These complaints accounted for almost 30% of all complaints received. About 10% of the complaints concerned the provision of investment services.

Chart V.1 – Numbers of complaints



The two charts show a stable distribution of complaints across sectors. Complaints concerning the insurance sector account for about 50% of all complaints received, those pertaining to credit and payment institutions for about 30% and those in the area of investment services for more than 10%.

Chart V.2 – Comparison of numbers of complaints received in 2013 and 2014

(in %)



In 2013–2014, there was a decline in the number of complaints regarding the private pension insurance sector. In this sector, the number of complaints dropped by 67% in 2014 compared to 2013 and their share in the total number of complaints returned to 2% after rising temporarily in 2012 and 2013 owing to legislative changes in this area.

The CNB's experience shows that in the current legislative situation, especially in the insurance area, the most effective way of eliminating shortcomings identified is to notify the supervised entity of the shortcoming, call upon it to make voluntary remedy and then supervise the implementation of remedial measures outside administrative proceedings.

a) Insurance

The CNB has long been dealing with large numbers of complaints about illegal conduct of insurance companies and insurance intermediaries.

Complaints relating to insurance companies point mainly to the following:

- i) incorrect procedures of insurance companies connected with loss adjustment (excessive duration of dealing with claims, insufficient information about the results, infringement of the duty to notify that the claim cannot be dealt with within the statutory time limit, etc.),
- ii) shortcomings connected with termination of insurance,
- iii) shortcoming connected with changes to, and administration of, insurance policies,
- iv) failure to react, or a delayed reaction, to clients' complaints, and
- v) shortcomings in the management and control of insurance companies' distribution networks.

Complaints relating to insurance intermediaries point mainly to the following:

- i) provision of untrue and incomplete information about the insurance to be concluded (for example, investment life insurance is often wrongly presented as "saving"),
- ii) insufficient recording of the requirements and needs of potential clients and failure to give reasons for recommending a specific product,
- iii) recommending products which are completely unsuitable for specific potential clients.

In the CNB's opinion, the causes of the high number of complaints from the public alleging illegal practices of insurance intermediaries lie in low-quality and unprofessional work done by insurance intermediaries and inadequate governance of distribution networks by both insurance companies and insurance intermediaries for whom subordinated insurance intermediaries do business.

Investment life insurance is the most problematic product. In 2014, the CNB again recorded many complaints about investment life insurance. These complaints related to the conduct of subordinated insurance intermediaries through whom investment life insurance is concluded, the conduct of insurance companies in subsequent administration of insurance policies, and the termination of investment life insurance, the surrender value and the size of claims paid from expiration of investment life insurance policies.

Findings from the investigation of complaints from the public are also an important input to the conduct of on-site examinations in those insurance companies or insurance intermediaries which seem to be the most problematic or in whose activities serious systemic shortcomings have been identified.

In 2014, the CNB continued to deal with complaints regarding the conduct of the Czech Insurers' Bureau when enforcing contributions to the guarantee fund from uninsured individuals. This was due to a persisting large number of such complaints, which is closely linked with long-running malfunctions and defects in the Central Vehicle Register. In this context, CNB representatives also communicated with the Office of the Public Defender of Rights. In 2014, they attended a meeting with its representatives at the Ministry of Transport aimed at identifying the causes of the inaccuracies and ensuring their elimination.

The problems identified during investigation of complaints from the public served as a basis for the meetings of a project team which works as a working group to discuss and generalise supervisory findings in this area and as a platform for communication with the Czech Insurance Association as regards self-regulation in the area of professional care in the insurance industry.

In 2014 the project team prepared the following:

- Supervisory Benchmark No 1/2014 – References to other documents in an insurance policy and insurance terms and conditions,⁷
- Supervisory Benchmark No 2/2014 – Conclusion of investment life insurance policies by underage persons.⁸

Owing to persisting shortcomings, two supervisory official information documents were issued on the initiative of the project team in 2014 with the aim of ensuring standard configuration of quality management and control systems in the distribution networks of all insurance companies and all insurance intermediaries across the market:

- Official Information of the Czech National Bank of 21 January 2014 on quality management and control in the distribution network of an insurance company,⁹
- Official Information of the Czech National Bank of 19 September 2014 on quality management and control in the distribution network of an insurance intermediary.¹⁰

7 Available at:
http://www.cnb.cz/miranda2/export/sites/www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/dohledove_benchmarky/download/dohledovy_benchmark_2014_01.pdf.

8 Available at:
http://www.cnb.cz/miranda2/export/sites/www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/dohledove_benchmarky/download/dohledovy_benchmark_2014_02.pdf.

9 Available at:
http://www.cnb.cz/miranda2/export/sites/www.cnb.cz/cs/legislativa/vestnik/2014/download/vestnik_2014_02_20214580.pdf.

10 Available at:
http://www.cnb.cz/miranda2/export/sites/www.cnb.cz/cs/legislativa/vestnik/2014/download/vestnik_2014_16_22214580.pdf.

At the same time, the CNB's project team prepared and subsequently published public notices providing information about findings of a longer-term nature or broader scope and warning of associated risks. The following public notices were published in 2014:

- Public notice – refusal to pay insurance claims owing to exclusions relating to an insured person's state of health,¹¹
- Public notice about the right of insurance companies to negotiate a waiting period,¹²
- Notice about possible unfair practices in life insurance policies,¹³
- Public notice regarding the possibility of committing an insurance fraud pursuant to Article 210 of the Criminal Code¹⁴ connected with the conclusion of an insurance policy.¹⁵

Findings obtained in the course of investigating complaints from the public are also used in ongoing legislative processes. In this respect, comments were drafted on an amendment to the Civil Code¹⁶ proposing, for example, changes to provisions that had proved unworkable and changes clarifying ambiguous provisions in order to prevent interpretation problems arising in the future. The CNB actively monitored the process of amendment of the Insurance Intermediaries Act,¹⁷ which was discussed as part of a draft amendment to the Payment System Act¹⁸ which in 2014 renewed the duty of insurance companies to provide clients with clear and accurate information on insurance in writing, which had been dropped from Czech law as of 31 December 2013 owing to the cancellation of most provisions of the Insurance Contracts Act.¹⁹ In this regard, the CNB focused on planned changes to the Insurance Intermediaries Act, the Consumer Protection Act²⁰ and the Vehicle Liability Insurance Act,²¹ and proposed changes concerning, among other things, insurance of travel agencies against bankruptcy and private health insurance of foreigners.

At the end of 2014, the CNB dealt intensively with the conduct of insurance companies in connection with an amendment to the Income Tax Act²² which changed the conditions for tax discounts for life insurance policies with effect from 1 January 2015. In this context, the CNB conducted examinations in 21 insurance companies and communicated with relevant professional organisations (of insurance companies and insurance intermediaries). It also participated in a number of meetings with representatives of individual insurers, explaining in detail the CNB's arguments and position on this issue. This started a process of individual rectification of shortcomings identified in the procedures of insurance companies that had amended investment life insurance policies to ensure tax deductibility without the express consent of their clients.

11 Available at:
http://www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/upozorneni_pro_verejnost/20141209_upozorneni_zdravotni_stav.html.

12 Available at:
http://www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/upozorneni_pro_verejnost/20141209_upozorneni_cekaci_doba.html.

13 Available at:
http://www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/upozorneni_pro_verejnost/20141111_upozorneni_nekale_praktiky_smlouvy_ziv_pojisteni.html.

14 Act No. 40/2009 Coll., the Criminal Code, as amended.

15 Available at:
http://www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/upozorneni_pro_verejnost/20131018_upozorneni_pojistny_podvod.html.

16 Act No. 89/2012 Coll., the Civil Code (hereinafter the "Civil Code").

17 Act No. 38/2004 Coll., on Insurance Intermediaries and Independent Loss Adjusters, as amended (hereinafter the "Insurance Intermediaries Act").

18 Act No. 284/2009 Coll., on the Payment System, as amended (hereinafter the "Payment System Act").

19 Act No. 37/2004 Coll., on Insurance Contracts and the Amendment of Related Acts, as amended (hereinafter the "Insurance Contracts Act").

20 Act No. 634/1992 Coll., on Consumer Protection, as amended (hereinafter the "Consumer Protection Act").

21 Act No. 168/1999 Coll., on Vehicle Liability Insurance and the Amendment of Certain Related Acts, as amended (hereinafter the "Vehicle Liability Insurance Act").

22 Act No. 586/1992 Coll., on Income Taxes, as amended (hereinafter the "Income Tax Act").

b) Credit and payment institutions

Based on findings obtained in the course of investigating complaints from the public, significant attention was paid in the credit and payment institutions sector to the execution of payments and the fulfilment of other duties pursuant to the Payment System Act. In connection with the payment system, the CNB also focused on cyber security; the examinations revealed no shortcomings on the part of banks in this area.²³ When investigating complaints from the public, the CNB usually also checks the procedures of supervised entities against which complaints are not directed. In the area of credit and payment institutions, this typically applies to compliance with the duty to maintain banking secrecy. The duty to set up and maintain an internal governance system, which is a key component for the proper functioning of credit and payment institutions, is an elementary duty whose fulfilment the CNB verifies in its supervisory activities. In addition, the CNB investigates the procedures of banks in execution proceedings and in connection with the seizure of money under the AML Act.²⁴ Shortcomings are rare in these areas.

Increased attention continued to be paid to the procedures of building societies, especially in connection with termination of contracts. The CNB did not deal with private law issues, as this competence lies with the courts, not the CNB. However, it did deal with potential violations of public law duties whose fulfilment it supervises.²⁵

Last but not least, after the new Civil Code took effect on 1 January 2014, considerable attention was paid to credit and payment institutions' procedures regarding implementation of this law in contracts and internal regulations.

c) Provision of services on the capital market

On the capital market, the provision of investment advice and the related potential conflict of interests between the investment service provider and the client remains the most important area in terms of both the number of complaints received and the seriousness of the conduct of service providers. Compared to previous years, the capital market is showing a falling trend in the number and the seriousness of complaints. The number of complaints identifying serious systemic shortcomings in the investment service providers sector also declined. Less serious shortcomings in the activities of investment service providers were dealt with by notifying providers of the shortcomings identified and calling upon them to provide information on remedial measures adopted or proposed. However, complaints from the public also revealed serious shortcomings where rectification by voluntary remedial measures was not appropriate. In such cases, proposals to open administrative proceedings to impose sanctions or remedial measures were put forward.

23 The CNB informed the public about security principles relating to the use of electronic banking and protection against phishing in a Notice of the Czech National Bank concerning risks connected with the use of electronic banking, available at: http://www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/upozorneni_pro_veřejnost/upozorneni_el_bankovnictvi.html, and in a Public notice on phishing attacks, available at: http://www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/upozorneni_pro_veřejnost/upozorneni_phishing_2.html.

24 Act No. 253/2008 Coll., on Certain Measures Against Money Laundering and Terrorist Financing, as amended (hereinafter the "AML Act").

25 The CNB's opinion on withdrawals from building savings contracts was presented to the public in a Public notice on the possibility of a building society withdrawing from a building savings contract, available at: http://www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/upozorneni_pro_veřejnost/20140102_upozorneni_vypoved_stavebni_sporitelna.html.

d) Supplementary pension insurance, retirement savings and supplementary pension savings

In 2014, the supplementary pension insurance sector saw a return to the previous trend in the number and nature of complaints from the public. Unlike in 2012 and 2013, there were no massive migrations of planholders between funds and related negotiation and termination of private pension policies as a result of legislative changes. However, complaints about supplementary pension insurance executed by means of assets in transformed pension funds still predominate, mainly because this sub-sector has a substantially larger number of planholders and a longer history of supplementary pension insurance than the other two, which in turn leads to more frequent settlement of the claims of eligible persons.

5.2 ASSESSMENT OF INFORMATION FROM COMPLAINTS FROM THE PUBLIC IN THE CONSUMER PROTECTION AREA DELIVERED TO THE CZECH NATIONAL BANK IN 2014

5.2.1 Legislative sources of consumer protection

The conduct of supervision in the consumer protection area is governed above all by the following regulations.

In all financial market sectors:

- Act No. 634/1992 Coll., the Consumer Protection Act, as amended,
- Act No. 6/1993 Coll., on the Czech National Bank, as amended,
- Act No. 500/2004 Coll., the Administrative Procedure Code, as amended.

In the payment system area:

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

In the consumer credit area:

- Act No. 145/2010 Coll., on Consumer Credit and on the Amendment of Certain Other Acts, as amended by Act No. 43/2013 Coll., on the Amendment of Act No. 145/2010 Coll., on Consumer Credit and on the Amendment of Certain Other Acts.

In the area of distance contracts for financial services:

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

5.2.2 Main areas of consumer protection

The Consumer Protection Act entrusts the CNB with supervision of supervised entities in respect of compliance with the following duties:

a) Prohibition of unfair commercial practices

Commercial practices of an entrepreneur in respect of a consumer are deemed to be unfair if they are contrary to the requirements of professional diligence and are capable of appreciably affecting the consumer's decision-making, thereby causing him to take a transactional decision that he would not have taken otherwise. Unfair commercial practices include, in particular, misleading and aggressive commercial practices. Professional diligence means the standard of special skill and care which an entrepreneur or his employee may be reasonably expected to exercise, commensurate with honest market practice or general principles of good faith in his field of activity.

²⁶ With effect from 1 January 2014, this Act repealed Act No. 40/1964 Coll., the Civil Code, as amended (the old Civil Code).

b) Prohibition of consumer discrimination

Sellers may not discriminate against consumers when providing services. Discrimination means conduct, including negligent conduct, where a person is treated less favourably than another in a comparable situation on discriminatory grounds. Discrimination also includes such conduct or negligence where a person is disadvantaged compared to others on discriminatory grounds on the basis of a seemingly neutral provision, criterion or practice. However, where such a provision, criterion or practice is justified objectively by the pursuit of a legitimate objective, provided that the means of achieving this objective are reasonable and necessary, this is not discrimination.

c) Duties and rules for providing information about the prices of services and how those prices are set

According to the pricing regulations, the seller has the duty to inform the consumer about the prices of services provided or to make such information appropriately available in some other way. When performing supervision, the CNB focuses on the issue of proper provision of price lists to the consumer and information about changes made thereto, and on the issue of transparency and clarity of price lists so that consumers can make proper informed decisions. However, the law does not authorise the CNB to regulate fees and stipulate their level.

The above rules pertain not only to contract documentation and its clarity, but also to the promotion of financial services, the process of concluding contracts with consumers and subsequent (i.e. post-contract) dealings with them, as well as changes to, and termination of, contractual relationships with consumers.

Consumer protection in the payment system area focuses above all on the information duties of a payment service provider before the conclusion of a payment service contract.

With regard to consumer credit, the CNB supervises compliance with a number of duties applying to lenders. These include in particular:

- a) compliance with information duties by lenders both in the phase of advertising consumer credit and prior to the conclusion of a consumer credit contract, during the conclusion thereof and in the event of an amendment thereof,
- b) the provision of an adequate explanation so that the consumer can assess whether the proposed consumer credit contract is commensurate with his needs and financial situation.
- c) evaluation of the consumer's ability to repay consumer credit,
- d) non-hindrance of the exercise of consumers' statutory rights in this area (for example the right to withdraw from a consumer credit contract and the right to terminate a consumer credit contract),
- e) correct calculation of the annual percentage rate of charge, including all costs the consumer must pay in connection with the consumer credit which are known to the lender.

In the area of distance contracts for financial services, the CNB supervises compliance with the duty of an entrepreneur to provide the consumer at least with all the information required by law in text form well before the conclusion of the contract or before the consumer makes a binding offer. This manner of providing information is often convenient for the consumer, but the ability to obtain information is often more limited than in face-to-face dealings with the entrepreneur.

5.2.3 Summary of consumers' complaints

The CNB's Consumer Protection Department has been receiving and investigating consumers' complaints since September 2008. A steady increase in the number of complaints illustrates that members of the public are aware of the existence of this department and contact it if communication with a supervised entity does not lead to a solution satisfactory to both parties, and often also if they feel that a financial institution has wronged them, acted in conflict with good morals and codes of ethics, or abused its strength. The CNB uses the complaints to identify possible public law shortcomings on the part of supervised entities. The investigation often also helps to ensure remedy in respect of the consumer, although this is not a field of competence of CNB supervision under public law. The total number of complaints has risen steadily since the establishment of the Consumer Protection Department, with a modest decline recorded only in 2014 as a result of a fall in the number of complaints in insurance. The CNB constantly exerts pressure for proper provision of required information, focusing on information in insurance policy proposals and consistent provision of information to consumers about insurance terms and conditions and the consequences of early termination of insurance policies, especially in cases of renegotiation. Thanks to this, the insurance market is becoming more cultivated and the conditions under which insurance products are sold are improving.

Table V.2 – Summary of complaints received by Consumer Protection Department

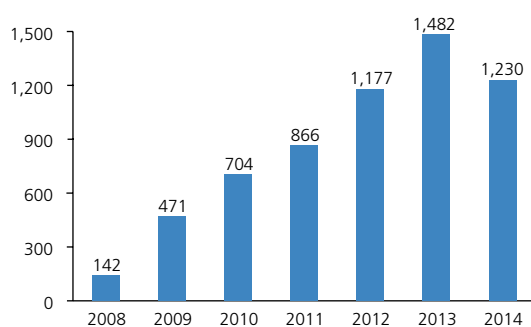
TOTAL NUMBERS OF COMPLAINTS RECEIVED								
Period	Total number of complaints received							
1 January–31 December 2014	1,230							
Breakdown by segment								
	Credit institutions	Investment firms and intermediaries	Insurance undertakings and intermediaries	Non-bank consumer credit providers	Payment institutions	Foreign exchange entities	Others	Total
Costs of products (including complaints against bureaux-de-change)	73	8	28	1		178	1	289
Payments (including payment cards)	63				2		3	68
Product information	50	18	157		1	5	4	235
Insurance claims			89				2	91
Discrimination against consumers	11	1	6					18
Dealing with complaints	3	1	11					15
Aggressive business practices	13		25				1	39
Consumer credit	99			42	2		12	155
Consumer protection	136	18	111	8		2	45	320
TOTAL	448	46	427	51	5	185	68	1,230

TOTAL NUMBERS OF COMPLAINTS RECEIVED

Period	Total number of complaints received
1 January–31 December 2014	1,230

BREAKDOWN BY INVESTIGATION RESULT

	Submissions closed					Complaints under investigation	Total
	Penalty proposal	Remedied by financial entity	Unjustified complaints	Failure of evidence	Written explanations		
Credit institutions		44	10	21	293	80	448
Investment firms and intermediaries		3	1	1	37	4	46
Insurance undertakings and intermediaries	3	26	39	36	237	86	427
Non-bank consumer credit providers			1	2	42	6	51
Payment institutions					3	2	5
Foreign exchange entities		8	12	8	150	7	185
Others			1	1	61	5	68
TOTAL	3	81	64	69	823	190	1,230

Chart V.3 – Numbers of complaints received

a) Insurance

Table V.3 – Complaints in year-on-year comparison – insurance

	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2009/2014
Number	148/264	264/292	292/504	504/555	555/427	148/427
Increase/decrease	78%	11%	73%	10%	-29%	188%

Most complaints were concluded with an explanation, as the investigations revealed misunderstandings or minor failings not considered to be systemic shortcomings requiring remedial measures, rather than breaches of the consumer protection rules by supervised entities. On the other hand, some complaints pointed to problems and resulted in specific situations being rectified, in some cases even across the entire insurance market.

• **Changes to valuation tables**

Valuation tables are an important part of insurance policy documentation. They specify the rules applied by the insurance company to claim payments in the event of accidents and sickness and are also an important source of information underlying the consumer's decision to sign an insurance policy. According to the legal framework for insurance policies valid until the end of 2013 under the Insurance Contracts Act and the CNB's interpretation thereof, it had only been possible to apply the original valuation table as an unamendable part of the policy, and not current valuation tables. The new Civil Code valid from 1 January 2014 introduced the possibility of changing valuation tables, but the insurance company is required to provide information to the consumer. It is in this sense that the Consumer Protection Department would find an insurance company's conduct to be in contravention of the consumer protection rules if it failed to inform the consumer in advance about the changes and, were the consumer to disagree, did not allow him to terminate the supplementary insurance for which the valuation tables were amended without terminating the entire insurance policy. In this context, if an insurance company changes the valuation tables (i.e. as from the next change to the tables) we require it to inform consumers about the change in a letter sent to their address (or in electronic form if agreed in the policy as a binding and provable manner of communication). In the letter, consumers are informed clearly about the specific changes to the valuation tables (i.e. they do not have to compare details of extensive texts) and are explicitly notified that they may disagree (terminate the policy or the relevant insurance risk) within one month of receiving notice of the change to the valuation tables from the insurance company. They may only express their disagreement in written form as specified in the insurance terms and conditions. Only the relevant insurance risk, not the entire policy, is terminated (where the policy comprises more than one insurance risk). Consumers will be informed about the planned change to the valuation tables at least two months before it takes effect. They will receive information well in advance so that they can arrange similar insurance with another insurer. Insurance companies will proceed in this manner for policies concluded before and after 1 January 2014. Insurance companies provide consumers with the full wording of the valuation tables when the contract is signed at the latest. In 2014, the Consumer Protection Department communicated with five insurance companies about the provision of information about changes. They either replied that they do not change the valuation tables during the course of insurance or agreed that they would respect the procedure proposed by the Consumer Protection Department and would allow consumers to respond appropriately to planned changes.

• **Availability of underlying documents for examination of insurance claims**

According to the Consumer Protection Act, conduct which, taking account of all circumstances, by harassment, coercion (including the use of force) or undue influence significantly impairs the consumer's ability to decide freely is an aggressive practice. Insurance companies ask consumers for

documents showing whether and in what manner an insurance loss occurred, proof of the amount of the loss, and sometimes also expert reports. These requests of insurance companies are mostly justified and the Consumer Protection Department has not identified aggressive practices. In some cases, documents are requested which the insurance company could request itself, for example the results of a police investigation. On the other hand, where insurance companies refuse to pay insurance claims, they refer to expert reports which have not been made available to consumers. Progress was also made in the area of insurance companies informing consumers about the results of insurance claim examinations, specifically through access to documents relating to the loss adjustment performed. The change is effective from 1 January 2014 and enables an eligible person to access the file on the basis of a written application after the loss adjustment process is completed. Article 129a was added to the Act on Insurance in amendment 303/2013, effective from 1 January 2014. The insurance company allows this person, on the basis of a written application and after the loss adjustment process is completed, to access the file kept by the insurance company in connection with the insurance claim, or a similar record on loss adjustment, and make extracts therefrom or copies thereof for a fee (specifically from those records which pertain to the reason for refusing to pay the insurance claim or to the calculation thereof). This is without prejudice to the insurance company's confidentiality duty under Article 127. The Consumer Protection Department points out this change in its replies to consumers who notify it of loss adjustment delays or express their dissatisfaction with the amount of the claim payment.

• ***More significant findings followed by rectification by individual institutions***

The Consumer Protection Department received an increased number of complaints in 2014 about the action of an insurance company relating to transfers of loss-free months in vehicle liability insurance and vehicle accident insurance between family members. This is a form of bonus for clients meant to attract more policyholders. On the basis of consumers' complaints and communication with the insurance company, the Consumer Protection Department investigated at length the manner of informing consumers about the number of loss-free months and the manner of registration in the register of the Czech Insurers' Bureau (CIB). The investigation revealed that similar bonuses were offered by several other insurance companies, but always as a business discount recognised only within the same insurance company. It was not possible to donate loss-free months to another family member so that this appeared in the CIB register and remained valid after a switch to a different insurer. Following lengthy communication, the insurance company decided, with effect from August 2014, to offer transfer of loss-free months only if the following three conditions are met at the same time: 1) the transfer should be between persons living in the same household, 2) the transfer should take place within one insurance type (vehicle liability insurance or vehicle accident insurance), 3) the transfer should take place within the same vehicle category. If all three conditions are met, the difference between the loss-free months of the donor and the recipient will appear as a discount in the recipient's policy, but the actual number of loss-free months with the CIB will not be increased. Following termination of the policy, only the actual number of loss-free months remains in the CIB database, i.e. the original number plus the number of months gained during the life of the customer's policy.

In May 2014, a decision was issued in an administrative proceeding against an insurance company providing two types of loans to its life insurance policyholders (on the basis of written applications and automatic loans in the event of outstanding premiums) on condition that the life insurance may be cancelled with a surrender value payment. The insurance company had failed to comply with the duties stipulated in the Consumer Credit Act (the provision of pre-contract and contract information relating to a loan), as it believed, according to its statement, that the Act did not apply to the loans it provided. During the administrative proceedings, negotiations took place between the insurance company and the CNB on the final shape of remedial measures ensuring that the insurance company will respect all the provisions of the Consumer Credit Act.

The Consumer Protection Department dealt with a complaint alleging inactivity of a large insurance intermediary in dealing with complaints, i.e. failure to respond to consumers' complaints, and the issue of possible damage caused to consumers by the conduct of the insurance intermediary's representatives when selling insurance and investment products. The complaints about these shortcomings were filed by a consumer protection group. The Consumer Protection Department dealt with all the complaints received in this context by providing an explanation to consumers. It stated that the conditions of investment and insurance policies agreed in 2007 were not in line with consumers' requirements and from the perspective of the current legal framework for professional care in the area of consumer protection they were in contravention of those regulations. As the limitation periods enabling administrative proceedings for violation of the Consumer Protection Act to be opened had expired, the consumers were referred to proceedings before the Financial Arbitrator or court proceedings with their claims. The existing procedures, and above all the forms for recording clients' demands and needs and the investment questionnaire forms, were examined in connection with these complaints and no major shortcomings were found. A detailed examination was left for an on-site examination, which took place in the second half of 2014. As regards complaints, the Consumer Protection Department checked whether sufficient information had been provided about complaints and the process of dealing with complaints, including compliance with the company's complaint rules. Again, the company adopted a number of remedial measures, consisting mainly in changes in the processes of collecting information needed to deal with complaints, and introduced regular reporting to the CNB.

In 2014 the Consumer Protection Department worked with the Enforcement Division on preparing decisions in administrative proceedings against a subordinated insurance intermediary concerning the provision of untrue information to consumers about the possibility of converting an investment life insurance policy by changing the existing type of policy to a new type of product without concluding a new policy. The subordinated insurance intermediary had induced consumers to cancel their existing policies or stop paying premiums and to conclude new policies to the detriment of consumers. In addition, the subordinated insurance intermediary had provided untrue information about the duty of back payment of tax in connection with withdrawal from the original policy. An appeal was lodged, but this was subsequently rejected by the CNB and the decision became final.

b) Credit institutions

Table V.4 – Complaints in year-on-year comparison – credit institutions

	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2009/2014
Year-on-year change	108/190	190/253	253/298	298/478	478/448	108/448
Increase/decrease	76%	33%	18%	60%	-6%	315%

As in the area of insurance, most complaints were dealt with by providing a written explanation with reference to the relevant provisions of the business or product terms and conditions or the relevant law. Some complaints were assessed as unjustified, usually when the consumer failed to clarify or supply additional information. Such complaints are used as a general source for the conduct of supervision. In many cases, complaints led to systemic rectification of shortcomings and an improvement in the information conditions for a whole range of consumers.

- **Bonus card offers**

In 2014 the Consumer Protection Department recorded an increased number of complaints about bonus card offers and shortcomings in explaining their functions and related obligations on the part of the sellers. It responded by imposing supervisory measures on the providers, focusing chiefly on changing their presentations in booth and telephone sales, amending card applications, changing sales scripts and retraining sellers. Examinations of the effectiveness of these measures were commenced in 2014 Q1, when an employee of the Consumer Protection Department participated in mystery shopping organised by a provider in booths. It was found that the product was not being offered in contravention of internal procedures. The Consumer Protection Department also dealt with the issue of bonus product offers through call centres. Agency employees offering the product as intermediaries were not acting in accordance with the sales methodology. Sale of the product was therefore temporarily halted and resumed after the shortcomings were remedied.

- **Consumer credit**

The category of complaints about consumer credit also covers the area of credit cards. Credit obtained by means of a credit card is consumer credit pursuant to Act No. 145/2010 Coll., on Consumer Credit. The provision of unaffordable credit or credit line increases to low-income persons, disabled people or pensioners was most often subject to complaints. In the past, the Consumer Protection Department had discussed with banks at the Czech Banking Association compliance with the requirement of the Consumer Credit Act to assess a consumer's creditworthiness with sufficient professional care so that the provision of credit does not lead the consumer into financial problems and a debt trap. Nevertheless, consumer complaints suggest persisting shortcomings. On 18 March 2014, the Consumer Protection Department issued Supervisory Benchmark No. 1/2014 on the interpretation of a lender's duty to assess with professional care a consumer's ability to repay consumer credit. The banks in which these shortcomings were identified introduced more detailed assessments, in particular of consumers' expenditures, and acknowledged that it is not possible to regard a consumer's financial situation as acceptable without further examination if the consumer only has the living minimum stipulated by law after subtracting all credit repayments from the declared income. Other frequent enquiries and notifications from the public pertained to information on the costs of consumer credit given in advertisements. As regards advertising of consumer credit, the Consumer Credit Act stipulates the duty to give a representative example where the advertisement includes any information on the costs of the credit offered. The CNB issued an official information document and established cooperation with the Council for Radio and Television Broadcasting, from which it regularly receives information concerning advertising spots and notifications of shortcomings, which have mostly turned out to be justified. The Consumer Protection Department notified banks of the shortcomings. This was followed by withdrawal of the problematic advertisements and a promise of increased checks in the future.

- **Mortgage loans**

Mortgage loans were also a frequent subject of consumers' complaints. The Consumer Protection Department discussed with supervised entities the issue of setting interest rates for the next fixation period, as well as the manner of, and deadlines for, providing information on new interest rate offers. In the case of one bank, the Consumer Protection Department found that consumers were in arrears with several repayments, but at the moment of the new interest rate offer all outstanding amounts were repaid and the branch in question set the new interest rate at double the previous one, way above the market rate. The Consumer Protection Department did not intervene in the interest rate level itself, but it required the bank to explain whether this rate was a result of an assessment and decision of the credit risk department at its head office and whether the assessment had found that the consumers would improve their payment discipline after such a sharp repayment increase and whether the bank considered such action to be consistent with the EBA Opinion on Good Practices for the Treatment of

Borrowers in Mortgage Payment Difficulties. It was found that the bank's branches act independently and are not given clear parameters for setting interest rates for the next period. The head office's control mechanisms are not fully functional. The situation was remedied voluntarily without the use of sanctions. The issues dealt with also included the approach of a large number of banks to problematic/delinquent clients. Banks say that if clients make the effort to communicate, they have the tools to meet their needs (deferral of payments, extension of maturity without an increase in the interest rate or other sanctions), but consumers' complaints suggest the opposite in some cases. The problem may also lie in communication between consumers and branch employees. The Consumer Protection Department recommends that banks publish on their websites information on how delinquent clients should proceed. For example, one bank has prepared a "Guide to Financing", which also contains information for clients who have repayment problems. The guide is also available on the bank's website. There were also discussions with banks on early provision of information to consumers on interest rate offers for the next fixation period and confirmation of the right to early mortgage repayment at a time other than the interest rate refixation date if the consumer does not agree to changing the terms and conditions. In some cases, the Consumer Protection Department also received complaints about blocks on the drawing of residual mortgage loan amounts where loans were provided for house construction or reconstruction and the degree of completion, the drawdown amount and the building value did not agree according to the bank's latest estimates. In such cases, the Consumer Protection Department discussed with the bank amendments to, and timely provision of, information for consumers.

- ***Discussions with building societies***

In early 2014, the Consumer Protection Department completed discussions with building societies on new arrangements for providing consumers with information about changes to price lists and terms and conditions. Building societies had not sent consumers specific information about these changes, as the accounts they maintained were not governed by the Payment System Act and no other legal rule stipulated such a duty. At the same time, however, they were charging payments according to the current price list and consumers usually found out about this only upon purchasing services. On the basis of these findings and consumer complaints, the Consumer Protection Department identified incompatibility of building societies' procedures with the new framework for changes to contracts of adhesion laid down in the Civil Code effective as from 1 January 2014 as well as a possible unfair commercial practice. Following meetings with representatives of building societies and an exchange of written arguments, building societies agreed, without the opening of administrative proceedings, to adopt measures and change their internal procedures to ensure that their clients receive specific information about changes to price lists or terms and conditions (in written or electronic form) sufficiently in advance so that they can decide whether to continue their contractual relationship with the building society. If they decide to terminate it, this will happen under the originally negotiated conditions, subject, among other things, to the defined notice periods (usually three months).

Consumers' complaints often pertained to withdrawals from contracts following the binding period without the provision of a loan. In the past the Consumer Protection Department recorded an increased number of complaints regarding one building society, but no violation of the consumer protection rules was detected, as the building society only withdrew from contracts where the target amount had been exceeded and savings were not sent regularly. These conditions were not met for all contracts from which another building society withdrew. Although the Consumer Protection Department had notified the building society, this had not been taken into account until discussions were held in early 2014. Withdrawal from contracts where savings have not reached the target amount and have been sent regularly, and where the target amount has been substantially increased recently and the fee for the increase has been paid, in some cases with the building society's consent, can be regarded as an unfair commercial practice. The building society acknowledged the arguments of the Consumer

Protection Department and undertook to take back the withdrawals in the case of consumers who met these conditions. The Consumer Protection Department also received complaints about a building society which had started to withdraw from older – and from its perspective less advantageous – contracts where savings had not reached the target amount if the consumer's monthly payment had been delayed by as little as two days. By contrast, being unable to repay bridging loans early was a very frequent issue compared to the previous period. These were mostly situations where the building society's consent was needed for early repayment according to the terms and conditions. In previous years such consent had been granted without problems, but in recent years building societies have been refusing to grant consent and attempting to keep loans with higher interest rates than currently offered on the mortgage market. Where such a loan is binding on the consumer for more than ten years, in fact over the entire maturity, the Consumer Protection Department regards the condition of the building society's consent as problematic, but from the perspective of the consumer protection rules these matters must be considered on a case-by-case basis. Where the building society provides the consumer with a bridging loan unsecured by property, the duty to provide pre-contract information falls under the consumer credit regime and building societies must adhere to the rules stipulated in the Consumer Credit Act.

- ***Non-bank consumer credit providers***

Non-bank consumer credit providers are subject to CNB supervision only as payment institutions pursuant to Article 7a et seq. of Act No. 284/2009 Coll., the Payment System Act, as amended. Only when the activities of payment institutions are performed is the CNB entitled to supervise compliance with duties pursuant to the Consumer Credit Act and information duties pursuant to the Consumer Protection Act on the part of non-bank consumer credit providers. The CNB may supervise such companies' compliance with their duties only where credit has been provided through a credit card.

The Consumer Protection Department received several complaints about the actions of a non-bank consumer credit provider offering consumer credit through a bonus credit card. Consumers pointed out that sales representatives of third persons offering the product on the basis of a mandate contract were providing insufficient and misleading information. On the basis of the complaints received, the company was called upon to provide information and documents on who was selling the product, whether and how often the company conducted inspections of sellers, how the sellers were trained, what product manuals were available to them, what pre-contract information they provided to consumers, when consumers were informed about the consequences of denial of an application, how clients' creditworthiness was assessed, when and under what conditions the contract was concluded, when the client gave consent to a potential negative record in registers and what the consequences of product activation and the options of withdrawing from the contract were. Following a thorough analysis of this information, a meeting with the company's representatives was held at the CNB to clarify the process of offering the product. This led to the Consumer Protection Department demanding rectification in the form of a revision of documentation and the provision of some source documents. In a proposal for remedial measures, the company accepted the comments of the Consumer Protection Department and specified deadlines for implementing the measures.

In 2014, the Consumer Protection Department received more consumer requests to calculate the annual percentage rate of charge (APRC) for cash loans provided by large non-bank consumer credit providers. This surge was due to a media campaign regarding wrongly calculated APRCs for loans for used car purchases from large sellers. The provision of cash loans by non-bank providers is not subject to CNB supervision. Where the contract included an "automatic application" to provide a credit line and issue a credit card, the Consumer Protection Department checked whether the information and other duties under the Consumer Credit Act were fulfilled in this part of the credit relationship.

Supervision of compliance with duties connected with cash loans, including checking the calculation of the APRC, falls within the competence of the Czech Trade Inspectorate, to which consumers were referred on these issues. Inspections of compliance with statutory duties in the provision of credit lines revealed shortcomings. These were discussed with the credit providers and remedial measures were taken without the need to open administrative proceedings.

c) Capital and pension markets

Table V.5 – Complaints in year-on-year comparison – capital and pension markets

	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2009/2014
Year-on-year change	29/20	20/24	24/34	34/56	56/46	29/46
Increase/decrease	-30%	20%	41%	64%	-28%	58%

On the basis of complaints received in connection with a company providing investment services, the Consumer Protection Department identified problems relating to the presentation of the value and yield of investment fund unit portfolios of individual consumers and information about the exchange rate used to convert funds obtained from the repurchase of these units. It initiated a meeting with the company's representatives, where both parties clarified some aspects of the process of investment fund unit repurchase and the presentation of portfolio value and yield to consumers. The Consumer Protection Department informed the company about problems it had identified on its website. The company's representatives presented planned measures to rectify the shortcomings regarding the provision of information to consumers.

Complaints regarding investment services mostly pertained to losses on investments. Consumers claimed that they had not been sufficiently warned in advance of risks associated with investing, that they had not been offered stop loss and stop limit hedging tools, and above all that they had requested a guaranteed investment return. After examining the contract (usually a consignment contract excluding investment advice), the terms and conditions and the investment questionnaire filled in by the consumer, the CNB could not agree with their claims and uphold unfair commercial practices. However, the Consumer Protection Department always communicated with the investment service provider to find out whether the provider supplies consumers with complete and easily understandable information.

The Consumer Protection Department received a complaint about a pension management company. When signing a retirement savings contract (second pillar), a consumer opted for a dynamic investment strategy and the company, in line with the statutes of the retirement fund and in accordance with the law in cases of a low number of planholders, invested the funds in conservative financial instruments in the initial period. The consumer claimed damages for the conservative investment, which did not return the yield he had been expecting. Several complaints and enquiries were also recorded in the pension savings area, pertaining to the amount of state contributions credited for 2013. An investigation revealed that in these cases consumers had not made the necessary changes to their contracts with regard to the amounts of planholder contributions even though the pension management companies had informed consumers in advance that the contract had to be amended. As a result of a pension reform-related change in state contributions, these consumers were not entitled to the same amount of state contributions as in previous years.

d) Non-bank foreign exchange entities**Table V.6 – Complaints in year-on-year comparison – non-bank foreign exchange entities**

	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2009/2014
Year-on-year change	81/137	137/131	131/111	111/139	139/185	81/185
Increase/decrease	69%	-1%	-15%	26%	32%	128%

The number of complaints is rising even though the law has been amended. The exchange rate level remains the main problem. Some bureaux de change, especially in the centre of Prague, offer exchange rates of between CZK 15 and 20 to the euro. No foreigner expects such an exchange rate, expecting at least CZK 25 to the euro. This rate is usually found on a different board as a “VIP rate”. It is hard to prove whether the bureau de change employee confirmed this rate orally; on the other hand, the bureau de change has the pre-contract information signed by the consumer, which lists the low exchange rate and the resulting low amount in CZK. It can be assumed based on the complaints received that foreigners receive this pre-contract information only after handing over cash for exchange. Unless they sign this document, the bureau de change cannot pay to them the amount in CZK. The introduction of the duty to provide pre-contract information thus gives additional evidence to bureaux de change rather than helping consumers. In addition, foreigners do not encounter pre-contract information in such simple transactions in other countries. They are not familiar with this procedure, and bureaux de change take advantage of that. Besides the duty to state a single exchange rate for each currency, more specifically the least advantageous to the consumer (an unequivocal requirement of the CNB), the relevant law unfortunately introduced the option of offering a better exchange rate under certain conditions and a duty to inform the customer properly about that rate. This leads to the creation of a second “exchange rate list” containing “VIP rates” and therefore to continued provision of misleading information. Given the wording of the law, the CNB endeavoured to promote an interpretation that would eliminate the second exchange rate noticeboard and discussed an initiative establishing an association of bureaux de change in which some large bureaux de change are represented. On the basis of these findings, a small amendment to the law was proposed and submitted to the Ministry of Finance. The proposed solution was that the law should only allow the publication of information that it is possible to get a better rate and forbid the publication of a list of more advantageous exchange rates. The Ministry of Finance rejected the proposal, stating that it was premature to amend the version of the law effective from 1 November 2013. However, the Ministry of Finance agreed with a strict interpretation of the current wording of the law as regards mistakability of exchange rate lists and preferential conditions, which was published on the CNB website (FAQs section), despite initially disputing this strict interpretation.

e) Other areas**Table V.7 – Complaints in year-on-year comparison – other areas**

	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2009/2014
Year-on-year change	105/93	93/166	166/212	212/217	217/73	105/73
Increase/decrease	-11%	78%	28%	2%	-66%	-30%

This section discusses submissions of a general nature relating to consumer protection. These involve enquiries about whether an entity is subject to CNB supervision and questions regarding the credibility of specific entities. This category includes enquiries on whether charging various fees is justified and enquiries about limits applied by supervised entities when providing financial services.

It also includes enquiries or requests for expert opinions submitted to the CNB by consumers, consumer organisations and law firms (in the area of consumer credit). The CNB deals with such submissions by written explanation with references and recommendations on how to deal with the issue or which advisory or supervisory institution to contact.

5.2.4 On-site examinations as an additional tool for investigating an increased number of complaints

On-site examinations at companies operating as insurance agents, insurance brokers and often also investment intermediaries were conducted in the period under review. With regard to compliance with duties pursuant to the Consumer Protection Act, the examinations focused on checking whether unfair commercial practices were used in the conclusion of life insurance, more specifically in renegotiations (the conclusion of a life insurance policy on the basis of the examined entity's recommendation to withdraw from the existing life insurance policy), and whether sellers' representatives presented life insurance to consumers as savings.

Other examinations focused on verifying possible misleading of (potential) clients contacted through a call centre whose services are used by some subordinated insurance intermediaries of a company. This call centre, or third parties, contacted clients in connection with already negotiated insurance, offering adjustments and information about new tariff benefits. As the findings indicated possible undesirable renegotiations (to the detriment of the consumer) which may have been a result of misleading consumers, mainly those contacted by phone, this issue received increased attention. Further shortcomings were detected with regard to insurance intermediation (e.g. presentation of life insurance as a saving product) and investment (for example in the intermediation of supplementary pension and retirement savings). The examinations also revealed violations in the area of insurance intermediation, such as shortcomings in the internal governance system, collection of premiums and recording of clients' requests and needs, and in the area of investment, for example intermediation of supplementary pension savings and retirement savings, document storage and records of communication with planholders. The findings also pointed to shortcomings in dealing with complaints. The violations identified were recorded in examination reports. Some providers remedied the shortcomings immediately, while enforcement measures in the form of opening administrative proceedings and imposing fines had to be used against other providers.

An examination of a non-bank bureau de change where a high number of complaints had been recorded identified shortcomings consisting in misleading presentation of information on the exchange rate list and possible confusion between the exchange rate list and information on preferential exchange conditions. This examination was concluded by the filing of a proposal to open administrative proceedings.

5.3 PROVISION OF INFORMATION UNDER ACT NO. 106/1999 COLL., ON FREEDOM OF INFORMATION

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

5.3.1 Statistical data

In 2014, the CNB received a total of 59 applications under the Freedom of Information Act and issued 24 decisions refusing applications. Eleven appeals were filed against decisions to refuse to provide information, of which two first-instance decisions were overturned by the CNB Bank Board and returned for review.

The total number of applications received in 2014 was comparable with the previous year. The public's interest in information about the CNB's areas of responsibility was thus virtually unchanged, whereas a sharp increase in the number of applications under the Freedom of Information Act had been observed in previous years.

Table V.8 – Number of applications

	2011	2012	2013	2014
Number of applications handled under the Freedom of Information Act	19	26	60	59

5.3.2 Focus and content of applications

The applications pertain to a broad and diverse range of information which cannot be narrowed down to typical categories with regard to the numbers of applications given above. More than one application contained queries from the public regarding specialised issues in the areas of statistics, the balance of payments and circulation of banknotes and coins. Other subjects of applications included queries regarding procurement, enforcement proceedings (in the form of requests for various decisions) and the CNB's internal regulations.

As regards professional care supervision, the nature of the matter is such that an application filed under the Freedom of Information Act may be perceived as a suggestion from the public for supervision. Although some applications are not directly a suggestion, they may relate to supervision, for example when an applicant uses an application under the Freedom of Information Act to ascertain how their own suggestion or complaint has been dealt with, or enquires about additional circumstances of specific supervisory actions.

Information provided on the basis of individual applications under the Freedom of Information Act is available in the relevant section of the CNB website²⁷.

²⁷ <http://www.cnb.cz> – About the CNB – Provision of information by the Czech National Bank pursuant to Act No. 106/1999 Coll., on Freedom of Information – Information provided by the CNB pursuant to Act No. 106/1999 Coll. (in Czech only).

Annex 1

MAIN INDICATORS OF MONETARY AND ECONOMIC DEVELOPMENTS IN THE CZECH REPUBLIC

		2010	2011	2012	2013	2014
Gross domestic product ^{1) 2)}	Volume (in CZK billions)	3,790.9	3,823.4	3,845.9	3,883.8	4,266.1
	Increase (in %)	2.5	1.8	-1.0	-0.9	2.0
Output – percentage increase	Industry (sales) ¹⁾	9.5	7.6	1.7	1.4	8.4
	Construction ²⁾	-7.4	-3.6	-7.6	-6.7	4.3
Prices ³⁾	Inflation rate (in %)	1.5	1.9	3.3	1.4	0.4
Unemployment	Unemployment rate (in %)	7.0	6.7	6.8	7.7	7.7
Foreign trade ²⁾	Exports of goods and services (in %)	15.5	9.5	4.4	0.1	8.7
	Imports of goods and services (in %)	15.5	7.0	2.2	0.6	9.5
Average wage ²⁾	Nominal (in %) ⁵⁾	2.2	2.5	2.7	0.1	2.4
	Real (in %) ⁵⁾	0.7	0.6	-0.6	-1.3	2
Balance of payments	Current account (in CZK billions)	-146.6	-104.0	-51.3	-56.0	26.1
	Financial account (in CZK billions)	174.3	59.4	74.3	187.9	48.0
State budget balance	(in CZK billions)	-156.4	-142.8	-101.0	-81.3	-77.8
State budget balance/GDP	(in %)	-4.1	-3.7	-2.6	-2.1	-1.8
Exchange rates ⁴⁾	CZK/USD	19.1	17.7	19.6	19.6	20.7
	CZK/EUR	25.3	24.6	25.1	26.0	27.5
Average interbank deposit rate (PRIBOR)	7-day	0.95	0.82	0.64	0.21	0.17
	3-month	1.31	1.19	1.00	0.46	0.36
in % ⁴⁾	6-month	1.60	1.53	1.24	0.58	0.43
Discount rate ⁶⁾	(in %)	0.25	0.25	0.05	0.05	0.05
Lombard rate ⁶⁾	(in %)	1.75	1.75	0.25	0.25	0.25
2W repo rate ⁶⁾	(in %)	0.75	0.75	0.05	0.05	0.05
PX capital market index		1,224.8	911.1	1,038.7	989.0	946.7

Source: CZSO (macroeconomic indicators), data for 2014 as of 15 April 2015, PSE, CNB

1) Current prices

2) Percentage increase on a year earlier in real terms

3) Inflation rate, average

4) Annual averages from monthly averages

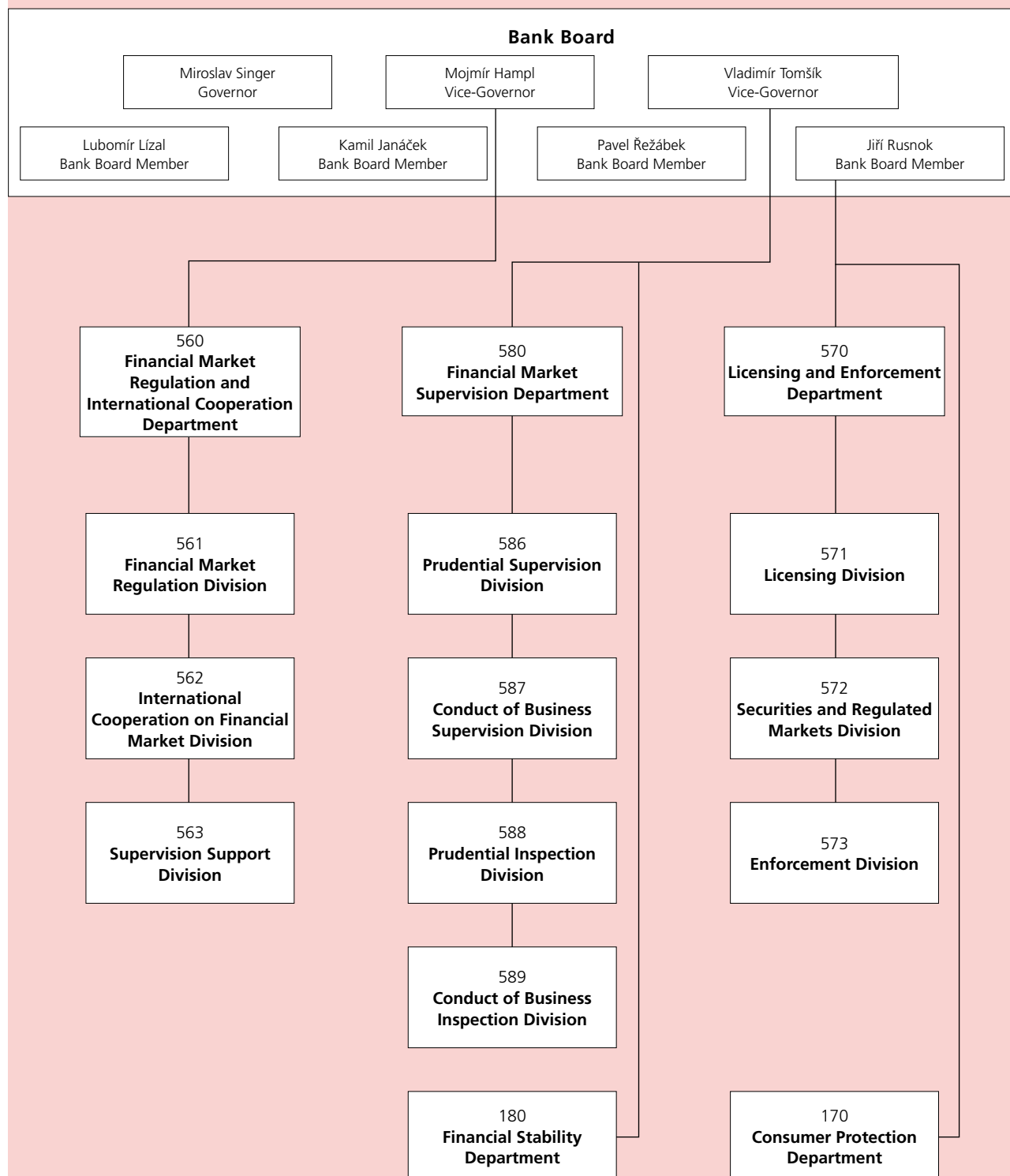
5) Recalculated numbers, whole national economy

7) As of 31 December of given year

Annex 2

ORGANISATIONAL STRUCTURE OF CNB FINANCIAL MARKET SUPERVISION

(as of 31 December 2014)



Note:

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

Annex 3

BREAKDOWN OF BANKS INTO GROUPS ¹⁾

(as of 31 December 2014)

I. Large banks	IV. Foreign bank branches
1. Česká spořitelna, a. s.	1. Bank Gutmann Aktiengesellschaft, pobočka Česká republika
2. Československá obchodní banka, a. s.	2. Bank of Tokyo-Mitsubishi UFJ (Holland) N. V. Prague Branch, organizační složka
3. Komerční banka, a. s.	3. BNP Paribas Fortis SA/NV, pobočka Česká republika
4. UniCredit Bank Czech Republic and Slovakia, a. s.	4. BRE Bank S.A., organizační složka podniku
	5. Citibank Europe plc, organizační složka
	6. COMMERZBANK Aktiengesellschaft, pobočka Praha
	7. Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka
	8. HSBC Bank plc – pobočka Praha
	9. ING Bank N. V.
	10. MEINL BANK Aktiengesellschaft, pobočka Praha
	11. Oberbank AG pobočka Česká republika
	12. Poštová banka, a. s., pobočka Česká republika
	13. PRIVAT BANK AG der Raiffeisenlandesbank Oberösterreich, pobočka Česká republika
	14. Raiffeisenbank im Stiftland eG pobočka Cheb, odštěpný závod
	15. Saxo Bank A/S, organizační složka
	16. Sumitomo Mitsui Banking Corporation Europe Limited, Prague Branch
	17. The Royal Bank of Scotland plc, organizační složka
	18. Volksbank Löbau-Zittau eG, pobočka
	19. Všeobecná úverová banka a. s., pobočka Praha (shortened as VUB, a. s., pobočka Praha)
	20. Waldviertler Sparkasse Bank AG
	21. Western Union International Bank GmbH, organizační složka
	22. ZUNO BANK AG, organizační složka
	V. Building societies
	1. Českomoravská stavební spořitelna, a. s.
	2. Modrá pyramida stavební spořitelna, a. s.
	3. Raiffeisen stavební spořitelna a. s.
	4. Stavební spořitelna České spořitelny, a. s.
	5. Wüstenrot – stavební spořitelna a. s.

1) The breakdown of banks by total assets is as follows as from 2012: large banks have total assets of more than CZK 250 billion, medium-sized banks have total assets of between CZK 50 billion and CZK 250 billion and small banks have total assets of less than CZK 50 billion. The other groups are foreign bank branches and building societies. For more details see <http://www.cnb.cz> – Supervision, regulation – Aggregate information on the financial sector – Basic indicators of the financial market – Banks – Methodology.

Annex 4**CREDIT UNIONS**
(as of 31 December 2014)

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

Annex 5

LICENSED INVESTMENT FIRMS

(as of 31 December 2014)

I. Investment firms – banks	III. Investment firms – branches (organisational units) of foreign banks
1. Česká exportní banka, a.s.	1. Bank Gutmann Aktiengesellschaft, pobočka Česká republika
2. Česká spořitelna, a.s.	2. Bank of Tokyo-Mitsubishi UFJ (Holland) N.V. Prague Branch, organizační složka
3. Českomoravská záruční a rozvojová banka, a.s.	3. BNP Paribas Fortis SA/NV, pobočka Česká republika
4. Československá obchodní banka, a. s.	4. Citibank Europe plc, organizační složka
5. Expobank CZ a.s.	5. COMMERZBANK Aktiengesellschaft, pobočka Praha
6. Fio banka, a.s.	6. Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka
7. GE Money Bank, a.s.	7. HSBC Bank plc – pobočka Praha
8. J&T BANKA, a.s.	8. ING Bank N.V.
9. Komerční banka, a.s.	9. MEINL BANK Aktiengesellschaft, pobočka Praha
10. PPF banka a.s.	10. Oberbank AG pobočka Česká republika
11. Raiffeisenbank a.s.	11. Saxo Bank A/S, organizační složka
12. Sberbank CZ, a.s.	12. The Royal Bank of Scotland plc, organizační složka
13. UniCredit Bank Czech Republic and Slovakia, a.s.	13. Volksbank Löbau-Zittau eG, pobočka
	14. Všeobecná úvěrová banka a.s., pobočka Praha (shortened as VUB, a.s., pobočka Praha)
II. Investment firms – non-banks	15. Western Union International Bank GmbH, organizační složka
1. 42 Financial Services a.s.	
2. AKCENTA CZ a.s.	IV. Investment firms
3. ATLANTA SAFE, a.s.	– branches (organisational units) of foreign non-bank investment firms
4. ATLANTIK finanční trhy, a.s.	1. Admiral Markets AS, organizační složka
5. BH Securities a.s.	2. Catus AG Vermögensverwaltung
6. brokerjet České spořitelny, a.s.	3. Dom Maklerski Banku Ochrony Srodowiska Spółka Akcyjna, organizační složka Česká republika
7. Citfin - Finanční trhy, a.s.	4. European Investment Centre, o.c.p., a.s. – organizační složka
8. Colosseum, a.s.	5. GKFX Financial Services Limited
9. Conseq Investment Management, a.s.	6. LaSalle Investment Management, organizační složka
10. CYRRUS, a.s.	7. Lynx B.V., organizační složka
11. CYRRUS CORPORATE FINANCE, a.s.	8. Monecor (London) Ltd
12. EFEKTA CONSULTING, a.s.	9. Sympatia Financie, o.c.p., a.s.
13. HighSky Brokers, a.s.	10. X-TRADE BROKERS DOM MAKLERSKI SPÓŁKA AKCYJNA, organizační složka
14. ING Investment Management (C.R.),a.s.	
15. Patria Finance, a.s.	V. Investment companies carrying on asset management
16. Pioneer Asset Management, a.s.	1. AXA investiční společnost a.s.
17. PPF Asset Management a.s.	2. ČSOB Asset Management, a.s., investiční společnost
18. Roklen360 a.s.	3. Investiční kapitálová společnost KB, a.s.
19. RSJ a.s.	4. Investiční společnost České spořitelny, a.s.
20. WOOD & Company Financial Services, a.s.	5. J&T INVESTIČNÍ SPOLEČNOST, a.s.
	6. Partners investiční společnost, a.s.
	7. WOOD & Company investiční společnost, a.s.
	8. ZFP Investments, investiční společnost, a.s.

Annex 6**PENSION MANAGEMENT COMPANIES**

(as of 31 December 2014)

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

Annex 7**MANAGEMENT COMPANIES**

(as of 31 December 2014)

- | | |
|---|--|
| 1. AKRO investiční společnost, a.s. | 14. J&T INVESTIČNÍ SPOLEČNOST, a.s. |
| 2. AMISTA investiční společnost, a.s. | 15. Partners investiční společnost, a.s. |
| 3. Art of Finance Investiční společnost, a.s. | 16. Pioneer investiční společnost, a.s. |
| 4. AVANT investiční společnost, a.s. | 17. PROSPERITA investiční společnost, a.s. |
| 5. AXA investiční společnost a.s. | 18. QI investiční společnost, a.s. |
| 6. CLOVIS, investiční společnost, a.s. | 19. Raiffeisen investiční společnost a.s. |
| 7. Conseq Funds investiční společnost, a.s. | 20. REDSIDE investiční společnost, a.s. |
| 8. ČP INVEST investiční společnost, a.s. | 21. REICO investiční společnost České spořitelny, a.s. |
| 9. ČSOB Asset Management, a.s., investiční společnost | 22. Safety invest funds, investiční společnost, a.s. |
| 10. DELTA Investiční společnost, a.s. | 23. VIG Asset Management investiční společnost, a.s. |
| 11. I.C.P. Czech, investiční společnost, a.s. | 24. WMS investiční společnost, a.s. |
| 12. Investiční kapitálová společnost KB, a.s. | 25. WOOD & Company investiční společnost, a.s. |
| 13. Investiční společnost České spořitelny, a.s. | 26. ZFP Investments, investiční společnost, a.s. |

Annex 8

INSURANCE UNDERTAKINGS

(as of 31 December 2014)

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

Annex 9

PROSPECTUSES OF LISTED BONDS APPROVED IN 2014

Issue date	ISIN	Issuer	Maximum size
26 November 2013	CZ0003511024	Czech Property Investments, a.s.	100 m EUR
25 February 2014	CZ0000000385	DAIREWA PLC	291 m CZK
17 March 2014	CZ0000000401	DAIREWA PLC	6.6 m EUR
17 March 2014	CZ0000000419	DAIREWA PLC	291 m CZK
30 April 2014	CZ0003511412	CPI BYTY, a.s.	500 m CZK
26 May 2014	CZ0002003544	Wüstenrot hypoteční banka a.s.	875 m CZK
26 May 2014	CZ0002003551	Wüstenrot hypoteční banka a.s.	875 m CZK
26 June 2014	CZ0002003460	Sberbank CZ, a.s.	2 bn CZK
30 June 2014	CZ0003704249	J&T BANKA, a.s.	1 bn CZK
5 September 2014	CZ0002003684	Sberbank CZ, a.s.	3 bn CZK
15 September 2014	CZ0000000492	J&T Global Finance IV., B.V	5.25 bn CZK
8 October 2014	CZ0003511529	CETELEM ČR, a.s.	1.875 bn CZK
22 October 2014	CZ0000000526	J&T SECURITIES MANAGEMENT LIMITED	1.8 bn CZK
14 November 2014	CZ0000000559	PEGAS NONWOVENS SE	2.5 bn CZK
26 November 2014	CZ0003704280	VIG FUND uzavřený investiční fond, a.s.	32 m EUR
26 November 2014	CZ0003704298	VIG FUND uzavřený investiční fond, a.s.	13 m EUR

Note: Highlighted in blue – final terms for a prospectus drawn up as a base prospectus (Article 36a of the Capital Market Undertakings Act).
Highlighted in yellow – a hybrid security combining elements of an equity and debt security (included in the bank's Tier 1 equity).

Annex 10

PROSPECTUSES OF UNLISTED BONDS APPROVED IN 2014

Issue date	ISIN	Issuer	Maximum size
9 December 2013	N/A	Štěpánská apartmá, a.s.	150m CZK
13 January 2014	N/A	GB Investment Company a.s.	2m CZK
10 March 2014	N/A	GB Investment Company a.s.	10m CZK
2 May 2014	US153443AK24	Central European Media Enterprises Ltd.	341,846,700 USD
7 May 2014	N/A	eFi Palace, s.r.o.	6m CZK
1 June 2014	N/A	eFi Palace, s.r.o.	12m CZK
5 June 2014	CZ0002003585	Hypoteční banka, a.s.	1 bn CZK
1 July 2014	N/A	eFi Palace, s.r.o.	12m CZK
17 July 2014	CZ0002003635	Hypoteční banka, a.s.	1 bn CZK
18 July 2014	CZ0003511461	PASSERINVEST GROUP, a.s.	550m CZK
21 July 2014	N/A	OMCG, s.r.o.	50m CZK
21 July 2014	N/A	OMCG, s.r.o.	50m CZK
1 October 2014	N/A	OMCG, s.r.o.	20m CZK
1 October 2014	N/A	OMCG, s.r.o.	20m CZK
2 October 2014	CZ0002003700	Hypoteční banka, a.s.	1 bn CZK
1 November 2014	N/A	GB Capital a.s.	5m CZK
1 November 2014	N/A	eFi Palace, s.r.o.	6m CZK
10 November 2014	N/A	GB Capital a.s.	2m CZK
1 December 2014	N/A	eFi Palace, s.r.o.	7.5m CZK
1 December 2014	N/A	eFi Palace, s.r.o.	9m CZK
1 December 2014	N/A	e-Finance, a.s.	80m CZK
11 January 2015	N/A	GB Capital a.s.	10m CZK

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

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

Annex 11**ISSUES/TRANCHES OF LISTED SHARES APPROVED IN 2014**

Issuer	ISIN	Face value	Size
Pivovary Lobkowicz Group, a.s.	CZ0005124420	160 CZK	11,687,501 pcs

Annex 12**OFFER PROGRAMMES APPROVED IN 2014**

Issuer	Type of security	Maximum size	Duration
DAIREWA PLC	bonds	unlimited	unlimited
eFi Palace, s.r.o.	bonds	110 m CZK	25 years
OMCG, s.r.o.	bonds	200 m CZK	5 years
GB Capital a.s.	bonds	100 m CZK	10 years

Annex 13**MANDATORY TAKEOVER BIDS DUE TO TAKING CONTROL OF TARGET COMPANY IN 2014**

Bidder	Target company	Decision
PPF Arena 2 B.V.	Telefónica Czech Republic, a.s.	Approved

Annex 14**SQUEEZE-OUTS IN 2014**

Bidder (Main shareholder)	Target company	Decision
Hlavní město Praha	Pražské služby, a.s.	Suspended

Annex 15**LICENSING PROCEEDINGS IN THE MARKET INFRASTRUCTURE AREA IN 2014**

Regulated entity	Subject of proceedings	Decision
Centrální depozitář cenných papírů, a.s.	Change in Operating Manual of Central depository	Implicitly agreed ¹⁾
Centrální depozitář cenných papírů, a.s.	Change in Settlement System Rules	Agreed
Centrální depozitář cenných papírů, a.s.	Change in Settlement System Rules	Agreed
European Commodity Clearing AG	Authorisation to act as central counterparty under EMIR (for PXE)	Agreed (in ESMA college)

1) After an assessment of the proposal, the procedure laid down in Article 104(2) the Capital Market Undertakings Act was followed (no administrative proceedings were opened within the deadline of 10 days of receipt of the proposed change).

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