

FINANCIAL MARKET SUPERVISION REPORT

2015

FINANCIAL MARKET SUPERVISION
REPORT 2015

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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 2015 consists of two parts.

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

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

The Financial Market Supervision Report is also intended to inform the public about a wide range of CNB activities in the field of supervision of the domestic financial market and about the situation and trends in this market in 2015.

Like the Financial Market Supervision Reports for 2006–2014, the Financial Market Supervision Report for 2015 will be published on the CNB website in Czech and English.

The report was discussed and approved by the CNB Bank Board on 16 June 2016.

¹ The Financial Market Supervision Reports for 2006–2014 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 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. The CNB also conducts examinations in bureaux de change.

Consumer protection is an important element of financial market supervision. In 2015, the CNB again helped to protect the legitimate interests of many clients of financial institutions and to improve financial literacy.

To ensure that supervision is transparent to the public, the CNB issues this Supervision Report and communicates major supervisory actions and selected findings and approaches in a prompt and flexible manner. 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.

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. 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.

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, as well as 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.

In 2015, as in previous years, the regulatory framework for financial market supervision was strongly affected by European legislation. The major pieces of such legislation included the directive establishing a framework for the recovery and resolution of credit institutions and investment firms (the Bank Recovery and Resolution Directive, BRRD) and the directive on deposit guarantee schemes. The Solvency II directive was reflected in a draft amendment to the Insurance Act. Further changes were reflected in domestic legal regulations, particularly the Act on Banks, the Recovery and Resolution Act, the Capital Market Undertakings Act and the Consumer Credit Act.

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.

The Czech financial market recorded positive developments in 2015. The banking sector remained sound, profitable, liquid and well-capitalised in 2015. All banks were compliant with the minimum regulatory capital ratios by a sufficient margin. The quality of the credit portfolio of domestic banks remained high even though some indicators worsened slightly. The credit union sector was profitable in 2015 and the profit of the sector as a whole improved. The quality of its credit portfolio improved slightly. The capital ratios of the credit union sector as a whole were above the required regulatory thresholds at the end of 2015.

In the investment firm sector, the number of clients picked up year on year, and the amount of funds actively managed and the total value of client assets increased. The sector is profitable and has sufficient capital. Household assets invested via domestic collective investment funds rose for the third consecutive year. Pension management companies made a profit, and the assets in the funds they manage increased in value.

Insurance companies recorded good results in 2015 despite a decline in total premiums written. The net profit of the insurance sector as a whole rose by 19.7% compared to 2014.

PART A

FINANCIAL MARKET SUPERVISION IN 2015

1. LEGISLATIVE CHANGES IN THE FINANCIAL MARKET SUPERVISION AREA IN 2015

1.1 THE SITUATION IN FINANCIAL MARKET REGULATION

In 2015, 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 not only with the Czech Ministry of Finance, but also with other state administration bodies (e.g. the Ministry for Regional Development, the Ministry of Justice and the Ministry of Industry and Trade). The CNB prepared proposals for decrees and issued a number of explanatory opinions interpreting the application of regulatory requirements pertaining to financial market participants.

1.2 CHANGES TO LAWS

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

The following laws regulating the business activities of financial institutions and other entities subject to regulation and supervision were prepared in 2015 with the active involvement of the CNB.

Recovery and Resolution Act and related amendment

The Act transposes the directive establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD). It lays down the particulars and procedures for the preparation of recovery and resolution plans, early intervention measures and resolution tools, including government stabilisation tools. It also contains the establishment of a Financial Market Guarantee 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. The act was promulgated in the Collection of Laws on 28 December 2015. Therefore, the impacts of the BRRD transposition will not be felt in full until 2016.

Amendment to the Act on Banks (DGS2 transposition)

The Amendment to the Act on Banks (besides changes related to the BRRD transposition, see above) transposes the directive on deposit guarantee schemes (DGS2), which introduces a new method for calculating contributions to the deposit insurance fund based on risk assessment of individual institutions, shortens the time limit for paying compensation and in some cases enables the provision of compensation exceeding EUR100,000. In the comments procedure the CNB made major comments on the calculation of the contribution to the Deposit Insurance Fund, on the provisions simplifying the protection of client assets of investment firms and on the area of payment services. The Ministry of Finance accepted the comments and proposals. The amendment was promulgated in the Collection of Laws on 28 December 2015.

Amendment to the Insurance Act

The draft amendment to the Insurance Act transposes the Solvency II directive. The transposition deadline was 31 March 2015 and the deadline for the application of national transposition regulations was 1 January 2016.

The bill was discussed by the Czech government in February 2015. The CNB's major comments proposing the distribution of the payment of commissions to insurance intermediaries and the exemption of EGAP from the applicability of the law owing to its main activity were not accepted. From April to November 2015 the bill was debated in the Chamber of Deputies, which rejected it in the third reading on 13 November 2015. The bill was rejected due to the proposals

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

to regulate the commissions paid by insurance companies to insurance intermediaries. The Ministry of Finance then prepared a revised bill transposing the Solvency II directive in accordance with deputies' comments and excluding the regulation of commissions. The Czech government postponed the debate of the bill until January 2016.

The new Solvency II regime for insurance companies was not implemented in the Czech Republic by the required date. The current version of the Insurance Act (the Solvency I regime) is thus still binding on domestic insurance companies and the CNB. At the same time, however, insurance companies and the CNB continued to prepare for the new Solvency II regime.

Amendment to the Act on Insurance Intermediaries

The draft amendment to the Act on Insurance Intermediaries should redefine the categories of intermediaries and their registration, enable the register to be updated according to the latest numbers of intermediaries and tighten the requirements for their professional qualifications and rules of conduct towards clients. The same requirements should apply to insurance companies when distributing insurance products directly. In connection with the debate on the amendment to the Insurance Act, the Czech government decided on 7 July 2015 to withdraw the bill from the Chamber of Deputies. The amendment was not re-submitted to the Chamber in the second half of 2015.

Amendment to Act No. 58/1995 Coll., on Insurance and Financing of State-Subsidised Exports

The amendment adapts the law to the re-codification of private law and refines the definitions of some terms in the export financing area. It also contains new rules for supervision of the Czech Export Bank by the Ministry of Finance, including access to information about specific contracts. Furthermore, the amendment significantly modifies the provisions relating to Exportní garanční a pojišťovací společnost (EGAP), particularly the extent of the application of the Insurance Act to EGAP's activities, the conduct of supervision and compliance with capital requirements. Since the provisions governing capital requirements in the act were formulated with regard to the draft amendment to the Insurance Act transposing the Solvency II directive, which was later rejected by the Chamber of Deputies, these provisions are not applicable to EGAP until the directive is properly transposed. Other changes to the regulation of EGAP not related to the transposition of Solvency II contained in the Act on Insurance and Financing of State-Subsidised Exports have been applicable since 1 January 2016. The amendment was promulgated in the Collection of Laws on 10 September 2015.

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

The amendment to the law on the tourism industry introduces a number of significant changes in the section pertaining to the insurance of travel agencies. In particular, it introduces a whole range of information duties for travel agencies, bans the sale of tours if the agreed insurance limit would be exceeded, and governs personal responsibility of a travel agency's management and administrative offences. The main question in the debate on the law was the proposed duty for insurance companies to settle claims up to the amount of clients' eligible claims (regardless of the agreed insurance limit). The Chamber of Deputies eventually agreed that insurance companies should settle claims only up to the agreed limit. However, the amount of the limit should correspond to the risk of the insurance company. The amendment was promulgated in the Collection of Laws on 14 December 2015.

Amendment to the Capital Market Undertakings Act and related acts

The draft amendment to this law implements the regulation on central depositories (CSDR), the directive on transparency of listed companies (TD) and an amendment to the directive on standard funds (UCITS V). The CNB made comments on the draft. In particular, it requested the abolition of the proposed provision on Ministry of Finance positions regarding the interpretation of regulations which the CNB is subject to under the comply or explain regime and the abolition of that principle, and a significant restriction of the extent of investment intermediaries' activities (to collective investment instruments and some bonds). All major comments made by the CNB were approved. The government discussed the bill in early August 2015 and submitted it to the Chamber of Deputies for debate. The debate had not been completed by the end of 2015.

Amendment to the Capital Market Undertakings Act and other regulations (MiFID II)

The draft amendment to this law transposes the directive and regulation on markets in financial instruments (MiFID II, MiFIR) and the market abuse regulation (MAR). CNB representatives attended a meeting with the Ministry of Finance and the financial market associations concerned, at which key conceptual issues of the new legislation were discussed.

1. LEGISLATIVE CHANGES IN THE FINANCIAL MARKET SUPERVISION AREA IN 2015

The CNB made a number of comments and proposals in the comments procedure. These related, for example, to the definition of the duties held by the board of directors and supervisory board, the restriction of the requirement to pass professional examinations only to distributors of investment firms and not to other employees, the exclusion of the review of conditions for the registration of tied agents by the CNB, adjustments to authorisations to issue decrees and additions to transitional provisions.

The discussion of the draft amendment was suspended at the meeting of the government's Legislative Council on 12 November 2015 after the council members had submitted their comments. The CNB provided consultations to the Ministry of Finance when the council members' comments were being incorporated. It proposed changes to some parts of the act (e.g. the application of MiFID II to structured deposits, the responsibility of investment firms when outsourcing and supervision of compliance with the rules of conduct by branches of foreign investment firms).

Consumer Credit Act

The bill transposes the directive on credit agreements for consumers relating to residential immovable property (MCD) and replaces Act No. 145/2010 Coll., on Consumer Credit. The bill newly defines conditions for granting authorisation to non-bank consumer credit providers and intermediaries, stipulates rules of conduct towards consumers, including assessments of their creditworthiness, and designates the authority supervising the activities of all consumer credit providers and intermediaries. The CNB made major comments on the draft in the comments procedure. These mainly concerned its disagreement with the integration of supervision of non-bank consumer credit providers and intermediaries into the CNB (as there is no link to the CNB's statutory objectives, there is a risk of monetary financing without compensation of the CNB's supervisory costs, such integration brings no positive effects, and there are no grounds for prudential supervision of such entities), the introduction of capital adequacy requirements for non-bank consumer credit providers, incorrect changes to the definition of APRC (annual percentage rate of charge) and the professional qualifications of consumer credit distributors. The Ministry of Finance approved all the major comments except for the CNB's designation as the supervisory authority. The government discussed the bill in early December and submitted it to the Chamber of Deputies for debate.

Amendment to the law on anti-money laundering measures

The draft amendment to the Act on Certain Measures against Money Laundering and Terrorist Financing and other related laws transposes the fourth AML directive. In the comments procedure, the CNB requested the retention of risk management measures as a mandatory part of the system of internal principles, the introduction of an administrative offence for situations where an obliged entity does not implement relevant internal control strategies and procedures and CNB access to the register of real owners of legal entities (with significance for supervision and licensing activity). The comments were approved. The draft was then discussed by the government's Legislative Council, which returned it to the Ministry of Finance for revision. The ministry is expected to complete the revision of the draft and submit it to the government in the first quarter of 2016.

Act on the central register of accounts

The aim of the draft law on the central register of accounts is to enable selected authorities (the tax and customs administration, law enforcement authorities, the Financial Analytical Unit and intelligence services), which can already obtain information from banks and credit unions, to find out quickly which credit institution manages (or managed) an account of an entity they are interested in. The register is to be administered by the CNB.

In the comments procedure, the CNB made a large number of comments on the bill, which was prepared by the Ministry of Finance. These related in particular to the financing of the register by the state, the definition of the group of persons eligible to make enquiries and the scope of the information transmitted. The Ministry of Finance accepted the CNB's proposals. The meeting of the government's Legislative Council on 29 October 2015 suspended the discussion of the bill due to comments made by its members (besides changes to the wording, is concerned a revision of the report to add regulatory impacts). The Ministry of Finance and the CNB jointly incorporated the comments. The bill is expected to be submitted to the Chamber of Deputies in the first quarter of 2016.

Amendment to the Act on Auditors

The draft amendment to the Act on Auditors transposes the amended Directive 2014/56/EU on statutory audits of annual accounts and adapts to the new Regulation No. 537/2014 on specific requirements regarding statutory audit of public-interest entities. The CNB made several major comments in the comments procedure (e.g. on restrictive conditions for the CNB as regards rejecting an auditor selected inappropriately by the supervised accounting unit, on the inappropriately set rules to ensure independence of internal audit and its functional subordination to the audit committee, and on the length of an auditing contract of up to 20 years). The Ministry of Finance incorporated the comments. However, the temporary use of discretion to extend the length of an auditing contract to up to 20 years was left in the bill. The legislative process was not completed in 2015.

Insolvency Act

The CNB prepared a proposal for an amendment of the Insolvency Act under which a liquidator would be automatically appointed as an insolvency trustee by the insolvency court in the event of bankruptcy of a credit institution or an insurance company. The proposal was discussed with the Ministry of Finance and the Ministry of Justice, which is responsible for the Insolvency Act, and incorporated into a planned amendment of this law.

1.3 CNB DECREES

The Czech National Bank is entitled to issue implementing legal rules in the form of decrees on the basis of authorisations specified in individual laws. In 2015, the CNB prepared several decrees relating to new draft legislation in the financial market area. These were usually proposed to come into effect on the day when the relevant law was to take effect. However, the legislative process for these draft decrees could not be completed owing to lack of progress with the legislative process for the individual bills (see 1.2). The draft decrees included the following:

- A decree implementing certain provisions of the Insurance Act. The decree contains the method for calculating the solvency capital requirement, the conditions for using an internal model and matching adjustments of the risk-free yield curve, the extent, method and deadlines for publishing data, the assessment of the sensitivity of technical provisions and eligible capital, the requisites and structure of the report on the audit of the governance system and the report on the audit of information published in the solvency and financial situation report and the method of payment and calculation of the remuneration and reimbursement of cash expenditures of the administrator and liquidator of domestic insurance and reinsurance companies.
- A decree on applications and notifications pursuant to the Insurance Act, which defines the requisites of applications for authorisations and consents relating to the pursuit of business under the Insurance Act, specifically the requisites of applications for consent to perform insurance and reinsurance activities, consent to a change in the scope of an authorisation to perform activities, consent to acquiring or increasing a qualifying holding in or taking control of a domestic insurance or reinsurance company and consent to the conversion of a domestic insurance or reinsurance company, including the formats and technical requisites of such applications and consents.
- A decree amending Decree No. 215/2012 Coll., on professional qualifications for the distribution of certain products on the financial market. The decree regulates the scope of professional qualifications and expertise for insurance distribution, the minimum extent of the material, organisational and personnel prerequisites of an accredited person and the minimum standard of a professional examination.
- A decree on applications pursuant to the Insurance Distribution Act. The decree stipulates the requisites of applications for authorisation to perform the activity of an independent intermediary and an independent loss adjuster and of notifications for the purposes of entering a tied agent in the register.

1. LEGISLATIVE CHANGES IN THE FINANCIAL MARKET SUPERVISION AREA IN 2015

- A decree amending Decree No. 233/2009 Coll., on applications, approval of persons and the manner of proving professional qualifications, trustworthiness and experience of persons, as amended. The decree responds to the amendment to the Capital Market Undertakings Act which, besides making other changes, adapts to the directly applicable regulation governing the activity of the central securities depository. This decree therefore omits the relevant parts relating to the central depository.
- A decree amending Decree No. 234/2009 Coll., on protection against market abuse and transparency. The amendment responds above all to changes made to the Capital Market Undertakings Act transposing the amendment to the Transparency Directive.
- A decree amending Decree No. 244/2013 Coll., on more detailed regulation of some rules set out in the Act on Management Companies and Investment Funds. The amendment is based on the scope of reporting duties defined by law and stipulates their structure and the form and the manner of sending information. It also governs the use of languages for the publishing of information by investment funds and defines the capital of management companies with reference to selected provisions of the directly applicable EU regulation.
- A decree on the depositor information template concerning the deposit guarantee scheme for the client. The draft decree was prepared in connection with a draft amendment to the Act on Banks and the Act on Credit Unions transposing the Deposit Guarantee Schemes Directive (DGSD). The depositor information template in the draft decree corresponds to the template specified in Annex I of DGSD and respects the content and structure of the information provided as set forth in the directive.

1.4 OFFICIAL INFORMATION

The CNB issues official information documents containing important facts for financial market participants regarding the implementation of legal rules. In 2015, the CNB issued the following official information documents:

- Official information of the Czech National Bank of 12 January 2015 regarding certain provisions of the Act on Banks and the Act on Credit Unions relating to the single licence.
- Official information of the Czech National Bank of 14 January 2015 disclosing the maximum technical interest rate.
- Official information of the Czech National Bank of 5 June 2015 regarding the procedure of credit unions in connection with a change in conditions relating to deposits in credit unions as from 1 July 2015.
- Official information of the Czech National Bank of 10 June 2015 regarding the Czech National Bank's approach to the assessment of the annual report, annual accounts and the auditor's report on the governance system of credit unions in connection with the amendment of Act No. 333/2014 Coll. on Credit Unions as from 1 July 2015.
- Official information of the Czech National Bank of 28 August 2015 regarding recognition of a professional examination organised by the University of Finance and Administration, o.p.s.
- Official information of the Czech National Bank of 10 September 2015 regarding the conduct of business activities by banks and credit unions – exposures to the Czech National Bank eligible for the liquidity coverage ratio purposes.

- Official information of the Czech National Bank of 2 November 2015 regarding the verification of sufficient coverage of credit losses.
- Official information of the Czech National Bank of 14 December 2015 regarding recognition of the professional examination “Investment adviser specialising in collective investment (IP-KI)” organised by European Financial Planning Association Czech Republic.

A total of 17 notifications on the issuance of European supervisory authorities’ guidelines were also published on the CNB website, along with information that the CNB will follow these guidelines. These included in particular the guidelines issued on the Solvency II directive (e.g. on internal models, group solvency, colleges of supervisors, information disclosure, the governance system and assessment of own risks and solvency) and on the BRRD directive (e.g. on the conditions for providing intra-group financial support and the use of early intervention measures, the range of scenarios to be used in recovery plans and the specification of measures to reduce or remove impediments to resolvability).

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 2015, the CNB published ten explanatory opinions on its website and answered almost 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.

2. EU REGULATIONS IN 2015

Intensive work on new European financial market regulations continued in 2015 at the level of the European Commission (Commission), the Council and the European Parliament (EP). As an increasing number of EU regulations are being issued in the form of directly applicable regulations, the need for active involvement in the drafting of these regulations is growing in importance. The CNB therefore paid special attention to the Commission's proposals and prepared relevant opinions on an ongoing basis. CNB representatives actively promoted the CNB's positions on the following key issues in EU committees and working groups. Within the European supervisory authorities, the CNB was involved in the preparation of implementing regulations for EU directives and regulations.

2.1 DIRECTIVES

Insurance Mediation Directive (IMD 2/IDD)

According to the Commission, the directive was revised due to the need to enhance consumer protection, ensure regulation consistent with the capital market rules and harmonise the approach to supervision in the distribution area and to administrative sanctions. The final form of the directive largely corresponds to the requirements that the CNB promotes at the national level, particularly as regards intersectoral harmonisation of requirements. The directive was approved by the European Parliament on 24 November 2015 and by the EU Council on 14 December 2015. It had not been published in the EU's Official Journal by the end of 2015.

2.2 REGULATIONS

Solvency II regulation

Commission Regulation No. 35/2015 supplementing the directive on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) was published in the Official Journal of the EU on 17 January 2015. The regulation sets out the details from the Solvency II directive, in particular the standard formula for calculating the solvency capital requirement, standards for internal models, reporting, information disclosure and requirements concerning the system of governance.

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 regulation was published in the Official Journal of the EU on 19 May 2015.

Regulation on reporting and transparency of securities financing transactions (SFTR)

The 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 regulation was published in the Official Journal of the EU on 23 December 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 need to apply the proportionality principle and reduce the negative impacts of the ex-territorial applicability of the regulation. The draft benchmark regulation was approved at the COREPER II meeting on 9 December 2015. The draft is expected to be formally approved at the ECOFIN meeting and then by the European Parliament. The regulation is to

enter into force on the day following that of its publication in the Official Journal of the EU and take effect 18 months later. Meanwhile, a number of implementing regulations are to be published (in the form of delegated acts and regulatory technical standards), which the Commission is authorised to do under the regulation. The regulation had not been published in the EU's Official Journal by the end of 2015.

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 rejection of 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 2016.

Regulation on the prospectus to be published when securities are offered to the public or admitted to trading

The Commission published the draft prospectus regulation, which is to replace Directive 2003/71/ES, on 30 November 2015. The CNB commented on the proposal for a general position prepared by the Ministry of Finance. The draft regulation can be supported at a general level, but the proposed shortening of the time limit for the approval of the prospectus in the case of frequent issuers from ten to five days is not justified. Such a shortening would exert excessive pressure for fast approval of the prospectus and might have a negative impact on the quality of the approved document. The proposed increase in the threshold for not applying the provision on public offers and the prospectus from EUR 5 million to EUR 10 million can be accepted only on condition that Member States keep their discretion to lower it (to EUR 1 million in the Czech Republic at present).

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 Solvency II

- Commission regulations (implementing technical standards) published in the Official Journal of the EU in 2015 (16 in total) concerning, for example, the approval of internal models at individual or group level, special purpose vehicles, insurance company-specific parameters, ancillary capital, matching adjustments for technical provisions, an increase in the capital requirement, reporting and information disclosure.

Implementing measures for CRD IV and CRR

- Commission regulations (regulatory technical standards) published in the Official Journal of the EU in 2015 (eight in total) amending regulations in the areas of, for example, capital, capital requirements, disclosure of information on compliance with the countercyclical capital buffer requirement, internal approaches to the calculation of market risk capital requirements, the definition of the margin period of risk, the treatment of equity exposures under the IRB approach and credit risk transfers (securitisation).
- Commission delegated regulations amending the CRR regulation in the area of liquidity coverage (the LCR ratio) and the leverage ratio.
- Commission regulations (implementing technical standards) published in the Official Journal of the EU in 2015 (six in total) concerning, for example, closely correlated currencies, liquidity and reporting by institutions for supervisory purposes.

- A commission implementing regulation on the extension of the transitional period for capital requirements to central counterparties under the CRR and EMIR regulations.

Implementing measures for BRRD

- Draft regulatory technical standards (15 in total) containing detailed requirements for 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.
- Draft implementing technical standards (four in total) governing the formal requirements for reporting MREL information and information needed for the preparation of resolution plans and for the publication of information on agreements on intra-group financial support.
- Draft Commission delegated acts (five in total) governing the definition of critical functions and core business lines, the rules for the exclusion of certain instruments from write-down and conversions in relation to resolution and the conditions under which an institution's duty to pay an extraordinary ex-post contribution to the Resolution Fund may be deferred.

Implementing measures for MiFID 2

- Draft regulatory technical standards (32 in total) containing detailed requirements for investment firm licences and the approval of qualifying holdings, organisational requirements for automated trading, pre-trading and post-trading transparency, commodity derivatives and transaction reporting.
- Draft implementing technical standards (12 in total) amending the forms for filing applications, making notifications, sharing information between supervisory authorities during licensing and supervision and sending information about sanctions.

Implementing measures for MAR

- Draft regulatory technical standards (six in total) governing the content of notifications sent by supervisory authorities and market participants, the conditions of buyback programmes and stabilisation measures, procedures for disclosing information, accepted market practices and investment recommendations.
- Draft implementing technical standards (five in total) containing forms for notifications to supervisory authorities, the disclosure of inside information and managers' transactions and the maintenance of insider lists.

Implementing measures for CSDR

- Draft regulatory and implementing technical standards (four in total) on the requirements for the activity of central securities depositories and internalised settlement.

Implementing measures for EMIR

- A draft regulatory technical standard concerning the obligatory settlement of defined OTC derivatives through central counterparties.
- Draft revisions of regulatory and implementing technical standards (two in total) concerning trade repositories.

Implementing measure for the Transparency Directive

- A draft regulatory technical standard governing the European mechanism for storage of regulated information.

Implementing measure for UCITS

- A draft implementing technical standard governing the procedure and forms for submitting information about penalties and remedial measures to the ESMA by national supervisory authorities.

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 “legally non-binding”, national supervisory authorities and regulated financial institutions should make every effort to comply with them. Within the ESAs, the CNB contributed to the preparation of numerous draft guidelines, mainly concerning CRD IV, BRRD, MiFID and Solvency II. The ESAs issued a total of 53 guidelines in 2015.

3. FINANCIAL MARKET SUPERVISION IN 2015

3.1 LICENSING, APPROVAL AND AUTHORISATION ACTIVITIES

Credit institutions

The CNB supervised an unchanged number of 23 domestic banks and 11 credit unions in 2015. Changes were recorded in the number of foreign bank branches supervised.

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

	As of 31 December 2014	Entries in 2015	Exits in 2015	As of 31 December 2015
Banks ⁱ⁾	23	0	0	23
Foreign bank branches (under the single licence)	22	2	1	23
Credit unions	11	0	0	11
Credit institutions, total	56	2	1	57

i) Of which five building societies.

No new banking licence was granted in 2015. Two branches of foreign banks – Bank of China (Hungary) Close Ltd. Prague branch, odštěpný závod and BNP Paribas Personal Finance SA, odštěpný závod – were established.

The foreign bank branch MEINL BANK Aktiengesellschaft, pobočka Praha closed down in 2015.

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

Continuing from 2014	Opened in 2015	Completed in 2015	Continuing into 2016
11	37	39	9

In the credit institutions sector, 48 administrative proceedings were conducted and 39 decisions were issued in 2015. The majority of the proceedings related to the approval of members of bodies of credit unions. The other proceedings concerned changes in qualifying holdings in banks and the granting of prior consents to banks to agreements on the disposal of part of a business (e.g. the transfer of the retail banking arm of the Czech branch of Citibank Europe plc to Raiffeisenbank a.s. and transfers of parts of banks responsible for accepting payment cards). One application for a banking licence was also filed and three credit unions applied for consent to a change in legal form from a credit union to a joint-stock company and simultaneously for a banking licence. The proceedings concerning these applications are still ongoing.

Insurance companies

A total of 31 domestic insurance companies (excluding the Czech Insurers' Bureau) and one reinsurance company were subject to CNB supervision as of the end of 2015. A total of 23 branches of foreign insurance companies were subject to supervision by the CNB to a limited extent. The domestic insurance companies D.A.S. pojišťovna právní ochrany, a. s. and MetLife pojišťovna a. s. closed down in the Czech market in 2015. A licence was granted to the domestic insurer PRVNÍ KLUBOVÁ pojišťovna a. s. in 2015. Three branches of insurance companies from the EU started operating under the single licence regime in the Czech Republic in 2015. These were Colonnade Insurance S.A., organizační složka, MetLife Europe Insurance Limited, pobočka pro Českou republiku, and MetLife Europe Limited, pobočka pro Českou republiku. Two MetLife branches started operating in the Czech Republic after the domestic MetLife pojišťovna, a. s., merged with the successor Irish insurance companies MetLife Europe Limited and MetLife Europe Insurance Limited.

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

	As of 31 December 2014	Entries in 2015	Exits in 2015	As of 31 December 2015
Insurance companies (including branches and reinsurers)	53	4	2	55
of which:				
domestic insurance undertakings (excluding the CIB)	32	1	2	31
branches of insurance companies from the EU/EEA	20	3	0	23
branches of insurance companies from third countries	0	0	0	0
reinsurance companies	1	0	0	1

The CNB conducted 72 administrative proceedings and issued 65 administrative decisions in the insurance sector in 2015.

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

Continuing from 2014	Opened in 2015	Completed in 2015	Continuing into 2016
9	63	65	7

Besides the MetLife transaction, the structure of the other domestic entities operating on the Czech insurance market continued to simplify. Allianz pojišťovna a.s. was granted consent to take control of Wüstenrot pojišťovna, a.s., and Wüstenrot, životní pojišťovna, a.s., which are to merge with Allianz pojišťovna a.s. in 2016. The Triglav group, whose Triglav pojišťovna, a.s., had been acquired by the VIGO group and renamed Direct pojišťovna, a.s., left the insurance market.

The other proceedings concerned changes in the scope of permitted activities (BNP Paribas Cardif Pojišťovna, a.s.), changes in the maximum limit for the structure of financial placement and consents to changes in members of insurance companies' bodies. Four administrative proceedings were held at the CNB in 2015 regarding registration in the register of responsible actuaries. In all, 74 persons were entered in the register as of the end of 2015.

Pension management companies and retirement funds

The CNB registered eight pension management companies, 20 retirement funds, 27 participation funds and eight transformed funds at the end of 2015. A merger between Conseq důchodová penzijní společnost, a.s.,³ (as the successor company) and Conseq penzijní společnost, a.s. (as the company ceasing to exist) was completed in January 2015.

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

	As of 31 December 2014	Entries in 2015	Exits in 2015	As of 31 December 2015
Pension management companies	9	0	1	8
Transformed funds	8	0	0	8
Retirement funds	20	0	0	20
Participation funds	34	2	9	27
Accredited entities ⁱ⁾	18	0	1	17

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

A total of 52 administrative proceedings were conducted (and 27 decisions issued) in the pension management companies and retirement funds sector in 2015.

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

	Continuing from 2014	Opened in 2015	Completed in 2015	Continuing into 2016
Pension management companies and retirement funds	2	50	27	25
Accredited entities	0	0	0	0

The companies Conseq penzijní společnost, a.s. and NN Penzijní společnost, a. s.,⁴ were granted authorisation to merge participation funds in 2015. KB Penzijní společnost, a.s., and NN Penzijní společnost, a.s., were granted authorisation to establish participation funds. The CNB gave consent to a change in the statute of a participation or transformed fund in eight cases and prior consent to the discharge of office of director of a pension management company in 12 cases. It also granted consent to a change in the pension plan of a transformed fund in one case.

At the end of 2015, the CNB recorded a large number of proceedings associated with the amendment to the Supplementary Pension Savings Act that took effect on 1 January 2016. It conducted a total of 24 proceedings concerning consent to a change in the statute of a participation or transformed fund and one proceeding concerning consent to a change in the pension plan of a transformed fund. This proceeding had not been completed by the end of 2015.

Management companies and investment funds

The CNB registered 28 management companies, 92 investment funds with legal personality (of which 29 autonomous investment funds) and 195 mutual funds at the end of 2015.

³ The original company was AEGON penzijní společnost, a.s., until 2 January 2014. The new company Conseq penzijní společnost, a.s., started operating on 6 February 2015.

⁴ ING Penzijní společnost, a.s., until 22 March 2015.

Three new management companies (Jet Investment Management, a.s., INVESTIKA, investiční společnost, a.s. and CARDUUS Asset Management, investiční společnost, a.s.) obtained licences in 2015. Licences were granted to 16 autonomous investment funds, of which only three were cases of entries of new entities into the sector (CEREFunds Green Energy, investiční fond s proměnným základním kapitálem, a. s., Sirius Investments, investiční fond s proměnným základním kapitálem, a. s., and EG Finance, investiční fond, a. s.). In the other cases, licences were granted to non-autonomous investment funds in connection with their intention to switch to the autonomous regime.

The CNB authorised the merger of Investiční společnost České spořitelny, a.s. with the Austrian company Erste Asset Management GmbH.⁵ In this connection, the CNB also granted consent to the transfer of management of 21 standard funds from Investiční společnost České spořitelny, a.s., to Erste Asset Management GmbH.

At the end of 2015, the CNB approved the merger of investment firm Generali Investments CEE, a.s. (as the company ceasing to exist)⁶ and management company ČP INVEST investiční společnost, a. s. (as the successor company).⁷ ČP INVEST investiční společnost, a. s., was simultaneously granted additional authorisation to provide the relevant investment services.

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

	As of 31 December 2014	Entries in 2015	Exits in 2015	As of 31 December 2015
Management companies	26	3	1	28
Branches of foreign management companies	0	1	0	1
Management funds with legal personality	83 ⁸	23	14	92
of which: autonomous funds	17	16	4	29
Mutual funds	191	16	12	195
of which: standard funds	50	4	1	53
Depositories	5	0	0	5

In all, 134 administrative proceedings were conducted (and 107 decisions made) in the management companies and investment funds sector in 2015.

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

Continuing from 2014	Opened in 2015	Completed in 2015	Continuing into 2016
39	95	107	27

In 2015, the CNB closed five proceedings to grant a management company licence (of which one was discontinued due to withdrawal of the application),⁹ four proceedings on a change in the scope of management company licences (of which one involved an additional authorisation to provide investment services and one was discontinued due to

5 This was the first-ever cross-border merger of management companies where the dissolving company was a Czech management company and the successor company was an Austrian one. The Austrian firm has been operating in the Czech Republic through its branch Erste Asset Management GmbH, pobočka Česká republika since 18 November 2015.

6 Generali Investments CEE, a.s. ceased to exist on 1 January 2016 as a result of the merger.

7 The new company as from 1 January 2016 is Generali Investments CEE, a.s., investiční společnost, a.s.

8 Five funds for qualified investors were deleted with retroactive effect in 2014 due to a change in the line of business.

9 In one case, a management company was not incorporated on the basis of the licence granted.

withdrawal of the application), 20 proceedings to grant autonomous investment fund licences (of which four were discontinued due to withdrawal of the application) and two proceedings on a change in the scope of autonomous investment fund licences. Licences were revoked from five autonomous investment funds at their own request due to a change in the line of business.

The largest number of closed administrative proceedings (47) concerned prior consent to the discharge of office of director of a management company or an autonomous investment fund (including a nominee) or a person discharging another office in a management company subject to the CNB's prior consent (36 consents and 11 proceedings discontinued). Decisions on granting consent to the acquisition of a qualifying holding in a management company or an investment fund were issued in four proceedings (three consents granted and one proceeding discontinued). The other proceedings closed by issuing an affirmative decision were conducted in connection with the entry of a standard fund in the list of mutual funds (four proceedings), consent to a change in the statute of a standard fund (four proceedings), authorisation to convert a management company (two proceedings), consent to the transfer of management of a standard fund (a joint decision issued for 21 standard funds), authorisation to merge mutual funds (four proceedings) and determination of comparability of a foreign investment fund with a special fund (five proceedings).

Investment services providers

At the end of 2015, the CNB registered 33 entities holding an investment firm licence. No investment firm licences were granted or expired in 2015. The CNB received six notifications from foreign investment firms of the provision of investment services through a branch in the Czech Republic (one case was a bank and five cases were non-bank investment firms).

Table A.IX – Numbers of investment firms

	As of 31 December 2014	Entries in 2015	Exits in 2015	As of 31 December 2015
Investment firms	33	0	0	33
of which: banks	13	0	0	13
non-banks	20	0	0	20
Branches of investment firms	25	6	2	29
of which: banks	15	1	1	15
non-banks	10	5	1	14

The largest number of administrative proceedings completed in 2015 (112) related to the cancellation of registrations of investment intermediaries (103 decisions issued, nine proceedings discontinued).

Of the remaining 19 proceedings, one concerned an investment firm licence (proceeding discontinued) and five concerned changes to investment firm licences (four applications approved, one proceeding discontinued). Three concerned prior consent to a conversion of an investment firm or disposal of its commercial establishment (two consents granted, one proceeding discontinued), two concerned the approval of auction rules or changes thereto (approved in both cases), four concerned prior consent to the discharge of office of director of an investment firm (four consents) and four were connected with consent to the acquisition of qualifying holdings in investment firms (consents granted in all cases).

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

Continuing from 2014	Opened in 2015	Completed in 2015	Continuing into 2016
9	131	131	9

Payment service providers and electronic money issuers

At the start of 2015, the CNB registered 16 payment institutions. In 2015, three new entities (SAZKA FTS a.s., Roklen360 a.s. and Global Payments s.r.o.) were granted licences for the pursuit of business of a payment institution. Two branches of a foreign payment institution (Borgun hf. and Trustly Group AB, pobočka) were established in the Czech Republic in 2015.

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

	As of 31 December 2014	Entries in 2015	Exits in 2015	As of 31 December 2015
Payment institutions	16	3	1	18
Branches of payment institutions	8	2	1	9
Electronic money institutions	2	0	0	2
Branches of electronic money institutions	1	0	0	1

Five administrative proceedings were closed in the payment system area in 2015. Four concerned licences for the pursuit of business of a payment institution or a change thereto (the applications were approved in all cases) and one concerned a change to an electronic money institution licence (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 2014	Opened in 2015	Completed in 2015	Continuing into 2016
Payment institutions	4	2	4	2
Electronic money institutions	0	1	1	0

Handlers of domestic banknotes and coins

No proceedings on authorisation for the activity of a handler of domestic banknotes and coins were conducted in 2015. The sector of handlers of domestic banknotes and coins saw no changes compared to 2014.

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

	As of 31 December 2014	Entries in 2015	Exits in 2015	As of 31 December 2015
Handlers of domestic banknotes and coins	4	0	0	4

Securities issues and regulated markets

A total of 64 companies whose securities had been admitted to trading on the European regulated market (issuers of listed securities) were registered at the start of 2015.¹⁰ Securities of 15 collective investment entities (funds for qualified investors, of which nine were funds with variable capital, five were closed-end investment funds and one was an open-end mutual fund)¹¹ and six other issuers (bonds in five cases – CPI Retail Portfolio I, a.s., EPH Financing CZ, a.s., NET4GAS, s.r.o., ŠKODA TRANSPORTATION, a.s. and UNICAPITAL ENERGY, a.s., and shares in one case – Kofola ČeskoSlovensko, a.s.) were

¹⁰ Of these, securities of two issuers had only been admitted to a regulated market outside the Czech Republic.

¹¹ By comparison with regular legal entities, all investment funds were subject to corporate income tax at a reduced rate of 5% until 31 December 2014. After that date, the reduced rate has only applied to funds whose shares or units have been admitted to trading on a regulated market (see Article 21(2) of Act No. 586/1992 Coll., on Income Tax, as amended, in conjunction with Article 17b(1)(a) of the same act).

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newly admitted to trading on a regulated market in 2015. Securities of two issuers were excluded from trading. Both cases involved bonds excluded owing to redemption (Wüstenrot – stavební spořitelna, a.s., and DALKIA Česká republika, a.s.). A total of 83 issuers of listed securities were registered at the end of 2015.

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 2014	Entries in 2015	Exits in 2015	As of 31 December 2015
Issuers of listed securities	64	21	2	83
of which: registered abroad	20	0	0	20
listed solely abroad	1	1	0	2
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 43 administrative proceedings in the area of securities issues, securities registers and regulated markets in 2015. Most of the 41 decisions (38) concerned the approval of documents relating to new securities issues. Three decisions issued by the CNB in 2015 related to takeover bids and market infrastructure. They involved one consent to the publication of an obligatory takeover bid, one approval of changes in the CSDP settlement system rules and one prior consent to the discharge of office of director of a regulated market operator. One administrative proceeding concerning an application for the registration of additional business of a regulated market operator was discontinued. Several cases of providing information to the public were dealt with in connection with administrative proceedings.

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

Continuing from 2014	Opened in 2015	Completed in 2015	Continuing into 2016
6	37	41	2

In the area of securities issues, 19 sets of final conditions for offers of securities were reviewed outside administrative proceedings in 2015. 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). Minor shortcomings were communicated and remedy ensured.

In the area of regulated markets, the PSE rules (the rules for admission of securities of collective investment entities, the free market rules and a new concept for the START market) and the PXE rules (separation of the commodity market for final clients from the regulated market and changes to the trading parameters and the exchange day timetable) were reviewed as part of off-site surveillance. Involvement in supervising the central counterparty European Commodity Clearing AG, which

now operates on the PXE, continued in the form of an ESMA college (in accordance with EMIR¹²). Several examinations concerning regulated market operators and the CSDP were conducted on the basis of submissions. Negotiations relating to the transformation of the manner of settlement following the entry into effect of CSDR¹³ were held, and some minor issues regarding the maintenance of the central securities register 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 2015. Three domestic insurance companies had branches in Slovakia and two had branches in Poland. Ten domestic banks and 21 insurance companies were providing services without establishing a branch within the territory of host EU Member States at the end of 2015.

Investment firm AKCENTA CZ a.s. provided notification of its intention to operate within the territory of a host EU Member State via tied agents. Investment firm Pioneer Asset Management, a.s. provided notification of the closure of its branch in Slovakia.

Payment institutions AKCENTA CZ a.s. and Global Payments s.r.o. provided notification of their intention to operate within the territory of a host EU Member State through a branch or via sales representatives. Roklen360 a.s. and AKCENTA CZ a.s. provided notification of their intention to operate within the territory of a host EU Member State under the free movement of services.

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 notifications¹⁴

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

	As of 31 December 2014	Entries in 2015	Exits in 2015	As of 31 December 2015
Credit institutions ⁱ⁾	359	34	5	388
Electronic money institutions	36	26	1	61
Insurance companies ⁱ⁾	783	53	11	825
UCITS funds	1,162	153	107	1,208
AIFs (excluding EuVECAs and EuSEFs) ⁱⁱ⁾	78	49	35	92
EuVECAs ⁱⁱⁱ⁾	7	7	0	14
Management companies	48	1	1	48
Investment service providers	1,676	131	89	1,718
Payment institutions	238	70	8	300
Institutions for occupational retirement provision	1	0	0	1
Insurance intermediaries	5,695	378	271	5,802

i) Insurance companies and banks including their branches operating in the other EU/EEA countries are notified in the insurance and banking sectors.

ii) AIFs: alternative investment funds (special funds and funds for qualified investors); EuSEFs: European social entrepreneurship funds.

iii) EuVECAs: European venture capital funds.

12 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.

13 Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the EU and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No. 236/2012.

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

The CNB received 174 notifications of the approval of securities prospectuses (or amendments thereto) for the purposes of public offers in the Czech Republic or admission to trading on a regulated market from foreign supervisory authorities.

3.3 REGISTRATIONS, REPRESENTATIONS OF BANKS AND FINANCIAL INSTITUTIONS

Table A.XVII – Numbers of registered and listed entities

	As of 31 December 2014	Entries in 2015	Exits in 2015	As of 31 December 2015
Registered representations of foreign banks ⁱ⁾	15	0	1	14
Investment intermediaries	7,554	34	124	7,464
Tied agents	26,056	6,975	6,371	26,660
Small-scale payment service providers	98	26	6	118
Small-scale electronic money issuers	6	3	2	7
Entities authorised to distribute pension products:				
investment intermediaries	112	6	6	112
non-bank investment firms	1	0	0	1
bank investment firms	5	0	0	5
tied agents	8,641	967	1,456	8,152
tied agents of pension management companies	11	0	3	8
Insurance intermediaries and ILAs ⁱⁱ⁾	157,496	6,881	1,153	163,224

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

ii) The figure does not include foreign intermediaries listed in the register due to notifications of insurance intermediation from another EU/EEA Member State.

In 2015, supplementary pension savings and retirement savings distributors renewed their activities on a large scale for the second time. Entities that had been granted licences before 2014 had to pay a renewal fee. This fee was paid by 107 investment intermediaries, six investment firms, 7,275 tied agents of investment intermediaries and investment firms and eight tied agents of pension management companies. The licences were renewed for another year. The licences of two investment intermediaries, 607 tied agents representing an investment intermediary or an investment firm and three tied agents of pension management companies lapsed due to non-payment of the fee. As regards investment firms, no licences lapsed due to non-payment of the renewal fee.

In 2015, the CNB made entries in the register of persons conducting asset administration comparable to asset management pursuant to the Act on Management Companies and Investment Funds at the request of those persons. In all, 14 persons were entered in the register as of the end of 2015.

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, 508 candidates took these examinations in 2015 and 461 passed.

3.4 OFF-SITE SURVEILLANCE

Off-site surveillance performed by the CNB consists in continuously monitoring the activity and financial performance of individual financial market entities and assessing the evolution of the market as a whole and its key segments. The CNB's supervisory work involves checking compliance with the relevant legal rules, prudential rules and conduct of business 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 conduct of business.¹⁵ 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 of legal provisions, are initiated.

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.¹⁶ 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 setting the minimum capital which a credit institution should, according to the CNB, hold to cover all the risks it undertakes.

In 2015, CNB supervisors of credit institutions obtained auditors' governance system reports as of 31 December 2014 from eight banks, five building societies and five credit unions. These reports serve as a supplementary source of information on the quality of the governance environment inside institutions, especially at times when the CNB is unable to conduct on-site examinations due to capacity constraints. Requests for system audits as of 31 December 2015 were made with regard to four banks and three credit unions.

¹⁵ See Part C Annexes for details on the assessment of information from submissions made by the public.

¹⁶ Primary responsibility for supervision of branches of foreign banks from EU countries has resided with home country supervisors or, since November 2014, 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 conduct of business rules, and, since October 2015, liquidity in relation to the adoption of a Commission delegated act on the liquidity coverage requirement (LCR) under CRR.

Banking supervision was performed under the standard regime in 2015. 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 2015, attention continued to be paid to the implementation of revised prudential rules associated with CRD IV and CRR. During 2015, banks gradually submitted supplemented and revised versions of their recovery plans to CNB supervisors for assessment in compliance with BRRD. A whole range of consultative meetings were held with banks to discuss those revisions.

The CNB, in cooperation with selected banks, continued to implement the joint project of stress testing of banks in 2015. The frequency of the joint stress testing was unchanged from 2014, i.e. yearly testing using year-end data. As in 2014, the interest rate risk of banks was tested in addition to credit risk. The nine largest domestic banks, most of which have received approval to use the special IRB approach¹⁷ for calculating the capital requirement for credit risk, took part in the testing using data as of 31 December 2014. 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 more intensive on-site examinations and continuous off-site surveillance owing to a higher degree of uncertainty about its future development. In 2015, 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. Supervision is focused mainly on credit portfolio categorisation, sufficient provisioning, financing of groups of connected persons, compliance with regulatory limits, the origin of credit unions' capital, the use of outsourcing services and compliance with the conduct of business rules, especially as regards the provision of deposit products. Following an amendment of the Act on Credit Unions, all credit unions were invited at the end of 2014 to submit a schedule of planned measures to comply with this amendment. An extraordinary information duty, aimed at closely monitoring developments in individual credit unions (in the areas of liquidity, credit portfolios, operating costs, outsourcing, transfer of receivables etc.), was introduced. Given the legislative changes adopted, increased attention will continue to be paid to the relatively heterogeneous credit union sector.

In addition, supervisors involved in off-site surveillance issue 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.

In the area of credit and payment institutions, most of the submissions received from the public concerned the function of payment transactions (especially non-compliance with the time limits for clearing payment transactions and incorrect execution of payment transactions), lending and private law relationships between clients and credit and payment institutions. In connection with the supervision of credit and payment institutions, the public was informed (based on supervisory findings) via the CNB website about the consequences of the amendment to the Act on Credit Unions and was warned about the increased threat of phishing attacks and given recommendations on how to protect against them. The public was also informed about the issuance of unsolicited payment cards and the responsibility for their potential misuse. It was also informed that basic membership contributions and other membership contributions made by a credit union member are not covered by deposit insurance. At the same time, the public was warned about the activities of some entities relating to the transfer of receivables from bankrupt businesses.

¹⁷ Internal Ratings Based Approach.

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 (focusing mainly on checking compliance with prudential indicators) was continuously assessed in the investment firm sector as part of off-site surveillance. Checks of the calculation of capital requirements based on fixed overheads were conducted in 2015 following a change in the calculation method set forth in Commission Regulation (EU) 2015/488.¹⁸ Supervised entities were notified of the duty to appraise assets and off-balance-sheet items for the purposes of calculating prudential indicators in accordance with IFRS/IAS as from 1 January 2016. In this respect, relevant internal regulations and compliance with the conditions of derecognition in the event of exemption of clients' funds from the calculation of risk-weighted assets was checked.

In the area of pension management companies and funds managed by them, off-site supervision in 2015 was focused on monitoring compliance with regulatory limits, in particular the equity ratio and capital requirements, and compliance with legal and statutory investment limits for retirement and participation funds after the end of the transition period allowing exemptions from these investment limits. In late 2015 and early 2016, the statutes of participation and transformed funds were assessed after an amendment was made to the Act on Supplementary Pension Savings which changed the limit for the amount of remuneration for pension management companies and the parameters of investment policy. Supervisors also concentrated on the financial performance of pension management companies and the funds they manage.

The attention of conduct of business 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 the registration of contracts with the administrator of the Central Contract Register.

The provision of investment services by foreign investment firms – when notifying the CNB both of their intention to provide investment services in the Czech Republic through a branch and of the cross-border provision of services – was identified as the main problem in the capital market area.

Investment firms that have notified the CNB of the provision of investment services through a branch often fail to comply with the conduct of business duties subject to CNB supervision. This usually happens because EU law allows foreign investment firms to notify the supervisory authority both of the provision of investment services through a branch and of cross-border provision of services. This means that a foreign investment firm declares that no investment services are provided by its branch and that all investment services in the Czech Republic are provided by its headquarters abroad. Such double notification gives rise to an unclear legal situation where the division of competences between the CNB and the supervisory authority of the home Member State is vague. The foreign investment firm can take advantage of this unclear situation to withhold the data needed for the supervision of conduct of business compliance from both the CNB and the home supervisor. The suspicion of deliberate misuse of double notification has been confirmed in several cases. The CNB is therefore working to enhance cooperation with supervisory authorities of home Member States based on sharing information about the true activity declared to the CNB by branches during the negotiations on the manner of compliance with regular information duties and the ensuing division of competences of the supervision of compliance with conduct of business duties by foreign investment firms.

¹⁸ Commission Delegated Regulation (EU) No. 2015/488 of 4 September 2014 amending Delegated Regulation (EU) No. 241/2014 as regards own funds requirements for firms based on fixed overheads.

Another major problem in the capital market 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, most of them based in Cyprus. 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. Customers cannot verify the correctness of realisation prices from an independent source, which allows for fraudulent behaviour. In 2014 the CNB addressed this problem (then newly identified) by publishing a warning about the risks of investing in CFDs on its website. In 2015 the CNB published on its website an opinion on the provision of investment services for binary options, stating clearly that, given the nature of this instrument, investing in binary options will be inconsistent with the knowledge and experience of most non-professional clients. As the issue of non-compliance with the conduct of business rules in the provision of investment services relating to CFDs and binary options has reached EU-wide proportions, several ESMA working groups have been established to find a solution to this problem. The CNB is actively involved in these working groups.

In the area of management companies and investment funds, off-site surveillance continued to be focused on verifying that all entities subject to the Act on Management Companies and Investment Funds had adjusted to the legislation in force by the end of the transitory period, i.e. 22 July 2014. This adjustment 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. Supervisors also focused on the newly introduced ESMA reporting under AIFMD and its implementation, and on seeking opportunities to use it for CNB supervisory purposes. The supervisory work involved assessing compliance with legal requirements regarding the amount and placement of the capital of investment companies and autonomous investment funds. Supervisors also concentrated on the financial performance of management companies and investment funds and compliance with the conduct of business rules and the legal limits restricting the risk of managed portfolios.

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 detail and 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 meetings with insurance companies were an integral part of supervision again in 2015. In addition to insurance companies' current financial and business situation, the discussions covered their strategies and in particular their preparedness for the Solvency II requirements.

In 2015, both insurance companies and the CNB stepped up their preparations for Solvency II regulation. Insurance companies' preparations followed the EIOPA-based schedule (Solvency II Preparatory Guidelines). This schedule was presented to the insurance sector in December 2013.

The CNB monitored and assessed the preparedness of insurance companies for the new regulatory requirements under all three pillars of the Solvency II regulatory framework:

- quantitative requirements, consisting mainly of procedures for the valuation of assets and technical provisions and the setting of capital requirements (Pillar I),
- qualitative risk management requirements laying down principles for the effective functioning of the internal governance systems of insurance companies (Pillar II),
- reporting and disclosure requirements for insurance companies (Pillar III).

The evaluation of the quarterly progress reports on the implementation of the Solvency II requirements in the areas of governance systems and risk and solvency assessment sent in by individual insurance companies continued in 2015. Insurance companies were provided with feedback based on these evaluations at both the sector and company level.

In connection with the implementation of the Solvency II reporting requirements, and as part of the testing of insurance companies' ability to submit the required statements, insurance companies submitted selected statements using end-2014 data via the CNB's information system in 2015 H2. During 2015, insurance companies also submitted, and supervisors of insurance companies made a qualitative assessment of, information relating to governance systems, the valuation of assets and liabilities and fit and proper requirements.

In 2015, the process of pre-assessment of internal models at group and local level continued in respect of insurance companies that plan to determine their regulatory solvency capital requirements under the future Solvency II regime using internal group models. Internal models were assessed in a formal approval procedure for insurance companies that submitted an official application for consent to the use of an internal model in 2015. In the case of internal group models that will also be applied at local level, supervisors assess the internal model and its implementation mainly with regard to local specifics and cooperate with and provide inputs to the supervisor of the group in order to reach a joint decision among the national supervisors of insurance companies regarding the application for consent to the use of the internal group model.

Owing to the non-adoption of the amendment to the Insurance Act transposing Directive of the European Parliament and of the Council 2009/138/EC, on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II), the current legal framework, i.e. Solvency I, will be binding on domestic insurance companies as regards regulation and supervision of the insurance sector after 1 January 2016. To ensure that the intensive preparations for the new Solvency II regulatory framework continue, the CNB drew up a plan of activities extending the schedule for the Solvency II preparatory work after 1 January 2016 and communicated its approach to domestic insurance companies. The combination of these two regulatory frameworks is placing increased demands on insurance companies and supervisors.

Intensive cooperation with foreign supervisory authorities – especially in the form of attendance at coordination meetings relating to the supervision of insurance companies in groups and involvement in evaluations of internal models at group level – continued during 2015. Issues relating to the Solvency II preparedness of individual members of international insurance groups were also dealt with at coordination meetings.

In 2015, supervisors of insurance companies intensively assessed premium sufficiency in motor third party liability insurance and the sufficiency of the technical provisions of some insurance companies in this category. 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. Compliance with remedial measures also continued to be verified. Owing to changes in the amount of compensation for damage set forth in the new Civil Code, the CNB will focus mainly on premium sufficiency and technical provisions in liability insurance.

Owing to the persisting environment of low interest rates, the CNB focused on assessing insurance companies' ability to generate investment yields in the medium term to cover guarantees arising from life insurance policies. In this respect, the CNB is focusing on the quality of risk management and asset and liability management systems. Supervisors also assessed the adequacy of insurance companies' approach to the life insurance technical provisions sufficiency test methodology.

A sixth round of stress tests of selected insurance companies took place in April 2015. The tests are used to assess the stability of the insurance sector as a whole, and the individual results are used in supervisory work. As Solvency II is to take effect soon, the test methodology was changed compared to 2014 and the test was performed fully in accordance

with Solvency II principles. The stress test assessed the impact of significant changes in risk parameters on the value of the insurance company's assets and liabilities under Solvency II, and hence on its solvency position in accordance with the principles of Solvency II. The stress scenario for insurance companies was derived from the adverse macroeconomic scenarios that the CNB had used to test the resilience of the banking sector. The extended scenario again tested how insurance companies' capital would be affected in the event of simultaneous floods. Owing to the persisting environment of low interest rates, the test was extended to include an additional scenario focusing on a fall in interest rates and a qualitative assessment of reinvestment risk in the event of the low interest environment lasting for a prolonged period. The aggregate test results demonstrated that the insurance sector as a whole is sufficiently capitalised and is able to withstand significant changes in selected risk factors, including simultaneous floods, under Solvency II.

Conduct of business supervision of insurance companies is based on similar principles as prudential supervision. Coordination and close integration with prudential supervision enables conduct of business supervisors to contribute with their regulatory and supervisory activities and help proactively increase insurance market transparency and deal with systemic shortcomings. Supervision of conduct of business in the insurance sector includes ongoing monitoring of compliance with rules of conduct, which, in addition to data from regular information duties, is supplemented by a system of thorough investigation and handling of suggestions and complaints received from the public.¹⁹ Thematic surveys focusing on the identification and elimination of systemic shortcomings in specific areas outside the regular information duties are a useful addition to these activities. In addition to national-level supervision of conduct of business, there is active cooperation with foreign supervisors and the EIOPA. This involves exchanging information so as to ensure consistency and coordination of supervisory procedures (via guidelines) and in the implementation of supervisory measures.

The CNB has long been using the findings from its conduct of business supervisory work as a basis for proposing legislative changes to the Ministry of Finance in order to enhance the tools for enforcing ethical principles. Such tools are aimed at generally cultivating the insurance market where less invasive tools based on soft law, voluntary rectification or administrative proceedings are ineffective. The CNB also works to enforce these principles in a less formal manner by influencing insurance companies and insurance intermediaries through the Czech Insurance Association and professional associations of insurance intermediaries, by publishing supervisory benchmarks and by drawing the attention of individual insurance companies and insurance intermediaries to systemic shortcomings in their activities and demanding proof of voluntary remedial action.

For this reason, supervisory benchmarks (such as a supervisory benchmark for loss adjustment under the Civil Code issued in 2015) are published on the CNB website, acquainting insurance companies and insurance intermediaries with the most serious supervisory findings and the CNB's expectations regarding suitable approaches to be taken by supervised entities. In addition to enhancing legal certainty as a result of the transparency of the CNB's actions, they are aimed at establishing comparable conditions for supervised entities, conditions that are appropriate to the nature, scope and complexity of their activities. The CNB also published several public notices drawing attention to the most serious risks the public may face in the financial market ("Information for the public regarding withdrawing from an insurance policy under the Civil Code" and "Information for the public regarding bonuses and penalties in vehicle liability insurance").

The public notice regarding the system of bonuses and penalties was preceded by a systemic investigation in selected insurance companies focusing on the application of statutory provisions relating to the taking into account of overall previous loss history of motor third-party liability insurance and the provision of confirmations about its duration and loss history.

In 2015, the CNB dealt with the impacts of an amendment to the Act on Income Tax changing the conditions for the application of tax discounts for life insurance policies. A systemic investigation revealed that the procedure adopted by most insurers is not consistent with the conduct of business rules and the prudential approach. The procedure was assessed as risky and as having potential negative impacts on the operational risk of insurance companies. Among other things, it gives rise to legal uncertainty regarding the validity of changes to insurance policies and the applicability of tax discounts. This, in turn, may be a source of future disputes. The appropriateness of specific remedial measures taken was communicated to insurance companies. Data relating to remedial actions taken were assessed throughout 2015.

¹⁹ For details see Part C – Annexes.

In 2015, the CNB continued to pay attention to individual insurers' compliance with statutory reporting duties to the Czech Insurers' Bureau (CIB). An amendment to the Act on Vehicle Liability Insurance took effect on 15 January 2015. This amendment repealed Article 24c of the said act, which had authorised the CIB to send calls to pay contributions. The CNB continued to regularly monitor compliance with the above duty by individual insurers (CIB members) in order to ensure rectification of any shortcomings identified. Conduct of business supervisors also addressed the current state of cooperation between the CIB and the Ministry of Transport in the transfer of data to the CIB from the Road Vehicle Register, formerly the Central Vehicle Register (CVR), operated by the Ministry of Transport. The joint action taken by the CIB and the Ministry of Transport was aimed mainly at correcting the consequences of a systemic error identified in the CVR data at the end of 2013 and at generally changing the previous system of data transfer to the CIB.

Shortcomings persisted in the activities of insurance intermediaries in 2015, especially in the distribution of investment life insurance. The most common were shortcomings in the provision of pre-contractual information to potential clients, insufficient identification of the requirements and needs of potential clients and insufficient recording of the reasons for recommending negotiated products, and the negotiation of inappropriate products, including the presentation of investment life insurance as a savings product. 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 2015) are thus affecting supervisors' options and the effectiveness of supervision of such entities. Unlawful conduct by insurance intermediaries is also being fostered by persisting insufficient governance of insurance intermediaries by insurance companies. Several insurance companies have already been taken to task about this.

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 the competent 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 2015, the role of coordinator was entrusted to foreign supervisory authorities in all cases of financial conglomerates operating on the Czech financial market. The CNB cooperates with those authorities on an ongoing basis.

3.4.5 Supervision of other regulated entities

In accordance with the transposition of the payment services directive and the directive on the taking up, pursuit and prudential supervision of the business of electronic money institutions, the CNB supervised payment institutions, electronic money institutions, small-scale payment service providers and small-scale electronic money issuers in 2015.

A Retail Distribution Supervision Department was established at the CNB on 1 October 2015. It took over part of the activities previously performed by the Financial Market Supervision Department. In addition to the above-mentioned entities, the new department also supervises investment and insurance intermediaries and bureaux de change. 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.²⁰ Entities in which shortcomings were detected in reported data were called on to remedy the shortcomings and adopt measures to prevent them from recurring. The main shortcomings were miscalculated amounts of payment transactions and miscalculations due to incorrectly selected exchange rates. Most of the shortcomings occurred in new entities. The shortcomings are being gradually eliminated. Their number is not significant given the large number of entities.

In 2015, the CNB also supervised bureaux-de-change licence holders. Supervision of these entities mainly takes the form of on-site examinations and local investigations. Shortcomings are also identified by means of complaints from the public. The most frequent shortcomings found in this sector are in the area of informing customers about exchange rates and fees for services.

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 profiles 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,²¹ 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 2015.

A total of 16 examinations were conducted or commenced in banks in 2015. Five of these were comprehensive and the remainder were partial.

One comprehensive examination and three partial examinations were conducted in credit unions in 2015.

Table A.XVIII – Number of on-site examinations in credit institutions by type in 2015

	ICAAP	Credit risk	Market risks, including IRRBB	Liquidity risk	Processing of transactions in financial markets	Capital requirements for risks associated with trading in financial markets	Operational risk	IS/IT risks	AML/CFT	Remuneration
Banks	6	7	6	7	5	5	5	3	7	3
Credit unions	1	2	1	2	1	1	2	3	3	2

²⁰ An implementing requirement arising from Directive 2007/64/EC on payment services.

²¹ This system is based on quantitative and qualitative assessment criteria and also on the systemic importance of the supervised institutions.

Examinations of credit risk management

Seven examinations in banks and two examinations in credit unions were conducted in the area of credit risk management. One of the bank examinations and one of the credit union examinations continued into 2016. All the examinations in banks were regular examinations in line with the plan of inspection activities. In all cases, the examinations focused on compliance with prudential rules arising from regulatory rules, especially on the role of the risk management function in institutions. Where relevant, the inspection team also concentrated on assessing compliance with remedial measures imposed in previous examinations and compliance of the institutions' advanced credit risk management methods with regulatory standards. The shortcomings identified in the 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 and the calculation of provisions. In some cases, failure to respect the CNB's rules concerning the categorisation of claims was identified. Serious systemic errors relating to failure to observe regulatory standards in terms of an insufficient role of risk management (as well as the requirement for segregation of conflicting duties), the approval process, the traceability of approval bodies' procedures, the receipt and valuation of collateral, client monitoring, the assessment of balance-sheet value of claims and the subsequent categorisation of claims and provisioning were identified in three banks. The sufficiency of capital and the system for the calculation of risk-weighted assets and, ultimately, the calculation of capital adequacy were questioned in one bank. Based on these findings, administrative proceedings were opened (or a proposal to open administrative proceedings was filed) against banks. In one case, a preliminary ruling restricting a bank in its activities was made.

It was also found that in some cases the institutions examined were not compliant with provisions of CNB Decree No. 163/2014 Coll. when performing their activities. The primary factor for the assessment of claims should be a client's ability to repay funding from his primary sources, rather than sources stemming from collateral (such as support from parent companies or other companies from the client's group of economically connected persons). In some cases of asset purchase financing, the cash flow generated by the asset was not sufficient for the repayment of loans and the loan had to be subsidised from other sources. In these cases, 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.

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

Seven on-site examinations (six in banks and one in a credit union) focused on evaluating internal capital systems (ICAAP) were conducted in 2015. 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 and investment portfolio interest rate 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 management was examined in six banks and one credit union as part of on-site examinations. The shortcomings identified mainly concerned the measurement of investment portfolio interest rate risk, the analysis of financial market entities, breaches of some regulatory and internal limits, insufficient or absent checks of the market conformity of prices, the calculation of additional valuation adjustment (AVA) and reporting to the CNB (e.g. connected with the interest rate risk statement and the capital requirements for credit valuation adjustment (CVA) risk). The shortcomings identified did not jeopardise the financial situation and capital of the examined entities or their ability to manage such risk.

Liquidity risk management was examined in six banks and one credit union as part of on-site examinations. Examinations were conducted in one bank and one credit union relating to applications for the approval of the establishment of a liquidity sub-group under Article 8 of the CRR. As regards liquidity risk, the shortcomings related most often to a missing or insufficient definition of risk appetite, failure to link individual elements of the liquidity risk management system or to ensure their consistency, limits that failed to reflect the institution's risk profile, stress scenarios that failed to take sufficient account of relevant risk factors and emergency plans that were not integrated with stress testing

or failed to define indicators of exceptional events. The shortcomings identified did not jeopardise the ability of the examined entities to manage liquidity risk. The CNB called on the institutions examined to eliminate the shortcomings identified. The elimination of the shortcomings identified is being monitored on an ongoing basis.

Risks associated with trading in financial markets were examined in five 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, the absence of authorisation (validation) actions taken by another worker (the “four eyes” principle) and the making of transactions under disadvantageous conditions 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 five banks and one credit union. Shortcomings were detected mainly in the valuation of certain types of financial derivatives, the transfer of instruments between the trading and investment books and the calculation of capital requirements for general interest rate risk, counterparty risk and CVA risk. The CNB called on the institutions examined to eliminate the shortcomings identified. The elimination of the shortcomings identified is being monitored on an ongoing basis.

Examinations of operational risk management, including IS/IT risks

The CNB examined operational risk management systems in seven credit institutions in 2015. It conducted five on-site examinations and two supervisory investigations. The on-site examinations comprehensively checked all key processes associated with operational risk management and measurement. They identified shortcomings of a high degree of seriousness in some examined entities. These included, for example, operational risk management system settings that were not appropriate to the nature, scope and complexity of the credit institution's activities. Risk management was not sufficiently safeguarded for all activities and in all organisational units, and not all risk factors were being taken into account.

The IS/IT risk management system was checked in six credit institutions. The checks mainly examined information security management systems and compliance with IS outsourcing requirements (in accordance with CNB Decree No. 163/2014 Coll.)²² when using cloud computing²³ for e-mail services and office applications. For cloud computing-type outsourcing, shortcomings of a high degree of seriousness were identified in the traceability of procedures and processes, chain outsourcing, and vetting of the outsourcing provider by the bank. Further serious shortcomings were uncovered in areas of risk analysis and classification of IS assets, security of access to information systems, and security principles and compliance therewith.

The CNB monitored and assessed how the institutions examined remedied the shortcomings identified. In one case, it identified shortcomings of such seriousness that it opened an administrative proceeding against the institution. In the other 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.

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.

Ten examinations were conducted in 2015, seven in banks and three in credit unions. The shortcomings identified related mainly to the application of preventive measures in the imposition of international sanctions, the determination of risk factors, the application of procedures to risky clients and the vetting of clients. The CNB called on the institutions examined to take remedial measures. It is assessing compliance with those measures on an ongoing basis. The Ministry of Finance's Financial and Analytical Unit (FAU) imposed a fine on one bank on the proposal of the CNB.

²² For details see the CNB website www.cnb.cz > Supervision, regulation > Legislation > Banks, credit unions > Laws and regulations > Performance of the activity and prudential rules > Decree No. 163/2014 Coll.

²³ Cloud computing is the use of hardware and software supplied as a service through the internet.

The CNB continued to work with the FAU in 2015. In addition to standard cooperation and the exchange of explanatory opinions, the CNB conducted its first joint examination with FAU staff, whom it invited to join its examination team. Further cooperation between the CNB and the FAU mainly concerned the preparation of an amendment to the AML law and the national risk assessment. The CNB was also involved in activities associated with the evaluation of the Czech Republic conducted by the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). MONEYVAL praised the CNB's intensified inspection activities in the AML/CFT area.

Remuneration principles and procedures

Five on-site examinations were conducted in 2015 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 often failed to respond to a deterioration in their credit quality. Institutions failed to assess the riskiness of their business cycle, parts of the flexible component of pay were not released in relation to the business risk cycle, and the regulatory requirement for a 3- to 5-year postponement of the flexible component of pay was often not complied with. Many institutions also failed to properly justify their failure to apply special remuneration principles and failed to set an appropriate ratio between the fixed and flexible components of the pay of selected staff having a major influence on the institution's risk profile. Some institutions failed to publish information about remuneration on their websites and in their annual reports to the extent required by law. The institutions examined were called on to eliminate the shortcomings identified. One examination identified shortcomings of such seriousness that an administrative proceeding was opened against the institution.

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 2015, the CNB's expert teams (for IRB, AMA and VaR) continued their consultations with all regulated institutions that had shown an interest in using the special approaches for the calculation of capital requirements for credit, operational and market risks under the Basel II rules. The teams communicated with foreign supervisors on an ongoing basis.

In its planned on-site examinations in 2015, the inspection team concentrated mainly on continuous verification of the procedures of banks which have already received approval to use IRB approach. The team is also dealing on a ongoing basis with banks' applications for consent to change their IRB models by means of a joint application from their parent bank (several dozen applications for, and notifications, of the approval of changes in the IRB approach were handled in 2015). The discussions between the CNB and the banks focused on assessing the compliance of the banks' procedures with Decree No. 163/2014 Coll. and the CRR. Most applications were approved (some with additional 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 and methodological issues with the relevant members of staff. Meetings were also held at an expert level with the ECB and other supervisory authorities regarding the joint approach to the assessment of IRB models. In 2015, the CNB 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.

The calculation of the plus factor of an internal VaR model pursuant to Article 366(2) of the CRR was changed in one bank in 2015. The CNB validated an option valuation model in one bank in 2015. This bank was granted consent to use the model for the calculation of delta equivalents of equity, currency and commodity positions.

3.5.2 On-site examinations in capital market institutions

A total of 22 on-site examinations were completed and 11 commenced in the area of investment service provision in 2015. Of the total of 33 on-site examinations conducted in 2015, five were in investment firms, three were in branches of foreign investment firms and 25 were 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 the rules for the conduct of business 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 entities examined, were also identified.

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

On-site examinations were conducted in two management companies in 2015. One examination focused mainly on the rules for the conduct of business in the management of investment fund and client assets, procedures for the issuance and redemption of units, the setting of the current value of units, cooperation with a depository and the governance system, focusing on management of conflicts of interest and distribution quality control. The examination in the other company concentrated on the governance system in respect of management of conflicts of interest and compliance and internal audit activities, the systemic configuration of the asset management process and compliance with investment limits, and verification of the operation of the management company nominees model for the purposes of management of non-autonomous investment funds with legal personality. The former examination was completed in the period under review. Shortcomings were identified in the examination of the activities of a major distributor and also in asset management (proof of best execution, traceability of the conducting of analyses of economic benefits, control mechanisms, internal regulations). Further to this examination, the management company took remedial measures, the implementation of which is being continuously monitored.

In 2015, an examination was conducted in one pension management company focusing on the governance system, asset management in a transformed fund and participation funds, anti-money laundering measures and rules of conduct for concluding contracts on supplementary pension savings and for the migration of participants from transformed to participation funds. Shortcomings were identified in the areas of compliance and checking of investment limits, fund management and promotion and control of the internal and external distribution network. Further to this examination, the pension management company took remedial measures, the implementation of which is being continuously monitored.

On-site AML/CFT examinations were conducted in two management companies, five investment firms and one pension management company in 2015. The main shortcomings concerned the vetting of clients and the traceability of processes. However, these shortcomings were not systemically important.

3.5.3 On-site examinations in insurance companies and insurance intermediaries

Two partial on-site examinations were carried out in an insurance company in the area of prudential supervision in 2015.

The first on-site examination found shortcomings with a low to moderate degree of seriousness, primarily in the areas of the underwriting of insurance risk, the determination of technical provisions and premium sufficiency, specifically in internal regulations, in risk management and in the determination of the provision for unearned premiums, the IBNR provision and the premium insufficiency provision.

The other on-site examination focused mainly on the verification of premium sufficiency in vehicle liability insurance. It found that premiums were not sufficient, due mainly to the provision of insurance to risky clients in the past, higher costs and shortcomings in the calculation of the loss ratio.

Further to the results of the examination focusing on compliance with prudential requirements, the shortcomings identified are being dealt with in administrative proceedings against the insurance companies.

On-site conduct of business examinations were conducted in three insurance companies in 2015. The first of these examinations focused on external distribution network quality control, compliance with some duties relating to vehicle liability insurance and duties laid down in the Civil Code and the Insurance Contracts Act, the second on policy distribution and processing quality management and the third on policy processing and loss adjustment in life insurance. The findings in the first case concerned pre-contract vetting of a distributor, the specification of reasons for changing premiums in insurance terms and conditions (vehicle insurance, accident insurance), information provided to policy holders about the reasons for changing premiums, the right of policy holders to express disagreement with such changes and about the consequences of expressing disagreement, the identification and assessment of records of client's requests and needs and the conclusion of insurance policies where a minor is whole-life insured as the main insured for a long insurance period. The findings in the second case concerned pre-contract and post-contract vetting of insurance intermediaries, while those in the third case concerned loss adjustment delays, justification of the amount of claims and traceability of processes and internal regulations.

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

In 2015, a total of 35 on-site examinations in insurance intermediaries were completed in the area of insurance intermediation and ten on-site examinations were opened in insurance intermediaries. 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, the recording of the requirements and needs of potential clients and the reasons given for recommending a specific product, as well as shortcomings relating to 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 and shortcomings in staff training.

On-site AML/CFT examinations were conducted in two life insurance companies in 2015. The findings chiefly concerned the application of preventive measures in the imposition of international sanctions, the identification of risk factors, the application of procedures against risky clients and client vetting.

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

One on-site examination in a payment institution which had been opened in 2014 was completed in 2015. A further two on-site examinations were conducted in branches of foreign payment institutions and, subsequently, 44 on-site examinations were conducted in sales representatives of foreign payment institutions. These examinations concerned compliance with AML/CFT obligations.

Seven on-site examinations in small-scale payment service providers were also conducted in 2015. 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. In 2015, a total of 43 on-site examinations were conducted in bureaux de change and two on-site examinations were opened in bureaux de change in 2015. A further five examinations were conducted focusing on unauthorised provision of bureau-de-change services. The CNB carried out on-site examinations in a total of 274 establishments. In addition to on-site examinations, 12 local investigations in bureaux de change were conducted focusing on compliance with statutory duties. 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.

The on-site examinations conducted in these categories of regulated entities also focused on compliance with AML/CFT duties.

The AML/CFT findings in the examined entities related mainly to shortcomings in the system of internal policies, failure to prepare evaluation reports and shortcomings relating to client identification and vetting.

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

3.6 ENFORCEMENT²⁴

In 2015, 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 2014	Opened in 2015	Completed in 2015	Continuing into 2016
50 ²⁵	290	282	58

In addition to those already under way, eight penalty administrative proceedings were opened in the area of supervision of credit institutions in 2015. Five decisions became final and conclusive. Three decisions imposed remedial measures. One decision imposed a fine of CZK 250,000 and one administrative proceeding was discontinued.

In 2015, a total of 39 penalty administrative proceedings were opened in the capital market area in addition to those already under way. In all, 41 decisions became final and conclusive. Fines totalling CZK 32,925,000 were imposed by the CNB.

²⁴ Statements of final decisions, or full final decisions, in most areas of the financial market are published by law on the CNB website (*Supervision, regulation > Supervision and regulation > Conduct of supervision > Final administrative decisions*). Sanctions imposed on insurance intermediaries are entered in the Register of Insurance Intermediaries.

²⁵ Compared to the 2014 Report, the number of administrative proceedings dropped from 51 to 50 at the end of 2014. Two administrative proceedings were combined into one.

Besides the proceedings already under way, 192 penalty administrative proceedings were launched in the insurance supervision area in 2015. A total of 186 decisions became final and conclusive (eight in the insurance company area and 178 in the area of insurance intermediaries). Remedial measures were imposed on insurance companies in six cases, an administrative proceeding was discontinued in one case and a fine was imposed in one case. In the area of insurance intermediaries, fines combined with remedial measures were imposed in 136 cases, only fines were imposed in seven cases, a remedial measure was imposed in one case, a remedial measure was imposed and activities were suspended in one case and a remedial measure was imposed, activities suspended and part of the registration cancelled in one case. Entries in the register of insurance intermediaries were cancelled in eight cases and administrative proceedings were discontinued in 24 cases. Fines totalling CZK 4,515,000 were imposed. In addition to these proceedings, 13 on-site orders and fines totalling CZK 84,000 were imposed in the area of insurance intermediaries.

Thirty administrative proceedings were opened in 2015 for violation of the Act on Bureau-de-change Activity. The CNB issued 31 final and conclusive decisions, of which fines were imposed in 24 cases, fines were imposed and bureau-de-change licenses were withdrawn in five cases and administrative proceedings were discontinued in two cases. The fines amounted to CZK 2,900,000 in all. At the same time, 18 on-site orders and fines totalling CZK 75,000 were imposed in 2015.

Two administrative proceedings were opened in the consumer protection area in 2015. One administrative proceeding, in which a fine totalling CZK 800,000 was imposed, was completed by a final and conclusive ruling.

In addition to the proceedings already under way, thirteen administrative proceedings were opened in the payment system area in 2015. Fifteen final decisions were taken. Fines were imposed in ten cases, fines combined with remedial measures were imposed in two cases, a fine was imposed and registration was withdrawn in one case and administrative proceedings were discontinued in two cases. The fines totalled CZK 2,240,000.

No administrative proceedings were opened pursuant to the Act on the CNB in 2015. One 2014 decision to impose a fine of CZK 5,000 became final and conclusive.

Furthermore, six administrative proceedings were opened pursuant to the Act on the Circulation of Banknotes and Coins in 2015. Two decisions, imposing fines totalling CZK 12,000, 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 2015, 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 2014	Entries in 2015	Exits in 2015	As of 31 December 2015
Banks	3	1	1	3
Credit unions	8	1	1	8
Insurance and reinsurance companies	1	0	1	0
Management companies	5	0	0	5
Investment funds	12	1	2	11
Mutual funds	5	5	3	7
Pension management companies	1	0	1	0
Investment firms	0	0	0	0
Total	35	7	9	33

The number of financial market entities in liquidation, which is monitored by the CNB, was down by two year on year at the end of 2015. Six entities 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 entities from the Companies Register. In 2015, three entities returned into liquidation after their bankruptcy was cancelled, namely Kreditní banka Plzeň, a.s. – v likvidaci, Zlatá družstevní záložna “v likvidaci” and Český národní investiční obchodně-podnikatelský fond a.s. v likvidaci. Five mutual funds went into liquidation (Pioneer – zajištěný 2018 – rozvíjející se trhy, Pioneer investiční společnost, a.s., otevřený podílový fond, 1. Zajištěný fond kvalifikovaných investorů otevřený podílový fond ČP INVEST investiční společnost, a.s., 1. Fond kvalifikovaných investorů Generali PPF Holding B. V. otevřený podílový fond ČP INVEST investiční společnost, a.s., CYRRUS otevřený podílový fond AVANT investiční společnost, a.s. and PRIVATE PROSPERITY FUND. The last two mentioned mutual funds also concluded their liquidation in that year).

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 and to create aggregate reports for the banking sector as a whole or for the main groups of banks. The data are used mainly by users from banks to assess potential and existing clients, but selected users from the CNB also have access for the purposes of banking supervision and financial stability.

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

	31 December 2012	31 December 2013	31 December 2014	31 December 2015
Number of registered borrowers	609,503	611,885	621,716	628,436
of which: natural persons (entrepreneurs)	345,243	339,730	338,394	336,897
legal entities	264,260	272,155	283,322	291,539
Total volume of loans outstanding (CZK billions)	1,328	1,508	1,559	1,607
Number of CCR application users	2,767	2,836	2,151	2,144
Ad hoc enquiries about credit commitments (thousands per year)	184	234	285	285
Number of enquiries about client credit commitments in monthly reports (thousands per year)	3,843	3,759	4,300	4,292
Number of extracts made for clients per year	490	520	499	423

A plan to extend collection of individual loan data beyond the scope of the CCR in connection with the ECB's AnaCredit (Analytical Credit Datasets) initiative was considered in cooperation with banks during 2015. The function of the CCR will not be affected by the planned launch of extended data collection in 2018 and the register will continue to serve as a platform for interbank exchange of information on the credit commitments of clients.

As in the previous period, the CCR continued to be involved in international data exchange with eight other countries participating in a joint project based on an MoU. The data obtained from this exchange are available to CCR users under the same conditions as the data collected from banks operating in the Czech Republic. Anonymised data for 2015 H1 and H2 were transferred to the ECB as part of the AnaCredit preparatory phase.

The Central Credit Register is updated on a monthly basis. Users have access to monthly reports on bank clients or can submit ad-hoc queries regarding individual clients. Credit information can be accessed via the CRR application or CRR web services.

4. SUPERVISION OF COMPLIANCE WITH CONSUMER PROTECTION REGULATIONS

Supervision of compliance with consumer protection regulations involves supervision of compliance with the obligations laid down in the Consumer Protection Act, the obligations set out in the Civil Code applying to the remote conclusion of financial services agreements, the obligations applying to the provision of consumer credit and the information duties applying to the provision of payment services. Supervision is performed in the form of off-site surveillance and on-site examinations. Consumer complaints are one of the main sources of information.

4.1 SUMMARY OF CONSUMERS' COMPLAINTS²⁶

The CNB received 1,059 complaints in the consumer protection area in 2015. As in previous year, complaints concerning insurance and banking dominated. A relatively large number of complaints persisted in the bureaux-de-change area, followed by complaints regarding investment firms and non-bank consumer credit providers.

Complaints and investigations in the insurance area

A total of 341 complaints – representing about 32% of all the complaints received – concerned the insurance sector. In 2015, the most frequent complaints concerned the provision of information about life insurance products by insurance companies and insurance intermediaries. When examining these complaints, the CNB focused on compliance with information duties in the scope laid down in the official information of the CNB regarding certain information duties applying to the conclusion and existence of life insurance and on the performance of checks by insurance companies. Consumers are provided with this information, including real modelling of the provision-creating component of insurance, before signing the contract. Remedial measures were taken voluntarily by supervised entities. These included the introduction of control mechanisms in insurance companies to identify irregular terms and conditions in proposed policies, especially regarding the duration of the policy, the age of the policy holder and the modal premium. Issues with the “renegotiation” of life insurance policies persisted. After two or three years, new policies are offered to consumers and previous policies are terminated, with all the financial impacts and shortcomings given in explanations provided by intermediaries. These issues were dealt with in on-site examinations in insurance intermediaries, and proposals to open administrative proceedings were filed where necessary. Another large group of complaints pertained to the rejection of insurance claims and delays in the settlement of claims by insurance companies. In addition to checking compliance with statutory time limits, the CNB examined whether sufficient information had been provided and whether the insurance company's loss adjustment procedure had been explained. No serious systemic errors were identified and individual shortcomings were rectified voluntarily by the insurance companies concerned.

In 2015, several complaints were submitted to the CNB regarding insurance companies' procedures for the sale of mostly non-life insurance products in the form of distance marketing. Most of these cases involved accession to a contract between an insurance company and a third party (usually a bank) rather than direct conclusion of an insurance policy. Insurance is offered as an additional product for clients of the third party. Although consumers do not enter into a contract, they make a transactional decision about accession and, by law, must receive all the information stipulated by the Civil Code in respect of distance marketing. Insurance companies failed to abide by this. Based on the CNB's supervisory procedures, insurance companies took remedial measures to rectify the shortcomings identified.

Complaints and investigations in the banking products area

In the area of credit institutions, a total of 417 consumer complaints pertaining to all banking products were received.

As in 2014, a large proportion of the complaints pertained to the payment system area. Most cases concerned consumers' failure to understand or become sufficiently acquainted with the bank's terms and conditions and contractual documents. In some cases, however, improved and simplified information and documents were recommended by the CNB and accepted by banks. As regards credit cards, the CNB dealt most of all with complaints about the process of offering and negotiating products, especially where the credit card was offered separately through intermediaries to

²⁶ Detailed information on the investigation of complaints from the public in the consumer protection area is given in section 5 of Part A of this Report.

4. SUPERVISION OF COMPLIANCE WITH CONSUMER PROTECTION REGULATIONS

a consumer who was not a client of the bank. Shortcomings in the written presentation of products and in documents for intermediaries for offering products by phone were identified in some cases. Other shortcomings concerned the presentation of products by intermediaries. Credit card providers made voluntary remedy by amending their texts and documents for intermediaries. Further training was provided and providers consequently terminated cooperation with problematic intermediaries in several cases.

As regards the costs of products and information about prices, two issues were investigated on a regular basis. The first involved various types of bonus campaigns offering price discounts, free provision of a product for a time, or payment of a bonus if certain conditions are met. The terms and conditions are sometimes incomprehensible to consumers and consumers complain about not having been granted bonuses. However, the complaints are usually received by the CNB at the end of a time-limited campaign when it is no longer realistic to remedy the situation and ensure that better information is provided about the terms and conditions. For this reason, banks are notified of the ambiguities and called on to rectify them in future campaigns.

The second issue is complaints about changes in credit institutions' price lists, which consumers are usually notified about via on-line banking channels in the statutory two-month period before the change.

Problems regarding compliance with the statutory time limit for the provision of information were recorded among consumers who do not use on-line banking. Based on the CNB's findings, remedial action was taken in a bank's system.

Complaints and investigations in the consumer credit area

In the area of consumer credit, compliance with the duties laid down in Act No. 145/2010 Coll., on consumer credit, was examined in 2015. The examination focused on the calculation of the annual percentage rate of charge and the provision of contract and pre-contract information. The first phase of an examination of selected credit components in the five largest banks (as measured by their shares of the consumer credit market in the Czech Republic) was completed in 2015. The second phase examined the provision of consumer credit secured by property (MEW) in a further 13 providers. The CNB identified shortcomings consisting in failure to include all charges relating to the provision of credit under the agreed conditions in the annual percentage rate of charge and failure to provide information about the amount of those charges in pre-contract information and in the contract. These issues were discussed with representatives of individual banks and deadlines for rectifying specific findings were agreed.

Complaints and investigations in the capital market area

A total of 57 consumer complaints were investigated in the capital market area in 2015. They concerned notifications of shortcomings in the provision of information about the riskiness and nature of products offered and possible unauthorised provision of investment services or collection of funds from the public for the purposes of joint investment by a natural person.

Cross-border offering of services by foreign investment firms remains a serious problem. Consumers are lured by high yields on risky speculative transactions. They sign contracts with such investment firms without understanding the terms and conditions and without realising that they will have to communicate with headquarters abroad or foreign regulators or courts if problems or ambiguities rise. The host supervisor's consumer protection powers are also limited.

Complaints concerning bureaux de change

A total of 153 complaints about the actions of bureau-de-change staff were submitted in 2015. The number of complaints fell slightly (by 32) compared to 2014. Lower-than-expected exchange rates and higher-than-expected fees for foreign currency purchases (foreigners' exchanges) remain a problem. Although exchange rates are given on exchange rate lists and contained in pre-contract information, their post-transaction levels are not always in line with that information. The CNB tightened up its examinations in this area and imposed penalties on several entities for breaching the Consumer Protection Act and the Act on Bureau-de-change Activity.

Complaints concerning non-bank consumer credit providers

The CNB received 53 complaints about the activities of non-bank consumer credit providers. These complaints concerned illegal repetition of penalties, contractual fines and interest, incomprehensible contractual documents and usurious interest rates. As these cases often concerned cash consumer credit, the complaints were forwarded to the Czech Trade Inspectorate for further investigation.

4.2 ON-SITE EXAMINATIONS

Seven on-site examinations were conducted or opened in 2015. Five examinations pertained to insurance intermediaries, one to a bank and one to a bureau-de-change operator. 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 and in the area of replacing one type of insurance with another.

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

4.3 LEGAL AND METHODOLOGICAL ACTIVITIES

Existing and planned amendments to the consumer credit legislation prompted supervised and other entities (for instance, some providers of legal services) to make several enquiries. The CNB drew up positions which, in its opinion, best reflect the sense and purpose of the current and planned legislation, while endeavouring to eliminate any deliberate misinterpretations and threats to supervision in this area.

In the area of EU legislation, the CNB was involved in work on the transposition of 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.

5. ASSESSMENT OF INFORMATION FROM COMPLAINTS MADE BY THE PUBLIC

5. ASSESSMENT OF INFORMATION FROM COMPLAINTS MADE BY THE PUBLIC

5.1 ASSESSMENT OF INFORMATION FROM COMPLAINTS MADE BY MEMBERS OF THE PUBLIC SUBMITTED TO THE CNB IN 2015 IN THE AREA OF SUPERVISION OF CONDUCT OF BUSINESS IN THE FINANCIAL MARKET

5.1.1 Introduction

The total number of complaints concerning financial institutions supervised by the Czech National Bank increased again year on year in 2015 (see the summary table – Table A.XXII).

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 again to withdrawals from building savings contracts and to early repayment of bridging loans.

From the perspective of numbers and seriousness of complaints, the situation appears to be most problematic in the insurance sector, which accounts for half of the complaints received from the financial market each year. The main problem in the insurance sector is the distribution of insurance products by insurance intermediaries. Minor shortcomings in insurance companies concern loss adjustment procedures and the governance of distribution networks. The most problematic insurance product is still investment life insurance, with problems often arising in the negotiation of such insurance. Insurance companies should thus ensure through effective governance of their distribution networks that prospective clients are always provided with provably relevant and sufficient information when negotiating a product. The positive and still ongoing decline in the number of complaints made in the insurance sector since 2013 can be attributed to the application of 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 alerting and informing the public.

Compared to 2014, 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, increased in 2015. The increase in the number of complaints was not due to worse discipline of capital market service providers subject to CNB supervision. The increased number of complaints pertained to foreign investment firms, especially those not subject to CNB supervision, as they provide cross-border investment services in the Czech Republic based on authorisations granted by supervisors in other EU Member States and on notifications of the intention to provide investment services in the Czech Republic.

As in previous years, complaints concerning the retirement savings, pension savings and private pension scheme sector, i.e. the activities of pension management companies, intermediaries of retirement savings, supplementary pension savings and private pension schemes, accounted for the lowest share of the total number of complaints received in 2015. The number of complaints pertaining to this sector was the lowest since 2010.

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 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,²⁷ 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 conduct of business duties of supervised entities, complaints made by members of the public constitute a major source of information on compliance with the duties of supervised entities towards their clients.

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 publish interpretations to clarify tighten particular legal provisions.
- Supervisory findings are also used in the preparation of legislative proposals and in the interpretation of existing legal rules.
- Findings from supervisory practice are also used in the selection of specific supervised entities or specific areas of their activity where the CNB 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 or on the basis of an administrative decision.
- 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.

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

In the area of conduct of business supervision, the CNB received a total of 1,680 complaints in 2015, 59% more than in 2010. The table below shows the numbers of complaints received in 2010–2015 for the individual financial market sectors and by types of entities.²⁸

²⁷ Within the Financial Market Supervision Department and the Retail Distribution Supervision Department.

²⁸ The sector of private pension schemes, retirement savings and supplementary private savings is referred to as the private pension insurance sector.

5. ASSESSMENT OF INFORMATION FROM COMPLAINTS MADE BY THE PUBLIC

Table A.XXII – Numbers of complaints

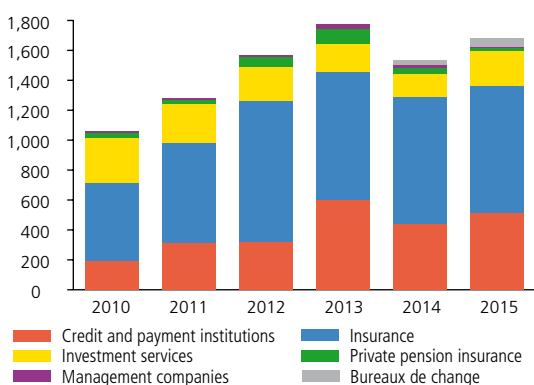
Financial market sector	Type of entity	Number of complaints						Relative change (in %) 2015/2010
		2010	2011	2012	2013	2014	2015	
Credit and payment institutions	Credit and payment institutions	195	313	322	603	440	516	165
Insurance	Insurance companies and insurance intermediaries	517	669	939	854	852	848	64
Capital market	Management companies and investment and mutual funds	7	10	9	30	24	8	14
	Investment firms and investment intermediaries	305	263	226	185	155	231	-24
Private pension insurance	Pension management companies and private pension scheme intermediaries	35	27	73	105	35	22	-37
Bureaux de change	Money changers	n/a	n/a	n/a	n/a	29	55	n/a
Total		1,059	1,282	1,569	1,777	1,535	1,680	59

The table shows that the public's complaints pertain mainly to the insurance sector. The decrease in, and stabilisation of, the number of complaints after 2012 can be attributed to the application of supervisory measures, including preventive measures and explanatory opinions relating to conduct of business in the area of insurance.

Almost a third of all the complaints made by the public pertained to the credit and payment institutions sector, which recorded an increase of 165% in the number of complaints from the public compared to the other sectors in 2010. Despite this increase, the number of complaints made in 2015 fell short of the 2013 level, when the number of complaints made in the credit and payment institutions sector had recorded a sharp increase due to administrative proceedings conducted against two credit unions. Given the growth in the number of supervised entities operating in the credit and payment institutions sector, the number of complaints made by the public can be expected to rise gradually, especially as payment services develop.

Most of the remaining complaints (14%) concerned the provision of investment services.

Chart A.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 around 10%.

Chart A.2 – Comparison of numbers of complaints

(in %)



The number of complaints regarding the supplementary pension insurance sector continued to decline. In this sector, the number of complaints dropped and their share in the total number of complaints returned to around 2% after having risen 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) *Credit and payment institutions*

As in previous years, 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.²⁹ 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 independently of the content of complaints made by the public. Similarly, the CNB's supervisory activities also involve examining credit institutions' compliance with the duty to maintain banking secrecy. In addition, the CNB investigates the procedures of banks in execution proceedings and in connection with the seizure of money under the AML Act. Shortcomings are rare in these areas. Last but not least, the CNB's supervisory activities also focused on credit institutions' procedures for applying corrective settlement and for reporting data on client liabilities to the bank register.

In 2015, increased attention continued to be paid to the procedures of building societies, especially in connection with termination of building savings 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.³⁰

²⁹ The CNB informed the public about the security principles relating to the use of electronic banking and protection against phishing in, for example, 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_verejnost/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_verejnost/upozorneni_phishing_2.html.

³⁰ 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_verejnost/20140102_upozorneni_vypoved_stavebni_sporitelna.html.

5. ASSESSMENT OF INFORMATION FROM COMPLAINTS MADE BY THE PUBLIC

Following the adoption of an amendment to the Act on Credit Unions³¹ which introduced the tenfold-contribution rule³² in order to increase members' liability for the financial results of credit unions, the CNB focused on credit unions' procedures for providing depositors with proper and complete information about the impacts of the amendment to Act on Credit Unions, and especially about the tenfold-contribution rule.

The following public information and public notices were published in 2015:

- Public information on the amendment to the Act on Credit Unions,³³
- Public notice on phishing attacks,³⁴
- Public information on the issuing of unsolicited payment cards,³⁵
- Notice on non-insurance deposits of credit union members,³⁶
- Public notice on the assignment of claims on bankrupt entities.³⁷

b) 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 the client that the claim cannot be dealt with within the statutory time limit, etc.),
- ii) shortcomings connected with changes to, and administration of, insurance policies,
- iii) shortcomings connected with termination of insurance,
- iv) shortcomings connected with tax changes,
- v) failure to react, or a delayed reaction, to clients' complaints, and
- vi) shortcomings in the governance 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 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) shortcomings in the governance of insurance intermediaries' distribution networks.

In the CNB's opinion, the causes of the high number of complaints from the public alleging illegal practices of insurance intermediaries lie primarily in low-quality and unprofessional work done by insurance intermediaries. However, this is also due to inadequate governance by "superior" insurance intermediaries (i.e. insurance agents and insurance brokers) for whom "subordinated" insurance intermediaries do business, as well as by insurance companies.

31 Act No. 87/1995 Coll., on Savings and Loan Associations and Certain Related Measures and on the Amendment of Czech National Council Act No. 586/1992 Coll., on Income Tax, as amended.

32 A sum of a member's deposits outstanding bearing interest or similar benefit may not exceed ten times the sum of the member's paid up basic and other membership contributions.

33 Available at: http://www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/upozorneni_pro_verejnost/20150416_vklad_druzstevni_zalozna.html.

34 Available at: http://www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/upozorneni_pro_verejnost/upozorneni_phishing_2.html.

35 Available at: http://www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/upozorneni_pro_verejnost/upozorneni_platebni_karty.html.

36 Available at: http://www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/upozorneni_pro_verejnost/20150507_nepojisteni_clenskych_vkladu_druzstevni_zalozna.html.

37 Available at: http://www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/upozorneni_pro_verejnost/20150807_postupovani_pohledavek_v_konkursu.html.

Investment life insurance was again the most problematic insurance product in 2015. Many complaints about investment life insurance were recorded during 2015. Members of the public most often alleged provision of insufficient information about the nature and cost of investment life insurance at the time it was agreed. The public's complaints also pertained to the termination of this insurance product, the surrender value and the size of claims paid on the 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.

Supervisory findings based on complaints from the public were subsequently generalised in, for example, Supervisory Benchmark No. 1/2015 ("On the process of loss adjustment under the Civil Code").³⁸ It aimed, among other things, to acquaint insurance companies and insurance intermediaries with the CNB's expectations as regards the right approach to this issue.

The CNB's project team also 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 2015:

- Public notice about withdrawing from an insurance policy under the Civil Code;³⁹
- Public notice regarding bonuses and penalties for bad loss experience in vehicle liability insurance.⁴⁰

Findings obtained in the course of investigating complaints from the public are also used in ongoing legislative processes affecting the area of insurance, in particular planned amendments to the Insurance Act, the Insurance Intermediaries Act and the Vehicle Liability Insurance Act.

c) Provision of services on the capital market

On the capital market, the largest number of complaints and the most serious complaints concerned the provision of investment services by foreign investment firms, especially those not subject to CNB supervision, as they provide cross-border investment services in the Czech Republic based on authorisations granted by supervisors in other EU Member States and an notifications of the intention to provide investment services in the Czech Republic. As a result of aggressive marketing campaigns by these investment firms, of which those most often suspected of illegal conduct are usually based in Cyprus, the provision of investment services relating to contracts for difference (CFDs) and binary options has expanded considerably. This means that speculation in investment instruments which are totally inappropriate for most non-professional customers is widely available in the Czech Republic. The complaints against foreign investment firms mainly concern non-transparent methods of setting the prices at which the investment firm concludes a CFD transaction on its own account with the client, obstructions in executing clients' orders to withdraw funds and deviations of the investment firm's actual terms and conditions from those presented to potential clients by persons acting as introducing brokers on behalf of the investment firm.

In 2014 the CNB addressed this newly identified problem by publishing a warning about the risks of investing in CFDs on its website. In 2015 the CNB published on its website an opinion on the provision of investment services for binary options, stating clearly that, given the nature of this instrument, investing in binary options will be inconsistent with the knowledge and experience of most non-professional clients. As the issue of non-compliance with the conduct of business rules in the provision of investment services relating to CFDs and binary options has reached EU-wide proportions, several ESMA working groups have been established to find a solution to this problem. The CNB is actively involved in these working groups.

38 Available at: http://www.cnb.cz/miranda2/export/sites/www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/dohledove_benchmarky/download/dohledovy_benchmark_2015_01.pdf.

39 Available at: http://www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/upozorneni_pro_verejnost/20151005_odstoupeni_od_poj_smlouvy_obcansky_zakonik.html.

40 Available at: http://www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/upozorneni_pro_verejnost/20151005_bonus_malus_povinne_ruceni.html.

5. ASSESSMENT OF INFORMATION FROM COMPLAINTS MADE BY THE PUBLIC

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. This sector's share of the total number of complaints is the lowest among all the sectors under review. 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 than retirement savings and supplementary pension savings, which in turn leads to more frequent origination and settlement of the claims of eligible persons.

5.2 ASSESSMENT OF INFORMATION FROM CONSUMERS' COMPLAINTS SUBMITTED TO THE CNB IN 2015

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 individual 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.⁴¹

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

⁴¹ With effect from 1 January 2014, this Act repealed Act No. 40/1964 Coll., the Civil Code, as amended (the old Civil Code).

practices include, in particular, misleading and aggressive commercial practices.⁴² 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.

b) Prohibition of consumer discrimination

Sellers may not discriminate against consumers when providing services. In general, 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

The seller has the duty to inform the consumer in accordance with the pricing regulations 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 thereby stipulate, for example, 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 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, the right to terminate such a contract and the right to early repayment),
- 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.

⁴² With effect from 28 December 2015, the wording of the definition of unfair commercial practices was changed by an amendment to the Consumer Protection Act. However, the meaning remained unchanged.

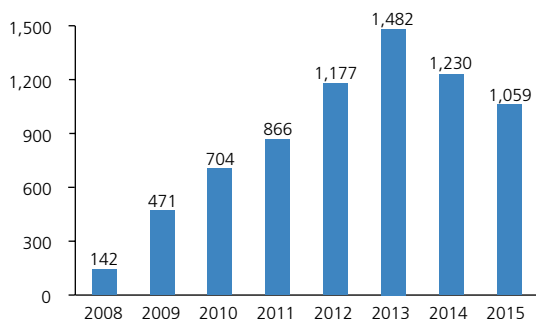
5. ASSESSMENT OF INFORMATION FROM COMPLAINTS MADE BY THE PUBLIC

5.2.3 Summary of consumers' complaints

The CNB's Consumer Protection Department has been receiving and investigating consumers' complaints since September 2008. It has recorded a steady increase in the number of complaints, which 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 Consumer Protection Department uses the complaints to identify possible public law shortcomings on the part of supervised entities. The investigation often helps 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 modest declines recorded only in 2014 and 2015 as a result of a fall in the number of complaints in insurance, especially with regard to insurance intermediaries. The CNB constantly exerts pressure for proper provision of required information. It is mainly thanks to this pressure, 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, that it can achieve improvements in the approach to the provision of pre-contract information by insurance product providers and, in turn, a decrease in the number of complaints received. Especially in cases of renegotiations, the insurance market is becoming more cultivated and the conditions under which insurance products are sold are improving.

Chart A.3 – Numbers of complaints



5. ASSESSMENT OF INFORMATION FROM COMPLAINTS MADE BY THE PUBLIC

Table A.XXIII Summary of complaints received by Consumer Protection Department

Period	Total number of complaints							
1 January – 31 December 2015	1,059							
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)	60	9	17	2		145	2	235
Payments (including payment cards)	59			1		1	4	65
Product information	72	26	140	3		3	5	249
Insurance claims			81					81
Discrimination against consumers	6	1	6			1		14
Dealing with complaints	13	2	5					20
Aggressive business practices	14	3	14				2	33
Consumer credit	76		2	40			3	121
Consumer protection	117	16	76	7		3	22	241
TOTAL	417	57	341	53	0	153	38	1,059
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		24		24	287	82	417	
Investment firms and intermediaries				4	47	6	57	
Insurance undertakings and intermediaries		23	8	29	220	61	341	
Non-bank consumer credit providers				1	49	3	53	
Payment institutions							0	
Foreign exchange entities	1	2		1	146	3	153	
Others				1	29	8	38	
TOTAL	1	49	8	60	778	163	1,059	

a) Insurance

Table A.XXIV – Complaints in year-on-year comparison – insurance

Year	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2010/2015
Year-on-year change	264/292	292/504	504/555	555/427	427/341	264/427
Increase/decrease	+11%	+73%	+10%	-29%	-25%	+62%

A sizeable proportion of the complaints were concluded with an explanation. The investigations revealed misunderstandings or non-systemic shortcomings, rather than breaches of the consumer protection rules by supervised entities. On the basis of some complaints, supervised institutions voluntarily amended the information provided to consumers, above all by changing their websites. On the other hand, some complaints pointed to problems and resulted in rectification by individual institutions, in some cases even across the entire insurance market.

5. ASSESSMENT OF INFORMATION FROM COMPLAINTS MADE BY THE PUBLIC

• Sufficiency of information on products provided – modelling of the provision-creating component

Complaints pertained to the conduct of tied agents of insurance companies with regard to the provision of insufficient information before contracts are concluded. Information was provided orally, and it is clear from the dates of the contracts that they were concluded at a time going beyond the possibility for the CNB to open administrative proceedings should a breach by the insurance company be identified. In these cases, the Consumer Protection Department endeavoured to investigate the complaints as much as possible, but it faced obstacles as the intermediaries who concluded the contract were no longer registered or working for the insurance company. This made gathering information very difficult. In addition, the legislation (the Insurance Contracts Act, the new Civil Code and the Act on Insurance Intermediaries) contains very limited pre-contract information duties. These cannot be sufficient for the consumer's business decision, especially in the case of investment life insurance. On the basis of its experience from consumers' complaints, the CNB in May 2012 issued an official information document on the extent of information to be provided before the conclusion of life insurance. The CNB will regard this extent of information as sufficient for compliance with the information duties pursuant to the Consumer Protection Act. This is an interpretative opinion. It took some time after it was issued for insurance companies to start complying with it. Most complaints from consumers pertained to the period before it was implemented. The required information includes a table on the projected evolution of the provision-creating component (modelling), which clearly shows the consumer that in the initial years of the policy the provision-creating component is almost zero and higher values can only be expected towards the end of the agreed insurance period. Mainly because of this clarity, both insurance companies and intermediaries have attempted to avoid providing realistic modelling (models with unrealistically high expected rates of return are unacceptable) and to include the information on fees and initial costs in voluminous insurance terms and conditions. The Consumer Protection Department discussed the issue of presenting proper modelling with several providers in 2015. To ensure proper verification that modelling is provided to potential clients, the potential client's signature on the modelling presented to him is required when the insurance contract is intermediated. The intermediary sends a copy to the insurance company together with the draft contract. At the initiative of the Consumer Protection Department, insurance companies post up-to-date price lists for all their investment life insurance products on their websites. This is a further activity aimed at enhancing consumer awareness.

• Payment of insurance claims

In this area, the Consumer Protection Department uses its powers under public law to investigate whether the insurance company dealt with the consumer without undue delay, informed him properly about the settlement of the claim and did not unreasonably prevent settlement of the claim by asking the consumer to supply documents which it had already obtained or which were not directly related to the claim. The complaints mostly concerned property insurance and vehicle liability insurance. As regards vehicle liability insurance, the subjects of the complaints included compliance with policy termination deadlines (this also applied to insurance against damage to or loss of vehicles) and the consequences of non-compliance, claims arising from vehicle liability insurance, claims for payment of the price of a replacement vehicle, the method of calculation of the residual value of the (damaged) vehicle, and the price of the vehicle as determined by electronic auction. Some delays on the part of insurance companies were also caused by the investigation of suspected insurance fraud and by contradictory or inconclusive information on the course or consequences of the insured loss. In general, it was found that the problem was due partly to a lack of information on the part of consumers at the very beginning of the loss investigation conducted by the insurance company. The aggrieved parties do not have a contract with the insurer, so the latter should provide them at the outset with a brief summary of information about the loss adjustment process, the obligations and rights of the aggrieved party and the consequences of breaches thereof. The Consumer Protection Department deals with these facts at a general level. The actions of the Consumer Protection Department in other cases of claim payment resulted in more specific and clearer decisions of insurance companies on the amounts paid (e.g. more concrete documentation of the extent and definition of hail) and on the necessary cooperation of the consumer in remedying the consequences of insured losses (especially repairs of floors in a flooded apartment).

In the category of accident and sickness insurance, the Consumer Protection Department continued to clarify for insurance companies the rules for making changes to valuation tables (this issue was discussed in the 2014 report). These tables specify the amounts of claim payments for individual types of bodily injury losses and the consequences

thereof (sick leave, hospitalisation, lasting consequences). The consumer must be informed in advance sufficiently, clearly and provably about any changes made to the tables and have enough time to decide whether to withdraw from the contract without incurring penalties and possibly find an alternative product on the market, or whether to accept the change. A unilateral change to the contract accompanied by the mere publication of new valuation tables, which constitute part of the essence of the insurance company's contractual obligation to the consumer, is not admissible.

• Distance marketing of insurance products – information requirements

One of the problems discussed with insurance companies in 2015 was the sale of (usually non-life insurance) products in the form of accession to a master insurance contract between the insurance company and its partner, and distance conclusion of this accession. Investigations revealed that consumers were mostly contacted by phone. During the phone call they received basic information about the product and were immediately asked to agree to accede to the insurance contract without receiving the information required by the Directive on the protection of consumers in respect of distance contracts and by the Civil Code, into which this Directive has been implemented. Insurance companies initially argued that the consumer does not conclude a contract, but only accedes to a concluded contract. According to the Civil Code, this is conduct from which obligations arise for the consumer (in this case the payment of premiums) and the procedure is similar to the conclusion of a contract. Under the Consumer Protection Act, before making a commercial decision, i.e. in this case before acceding to an insurance contract, consumers must receive all information about the product (the type of insurance, the amount of premiums, exclusions, how to make claims, etc.), the provider and about the rights consumers have in the remote conclusion of a distance contract for financial services (the right to withdraw, the right to information on a durable data medium, etc.).

These information duties clearly cannot be met during a single phone call. For this reason, the Consumer Protection Department discussed compliance with these duties with insurance companies. It discussed with one insurance company the manner of presentation of a product offered over the phone by its representatives as "securing payment of regular expenses" for clients in the event of sickness leave, hospitalisation or loss of employment. Consumers' complaints pertained to insufficient provision of information. In addition, one bank started to collect premiums without the consumer's consent and did not even respect the 14-day period within which consumers may withdraw from a distance contract in the case of non-life insurance. For life insurance, this period is 30 days.

• Provision of untrue information by an insurance intermediary

The provision of untrue information by an insurance intermediary before contract conclusion was the most frequent subject of complaints against intermediaries of a specific insurance agent. In addition, consumers pointed out that in cases where they had contacted the insurance company directly with a request for information, they had been referred to the insurance intermediary who had negotiated the contract with them, but that intermediary often no longer worked for the company.

The complaints received also often requested that the contract be annulled from the start. Consumers were informed upon conclusion of the contract that they could withdraw the deposited funds after two years, which is not possible. As there is no duty to make audio recordings of the discussions held before the conclusion of a contract, it cannot be proven to what extent consumers were informed in a misleading way. In many cases the insurance had been intermediated within families, by students who had advised and convinced family members to conclude such insurance in order to make a commission. It is this relationship and the payment of a commission that some intermediaries and insurance companies quote as the reason for not accepting a request to withdraw from the contract. However, as the CNB received a large number of such complaints with identical content and features over a certain period of time, an administrative proceeding was opened for violation of the prohibition of unfair commercial practices under the Consumer Protection Act. Interviews with witnesses proved that the intermediary had engaged in unfair practices, and a penalty of CZK 5,000,000, the highest amount permitted by law, was imposed.

5. ASSESSMENT OF INFORMATION FROM COMPLAINTS MADE BY THE PUBLIC

b) Credit institutions

Table A.XXV – Complaints in year-on-year comparison – credit institutions

Year	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2010/2015
Year-on-year change	190/253	253/298	298/478	478/448	448/417	190/417
Increase/decrease	+33%	+18%	+60%	-6%	-7%	+120%

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 then used as a general source for the conduct of supervision. In many cases, the issues raised in the complaints led to systemic rectification of shortcomings and an improvement in the information conditions for a whole range of consumers.

• Credit cards

The complaints in the credit card area pertained to clarification of information received by consumers when their credit card was exchanged, the possibility of setting the repayment date and to offers of insurance against inability to repay the credit limit. Furthermore, erroneous settings for sending credit cards were dealt with in cases where consumers had applied for a credit card and the card had initially been rejected as a result of an error in the process. Nevertheless, they had received the contract and the credit card a few days later. Owing to an error in the bank's systems, this had happened to several hundred consumers. The bank subsequently apologised to all of them.

The Consumer Protection Department also dealt with the issue of insufficient provision of information to consumers regarding increases in credit card limits. An increase in the credit card limit involves not only a change to the master agreement on payment services under the Payment System Act, but also a change to the credit agreement under the Consumer Credit Act. In both cases, the relevant provisions of the Consumer Credit Act must be applied. In the course of the investigation, it was pointed out to the bank that the credit limit agreement forms part of the credit card issuance contract. Therefore, any change in the credit limit must be made in accordance with the requirement to notify changes no later than two months before they come into effect. An increase in the credit card limit must be treated as a change in the credit contract pursuant to the Consumer Credit Act, which change must be made in writing with the consent of both parties (i.e. including the written consent of the consumer). Consumers had expected this and objected in the complaints received that they had not given written consent. As part of the solution to the problem, the bank immediately ceased to apply the previous procedure for increasing the credit card limit and this manner of providing information.

• Consumer credit

In the consumer credit area, the CNB conducted a broad-based examination of compliance with the duties laid down in Act No. 145/2010 Coll., on consumer credit, focusing on the calculation of the annual percentage rate of charge and the provision of contract and pre-contract information. Phase one, consisting in examining selected credit components in the largest banks with the biggest shares of the Czech consumer credit market, was completed in 2015.

Phase two involved examining the provision of general-purpose consumer credit secured by property (home equity loans) by other providers not examined during phase one. A total of 13 banks offering home equity loans were examined during the second stage. The shortcomings detected related to the inclusion of all fees for providing the loan under the agreed terms in the APRC and the establishment of a right of pledge and proper provision of information on the amount of such fees in pre-contract information and the contract explicitly instead of by reference to the bank's price list. These mainly include fees for maintaining an account, which is a condition for granting the loan, fees for the

insurance of the pledged property, fees for the estimate of the price of the property needed to obtain the loan, fees for entry of the right of pledge in the land register and fees for verification of the signatures on the pledge contract, as well as any other additional services used by the client when taking out the loan. These issues were discussed with representatives of individual banks and deadlines for remedying specific findings were agreed.

• **Discrimination**

In the area of discrimination, the CNB dealt with a problem regarding a bank's procedure concerning an application to open a joint account by persons holding different documents. The applicant had a passport issued in the Czech Republic while the co-applicant had a passport issued in Slovakia. The bank had refused to open joint accounts to clients on the basis of such different documents. At a meeting between the bank's representatives and the Consumer Protection Department the bank acknowledged the CNB's reservations regarding potential discrimination against applicants and adopted remedial measures mainly in the area of information systems.

• **Building societies**

In 2015 building societies continued to unilaterally withdraw from (terminate) building savings contracts with higher deposit interest rates after the binding period. These withdrawals were combined with offers to establish a new contract or switch to a tariff with a lower interest rate free of charge. Building societies always offer unilateral withdrawal from contracts in ad hoc campaigns, and this is reflected in the numbers of complaints received.

In addition, building societies exercised their right not to give consent to early repayment of bridging loans and, unlike in the past, to refuse amendments to credit contracts (coupled either with a significantly higher fee specified in a new price list or with a list of serious life situations in which consent would be granted). Requests for early repayment were motivated by consumers' efforts to refinance bridging loans with cheaper funds. Building societies also reacted by offering consumers agreements to substantially reduce bridging loan interest rates. They also argued vis-à-vis the Consumer Protection Department that many cases of refinancing were driven by commission-related incentives provided to financial advisers by refinancing companies. As a result of the activities of the Consumer Protection Department, building societies softened their approach without changing their officially declared procedures and "extremely accommodatingly" accepted early repayment of the bridging loan or allowed a reduction in the fee for early repayment.

• **Non-bank consumer credit providers**

Complaints from the public pertaining to non-bank consumer credit providers point out that the contracts contain illegal repetition of penalties, contractual fines and interest, incomprehensible contractual documents and usurious interest rates. As these complaints often concern cash consumer credit, the CNB is not responsible for investigating them. This is explained to the consumers and they are referred to the Czech Trade Inspection Authority or the Office of the Financial Arbitrator if the documents reveal a shortcoming on the part of the provider. At the same time, the Consumer Protection Department uses these complaints to map the non-bank consumer credit provider segment for future supervision and to collect information that might also be applied in licensing proceedings under the new draft Consumer Credit Act. The Consumer Protection Department can only investigate the complaints further if credit is obtained using a credit card and the provider is subject to CNB supervision as a payment institution.

The Consumer Protection Department received several complaints about a company's actions in offering consumer credit provided via a credit card which is a product of a retail chain. Consumers pointed out that sales representatives of third parties 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 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 rejection of an application for the product, how clients' creditworthiness was assessed, when and under what conditions the contract was concluded, when the client gave consent to any negative

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record in registers and what the consequences of product activation and the options for withdrawing from the contract were. After the inspection and discussions with its representatives, the company took remedial measures, accepted the comments of the Consumer Protection Department and amended part of its booth sale presentation as well as its pre-contract information and its credit contract. It also provided the requested information on inspections conducted during the sale of the credit card.

c) *Capital and pension markets*

Table A.XXVI – Complaints in year-on-year comparison – capital and pension markets

Year	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2010/2015
Year-on-year change	20/24	24/34	34/56	56/46	46/57	20/57
Increase/decrease	+20%	+41%	+64%	-28%	+23%	+185%

Complaints submitted by members of the public drew attention to shortcomings in the provision of information about the riskiness and nature of products offered and to possible unauthorised provision of investment services and collection of funds from the public for the purposes of joint investment by a natural person. The Consumer Protection Department also registered complaints concerning the termination of the provision of investment services by an investment firm and the charging of a fee for the transfer of securities to another investment firm. It was found that information on the securities transfer fee had been given on the historically valid price list of the investment firm, which had provided the necessary information to clients well in advance by e-mail and on its website. The Consumer Protection Department did not have to ask the investment firm to take any further measures and closed the complaint by providing an explanation to the consumer. On the other hand, consumers objected to the fact that these sizeable fees (CZK 900 per transfer regardless of volume) are also charged in cases where the transfer is carried out at the initiative of the investment firm, not the consumer, and that no fees had been charged for transfers to two other investment firms. The Consumer Protection Department had doubts about the ethicality of the investment firm's approach even though it could not identify a breach of the Consumer Protection Act. No breach of the Capital Market Undertakings Act could be proven on the basis of other information available to the CNB either.

The Consumer Protection Department also received an increased number of complaints about investment services negotiated between consumers and foreign investment firms operating in the Czech Republic under the freedom to provide services. These investment firms are not subject to CNB supervision. Consumers often succumb to the seller's arguments and sign documents they do not understand in an effort to make higher and quick profits. The complaints received also pointed to possible unauthorised provision of investment services or collection of funds from the public for the purposes of joint investment by a natural person. A business representative contacts potential investors from the general public in the form of letters. There were also complaints concerning recommendations of services by an investment intermediary who, according to the CNB's findings, was not authorised by the CNB to perform collective investment or provide any other services on the Czech financial market. This can be regarded as unauthorised business.

As regards the offering and conclusion of pension products, the Consumer Protection Department investigated several complaints in the period under review pertaining to the pension reform-related requirement to change contractual documents to maintain the optimum level of state support for building savings. Other complaints related to possible shortcomings in the registration of client requirements and to dealing with complaints.

d) *Non-bank foreign exchange entities*

Table A.XXVII – Complaints in year-on-year comparison – non-bank foreign exchange entities

Year	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2010/2015
Year-on-year change	137/131	131/111	111/139	139/185	185/153	137/185
Increase/decrease	-1%	-15%	+26%	+32%	-17%	+35%

Complaints pertaining to non-bank foreign exchange entities again mainly concerned insufficient provision of information on the exchange rate by bureaux de change. Consumers do not understand how, given the flat CNB rate of CZK 27 to the euro, bureaux de change can offer markedly lower exchange rates, be they specified directly by the bureau de change or lowered through a fee. After the bureau de change refuses their complaint following a concluded exchange operation and refuses to return their foreign currency, foreign tourists usually contact the police. The police suggest filing a complaint with the CNB. The Consumer Protection Department investigates the complaints received by requesting information on the exchange from the bureau de change and then sending an explanation to the client.

The Consumer Protection Department filed several proposals to open administrative proceedings, which were concluded by the imposition of a fine on supervised entities for violating the Consumer Protection Act. These cases usually involved a breach of information duties in the form of insufficient provision of information about the price. On the exchange rate list, the supervised entity presented information about the exchange fee in an ambiguous and unclear manner. It was clear from the complaint and from photos taken during the inspection that the exchange fee was presented in such a way that the price was not clear. Another entity breached its duties by providing clients with insufficient information in the form of an unclear exchange rate list and failing to keep pre-contract information documents properly signed by consumers. In another case, a bureau de change presented the fee for buying and selling foreign currency in a misleading manner in violation of the Consumer Protection Act.

e) *Other areas*

Table A.XXVIII – Complaints in year-on-year comparison – other areas

Year	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2010/2015
Year-on-year change	93/166	166/212	212/217	217/73	73/91	93/73
Increase/decrease	+78%	+28%	+2%	-66%	+24%	-22%

The submissions received pertained to consumer protection in general. This category often included enquiries about whether a specific company was authorised to carry on business, enquiries concerning the competences of CNB supervision and requests for an expert opinion. The CNB dealt with such submissions by providing written explanations containing references and recommendations on how to deal with the issue or which supervisory institution to contact.

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5.2.4 On-site examinations as an additional tool for investigating an increased number of complaints

On-site examinations at one credit institution and companies operating as insurance agents and insurance brokers were conducted in 2015. With regard to compliance with duties pursuant to the Consumer Protection Act, the examinations in the insurance area focused on checking whether unfair commercial practices had been 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 had presented life insurance to consumers as savings. As the findings suggested possible undesirable renegotiations (at the consumers' expense), the inspectors paid increased attention to this issue. The examinations also revealed violations in the area of recording of clients' requests and needs. The violations identified were recorded in the examination reports. Some providers remedied the shortcomings immediately, while enforcement measures had to be used against other providers, in the form of administrative proceedings with the possibility of imposing fines.

The examination at the credit institution focused on selected areas of consumer credit and conclusion of insurance in the form of accession to master insurance contracts where the consumer is not the policyholder but is the insured. The examination resulted in changes to some of the credit institution's internal procedures.

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 2015, the CNB received a total of 53 applications under the Freedom of Information Act and issued 12 decisions refusing applications. Five appeals were filed against decisions to refuse to provide information, of which one first-instance decision was overturned by the CNB Bank Board and returned for review.

The total number of applications received in 2015 shows that the public's increased interest in information about the CNB's areas of responsibility continues.

Table A.XXIX – Numbers of applications

	2011	2012	2013	2014	2015
Number of applications handled under the Freedom of Information Act	19	26	60	59	53

5.3.2 Focus and content of applications

As in previous years, the applications pertained to a broad and diverse range of information which cannot be narrowed down to typical categories with regard to the numbers of applications given above. More than one application contained queries from the public regarding specialised issues in the areas of statistics, the balance of payments, international reserves, the Czech currency and circulation of banknotes and coins. There were also applications concerning public procurement, enforcement proceedings and proceedings regarding mandatory takeover bids, public contract offers relating to the purchase of participating securities and squeeze-outs.

As regards conduct of business supervision, the nature of the matter is such that an application filed under the Freedom of Information Act may also be perceived as a suggestion from the public for supervision. Although some applications are not directly a suggestion, they may relate to supervision, for example when an applicant uses an application under 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 website.⁴³

5.3.3. Cross-border activities – applications for fit and proper assessments

	2014	2015
Number of applications handled (from 19 foreign regulators)	23	29

⁴³ http://www.cnb.cz/cs/o_cnb/106/106_poskytnute/index.html (in Czech only).

6. INTERNATIONAL COOPERATION

6.1 COOPERATION WITHIN THE EUROPEAN SUPERVISORY AUTHORITIES

European Banking Authority (EBA)

In 2015, the CNB was actively involved through its representatives in the activities of the EBA at the level of the Board of Supervisors, standing committees and most expert working groups.

The EBA's focus in 2015 was on creating the EU single rulebook in connection with the implementation of the regulatory framework under CRD IV/CRR, BRRD and other EU legal acts, especially the DGS, PSD and MCD directives. The EBA recorded a sizeable increase in its tasks in the area of resolution under BRRD. A new standing committee comprising representatives of resolution authorities and having autonomous rules for approving EBA outputs was established for this area. As a new resolution authority, the CNB also became fully involved in this committee, including its working groups.

In 2015, CNB representatives contributed to the finalisation by the EBA of 24 draft regulatory and implementing technical standards (RTS/ITS), which were then submitted to the Commission. These standards mainly concerned the preparation of resolution plans, the application of the bail-in tool and specification of MREL,⁴⁴ the functioning of resolution colleges, notifications in cases of default by financial institutions, conditions for the independence of valuers before the start of the resolution process and the provision of intra-group financial support. The standards also pertained to assessment of the methodology of advanced IRB models for the calculation of capital adequacy, the prudential requirements applying to central securities depositories, data collection and information exchange between supervisory authorities in the area of comparison of banks' internal models for setting capital requirements for credit and market risks, and a series of ITSs concerning supervisory reporting.

CNB representatives also actively participated in the preparation and subsequent translation of 19 EBA guidelines and recommendations. These legal acts mainly pertained to resolution under BRRD, consumer protection, the preparation of recovery plans, the conditions for the application of early intervention measures and the provision of intra-group financial support, financing of deposit insurance schemes, payment services, cooperation between supervisory authorities in supervisory colleges, management of interest rate risk in credit institutions' investment portfolios and restrictions on exposures to shadow banking entities. In all cases, the CNB notified the EBA its compliance with these guidelines and recommendations.

As part of the preparation of the single rulebook, CNB representatives contributed to the preparation of draft answers to hundreds of enquiries from the public in a Q&A system that clarifies the application of CRD/CRR and newly also BRRD.

In 2015, the EBA conducted a peer review focused on evaluating the implementation of EBA guidelines regarding the suitability and good repute of senior officers of credit institutions by supervisory authorities in the EU. The CNB received a very good assessment.

As a replacement for the yearly EU-wide EBA stress tests, the EBA carried out a transparency exercise in cooperation with representatives of supervisory authorities in 2015. The exercise involved evaluating and publishing selected indicators for a total of 105 banking groups from 21 EU countries. Czech subsidiary banks participated in the exercise only via their parent companies.

CNB representatives also contributed to a number of EBA reports and opinions for the Commission, the Council, the European Parliament and other EU institutions regarding the suitability of introducing prudential requirements laid down in CRD IV/CRR in order to support qualified securitisation and long-term funding, the definition of the European framework for qualified synthetic securitisation, the application of the proportionality principle in the area of remuneration, the risks connected with the use of credit crowdfunding, and the interaction between the new IFRS 9

⁴⁴ Minimum requirement for own funds and liabilities eligible for write-down or conversion as part of bail-in.

accounting standard and prudential regulation. Furthermore, the CNB was involved in the preparation of regular EBA reports monitoring the impacts of the regulatory requirements of CRD IV/CRR and Basel III on banks in the EU as well as reports assessing 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. In 2015, the CNB participated in a peer review of the procedures of the relevant supervisory authorities for enforcing MiFID rules for conducting the suitability test and a peer review in the area of the application of legal rules when approving prospectuses. Reports containing the results will be submitted in 2016.

In the area of investment service provision, the CNB contributed above all to documents on the implementation of MiFID II/MiFIR. These included draft RTS/ITS pertaining among other things to the implementation of investor protection rules and rules for executing orders on terms most favourable to the client, ESMA guidelines on the expertise of employees of investment firms who provide investment advice to clients and guidelines on the definition of complex debt instruments and structured deposits.

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 II/MiFIR. These included draft RTS/ITS pertaining among other things to the implementation of trading rules for the secondary securities market, reporting of positions in commodity derivatives and procedures for cooperation arrangements between supervisory authorities in respect of a trading venue whose operations are of substantial importance in a host Member State.

In the area of financial innovation, the CNB helped prepare a draft methodology addressed to supervisory authorities and ESMA regarding the application of product intervention powers under MiFIR.

In addition, the CNB contributed to documents on market infrastructure. With regard to the EMIR regulation, draft RTS on, for example, mandatory clearing of interest rate swaps denominated in selected currencies and an ESMA report containing the preliminary results of stress tests of European central counterparties were prepared. In the CSDR area, draft RTS/ITS concerning requirements for central securities depositories, as well as draft technical advice for the Commission on the amount of fines for settlement fails, were prepared.

The CNB also contributed to documents in the area of fund investment. With regard to UCITS, draft ITS on the information duty of supervisory authorities to ESMA regarding sanctions imposed, as well as draft ESMA guidelines on remuneration and a report on the results of mapping the procedures of supervisory authorities in approving applications for authorisation of management companies, were prepared. Questions and answers regarding the application of the AIFMD directive were prepared. In the ELTIFR area, draft RTS were prepared governing, among other things, criteria for the use of financial derivatives as collateral.

In the prospectus area, the CNB contributed to draft RTS governing the procedures and deadlines for the approval and publication of prospectuses, ESMA's answer to the Commission's consultation on the revised Prospectus Directive, as well as questions and answers on the implementation of the Prospectus Directive. In the area of transparency, answers to selected questions on the Transparency Directive were prepared.

In the area of creating and harmonising rules of protection against market abuse, the CNB commented on documents implementing the MAR regulation. These included ESMA technical advice for the Commission defining among other things examples of market manipulation and rules for protection of whistleblowers, as well as draft RTS/ITS governing among other things the conditions for buyback and stabilisation of financial instruments and the systems and procedures needed to detect suspicious transactions.

As regards accounting, audit and financial reporting, the CNB contributed to the preparation of ESMA guidelines on alternative performance measures⁴⁵ and draft RTS on the Transparency Directive regarding the creation of an ESMA web portal with access to regulated information and on the introduction of a single European electronic format.

In fulfilling its tasks under the regulation on credit rating agencies (CRA), the CNB contributed to documents implementing this regulation. These included ESMA guidelines on the information duty of credit rating agencies to ESMA, draft ITS on the mapping of external ratings to the credit quality steps under CRR, questions and answers on CRA implementation and draft decisions on applications for the registration of a credit rating agency.

European Insurance and Occupational Pensions Authority (EIOPA)

In 2015, 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. EIOPA's main task was to complete the implementation of the Solvency II directive, which took effect on 1 January 2016.

Within working groups, the CNB was mainly involved in the preparation of level-three Solvency II regulations. The second set of implementing technical standards and guidelines, covering the first second and third pillars of the new regulatory system, was approved in 2015. The guidelines issued were focused on, for example, reporting and publication of information, supervision of insurance company branches located in third countries, exchange of information within supervisory colleges, the internal control system, and risk and solvency assessment. The CNB also revised the Czech translation of these guidelines and sent its comments for incorporation to the Translation Centre for the Bodies of the European Union.

The CNB participated in the preparation of the sections of the supervisory manual concerning technical provisions for non-life insurance, key functions and principles of prudent investment. It was also involved in discussions about the final shape of a strategic EIOPA document proposing an approach to the creation of a European framework for risk-oriented conduct of business supervision in the insurance area. In addition, it 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.

The CNB commented on an EIOPA report to the Commission focused on recalibration of insurance companies' infrastructure investments in shares and debt securities under Solvency II. Its main reservations were that the proposed calibration was based on an insufficient volume of high-quality data and that EIOPA had underestimated the risks associated with infrastructure investment and employed imprudently set or entirely inappropriate assumptions. However, the EIOPA Board of Supervisors approved the document. Furthermore, the CNB commented on proposals for changes to the Solvency II methodology for constructing risk-free yield curves and their adjustments. It also actively commented on EIOPA's proposed macroprudential approach to the environment of long-lasting low interest rates.

The consumer protection area remains very important. The CNB contributed to the preparation of the fourth report on consumer trends, a consultation document on the communication tools of occupational pension funds. It also helped prepare a report on mobile phone insurance and to create a methodology concerning retail risk indicators.

In 2015 the CNB contributed to the peer reviews through which the national supervisory authorities and EIOPA exchange experience in regulation and supervision of various areas of insurance and occupational pension funds. It was involved in the completion of the final reports of peer reviews focusing on the activities of supervisory colleges and on Article 9 of Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision. It also helped prepare partial results of peer reviews of the procedures applied in joint on-site examinations, which will be included in the supervisory manual. The CNB also contributed to a proposal for a new EIOPA methodology for conducting peer reviews.

⁴⁵ An Alternative Performance Measure (APM) is defined as a financial indicator of historical or future performance, financial position or cash flow other than the financial indicator defined or specified in the applied reporting framework.

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. The Joint Committee is a forum for cooperation between the EBA, ESMA and EIOPA (the ESAs) to ensure consistency of activities across financial market sectors.

In 2015 the Joint Committee prepared and published a report on misconduct risk in the banking and insurance sector in the EU and a report on the consistency of the regulatory framework in the EU in the area of structured financial instruments. It also issued regular analyses of the main risks in the individual sectors of the EU financial market and risks in the EU financial system.

A joint proposal by the ESAs for implementing technical standards on the mapping of credit ratings by ECAs (External Credit Assessment Institutions) under CRR and Solvency II was also finalised.

6.2 COOPERATION WITHIN EUROPEAN SYSTEMIC RISK BOARD (ESRB) STRUCTURES

CNB representatives were 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 2015, the CNB actively participated above all in expert teams focusing on the countercyclical capital buffer and property market risks.

In line with the ESRB's mandate and tasks, the key area of activity in 2015 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. As regards macroprudential tools, the ESRB issued a report in 2015 reviewing their use roughly one year after CRD IV/CRR took effect. During the first year, the ESRB was notified by Member States of around 100 macroprudential measures, most of which were aimed at mitigating excessive credit growth.

In 2015 and early 2016, the ESRB also issued several decisions and recommendations pertaining to the CNB. They included, for example, a recommendation on recognising and setting countercyclical buffer rates for exposures to third countries (ESRB/2015/1) and a recommendation on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2).

In addition, 2015 saw the publication of a number of expert reports by the ESRB. In the insurance area, the ESRB presented, for example, an analysis of the insurance sector and a report on systemic risks in the insurance sector. In 2015, the ESRB also focused on the relationship between property markets and financial stability, publishing an analysis concerning the identification of early warning indicators of an emerging banking crisis caused by property market developments. Two ESRB reports on residential and commercial real estate and financial stability were published at the very start of 2016. Other expert reports pertained, for example, to an analysis of the risk of violation of the rules for proper corporate governance in the banking sector from the macroprudential perspective, proposals for criteria for a revision of the EMIR regulation and an analysis of potential regulation of sovereign exposures. The ESRB was also involved in designing the adverse scenarios for the EIOPA pension fund stress tests and the scenarios for the EU banking sector stress tests to be conducted by the EBA in 2016.

During 2015, the CNB notified the EIOPA and other relevant institutions of the use of instruments arising from EU legislation – the setting of the countercyclical capital buffer rate (0.5% of the total risk exposure with effect from 1 January 2017) and the identification of seven other systemically important institutions located in the Czech Republic – and of the use of instruments provided for in national legislation – a series of recommendations on prudent provision of mortgage loans. Together with notifications from other Member States, these notifications of the use of macroprudential tools are published in a special section of the ESRB website for the exchange of information on the use of macroprudential instruments in the EU.⁴⁶

⁴⁶ <http://www.esrb.europa.eu/mppa/html/index.en.htm>

In June and December 2015 the CNB fulfilled its reporting duties under the following ESRB recommendations: Recommendation ESRB/2012/2 on funding of credit institutions and Recommendation ESRB/2013/1 on intermediate objectives and instruments of macroprudential policy. The ESRB also evaluated how national authorities were implementing the recommendations set out in Recommendation ESRB/2012/2. Implementation in the Czech Republic was assessed as fully compliant.

6.3 COOPERATION WITHIN EUROPEAN CENTRAL BANK (ECB) STRUCTURES

Financial Stability Committee (FSC)

The FSC, whose primary aim is to help ECB bodies fulfil their mandate in the field of supervision of financial institutions and the stability of the EU financial sector, usually meets only in its narrow euro area composition without the participation of CNB representatives. Meetings in the full composition are usually organised as joint meetings with the ESRB Advisory Technical Committee (ESRB ATC). Within the FSC, the CNB mainly participated in data collection and the creation of a database of macroprudential measures in EU Member States.

Payment and Settlement Systems Committee (PSSC)

After many years, the PSSC ceased to address the issue of SEPA, as SEPA has now been implemented in the euro area. Likewise, the long-running T2S (TARGET2-Securities) project ceased to be a major topic, as the system went live in July 2015. The PSSC focused more on topics discussed by ESMA (RTS for CSDR, stress tests of central counterparties) and EBA (RTS for PSD2, strong client authentication and secure communication between providers and users of payment services).

The PSSC prepares suggestions for meetings of the ERPB (European Retail Payments Board) and reacts to their conclusions. Fast euro interbank payments within the euro area are an important topic. The plan is to complete a proposal by the end of 2016 and implement it by the end of 2017. Following the publication of the second ECB report on virtual currencies, the importance of this topic subsided. The PSSC decided to repeat a study on the social costs of retail payments (following up on a 2012 study). A simplified methodology has been prepared so far. The CNB is not expecting to take part in the preparation of the study. The PSSC is monitoring the Securities Financing Transactions – Data Store (SFT-DS) project, the aim of which is to introduce central data collection from trade repositories for supervisory purposes.

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

6.4 COOPERATION WITH THE EU COUNCIL AND ITS STRUCTURES

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

The CNB was involved in the preparation of ECOFIN decisions by proposing modifications to the mandates of the Ministry of Finance for the relevant meetings. The CNB drafted opinions and comments on the Ministry of Finance's instructions for EFC and FSC meetings.

With regard to the banking union, the CNB stressed the principle of individual responsibility of Member States for the condition of their banking sectors and rejected further fund-sharing between Member States to finance troubled banks. The CNB promoted this principle in the preparation of the agreement between banking union members on bridge financing of the Single Resolution Fund (SRF) and above all opposed the efforts of the Commission, the ECB and some Member States to accelerate the introduction of a permanent backstop for SRF financing between banking union members. ECOFIN meetings resulted in an agreement on individual national credit lines for the SRF without mutual sharing, and in confirmation of the current timing for the common backstop (2024). In the discussions, the CNB emphasised that systemic preconditions had yet to be created for any further sharing of costs and risks. Those preconditions included in particular verification of the practical functioning of the already agreed rules, verification of

the effectiveness of the new institutional structure (SSM/SRM), mitigation and convergence of risks between national banking sectors, and a solution to risks relating to the sovereign exposures of euro area banks. The CNB also emphasised that countries outside the banking union should receive equal treatment on the internal market and that the integrity of the internal market should be preserved.

In reaction to the publication of the Commission proposal for the European Deposit Insurance Scheme (EDIS), the CNB stressed that suitable conditions for its introduction (similar to those for the common backstop) had not been created. It also warned of the risk of moral hazard and expressed doubts about the choice of legal basis for the proposal, namely the TFEU provision on the harmonisation of measures to ensure the internal market.

As part of the preparation of a regulatory technical standard for MREL, the CNB supported maximum flexibility for resolution authorities so that MREL could be set with regard to the size, business model, financing model and risk profile of the institution, as the original EBA proposal placed an excessive burden on banks financed by deposits. The revised EBA proposal submitted to the Commission provided sufficient flexibility. The RTS for MREL had not been issued by the Commission by the end of 2015.

In reaction to the Commission's initiative to create the CMU, the CNB emphasised regulatory stability, an unweakened role of the banking sector in financial intermediation, a need to take only necessary steps with a favourable impact on economic growth and the EU's competitiveness, and the involvement of market participants in the whole process. It expressed its disagreement with the transfer of additional direct powers from national supervisory authorities to ESMA, any lowering of the requirements for prudent conduct by financial market entities, and any fall in investor protection.

MONEYVAL Committee

The September 2015 plenary meeting of the MONEYVAL Committee discussed, among other things, the Czech Republic's follow-up report on progress in the AML/CFT area, in which the Czech Republic described and analysed its progress in implementing the FATF recommendations. The MONEYVAL committee favourably assessed the establishment of a new CNB organisational unit to examine anti-money laundering measures. It was stated that the numbers of on-site examinations and penalties had increased, the cycle of examinations in credit institutions had been shortened, and more targeted examinations had also been conducted in the bureau-de-change sector, resulting in more administrative proceedings and more penalties.

6.5 COOPERATION WITHIN OTHER INTERNATIONAL ORGANISATIONS AND ASSOCIATIONS

Committee on Financial Markets (CFM) – OECD

In April and October 2015, the CNB participated in the meetings of the OECD Committee on Financial Markets (CFM). The CFM focused mainly on funding of small and medium-sized enterprises and the creation of regulatory incentives for long-term investment by pension funds and insurance companies in the real economy. In connection with the global climate change conference in Paris, the CFM also analysed the costs, risks and benefits of financial investment in sustainable sectors and technologies. The CFM was also an important platform for debating current trends on world financial markets. In these debates, the CFM concluded that the quantitative easing policy had supported the US recovery. The ECB's easy monetary policy had contributed to the stabilisation of euro area financial markets, but had not resolved the structural problems of some member economies or the fact that despite promising initial results, Japan must continue its economic and monetary policy efforts to suppress the sources of the deflationary stagnation of its economy. In addition, the CFM discussed the Chinese programme of further capital flow liberalisation aimed at supporting the transformation of the Chinese currency into a global reserve currency. It also debated the macroprudential measures adopted by some member countries and the extent to which those measures were in conformity with the OECD's capital liberalisation standards.

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 2015, these issues mainly encompassed financial inclusion, money

laundrying and cyber risk, the results of a public consultation from the first consultation proposal for a revision of the standardised approach to credit risk, plans for revising the securitisation regulations, implementation issues relating to the countercyclical capital buffer, and supervisory colleges. The CNB was also involved in discussions in the sovereign exposure regulation group and informed its members about the CNB's approach to supervision of concentration risk management for such exposures.

International Organisation of Pension Supervisors (IOPS)

As part of its cooperation with the IOPS in 2015, the CNB completed a questionnaire mapping the role of the supervisory authority in consumer protection in the area of supervision of private pension schemes. The CNB also commented on a draft IOPS report on the role of actuaries in supervision of pension schemes.

International Organization of Securities Commissions (IOSCO)

In 2015, the CNB was actively involved in IOSCO's work on a survey examining the practical use of the multilateral memorandum of understanding between capital market supervisors, a survey on capital market digitalisation and a survey focusing on the regulatory framework for the work of the audit committee. The CNB was actively involved in IOSCO's activities in the European Regional Committee and the Growth and Emerging Markets Committee.

6.6 COOPERATION WITH NATIONAL SUPERVISORY AUTHORITIES

In 2015, the CNB was involved in ten supervisory colleges for European banking groups and one group headquartered in the USA.⁴⁷ Beyond the traditional scope of cooperation, group recovery plans were newly discussed, and joint decisions will also be adopted on these plans. In 2015, work was launched on preparing coordination and cooperation agreements between the CNB and the ECB, which took over supervision of the parent companies of banking groups with subsidiary banks in the Czech Republic following the creation of the banking union. The CNB acts as a consolidating supervisory authority in one case, namely in the college for J&T Finance Group. In 2015, the colleges focused on carrying out joint assessments of the risk profiles of banking group members with a view to taking joint decisions on their minimum capital and liquidity levels.

The CNB was also actively involved in the meetings of supervisory colleges for international insurance groups. In 2015, the colleges focused on preliminary assessment and approval of internal models for the calculation of capital requirements under Solvency II. They also discussed and addressed the preparedness 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 2015, the CNB signed coordination agreements for supervision of the insurance groups Aegon, Allianz, AXA, BNP Paribas Cardif, Credimundi, Generali, KBC Insurance, MetLife Inc., Munich Re, NN, SOGECAP Société Générale, UNIQA, VIG and Wüstenrot & Württembergische.

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.

⁴⁷ GE Capital.

6.7 THE BANKING UNION AND THE CAPITAL MARKETS UNION PROJECT

The main events in the banking union in 2015 included the ECB's work on the initial phase of the Single Supervisory Mechanism (SSM) and the entry into force of the intergovernmental agreement (IGA) on the transfer and mutualisation of contributions under the Single Resolution Mechanism (SRM), which enabled the Single Resolution Fund to start up on 1 January 2016. The Member States participating in the banking union agreed at the ECOFIN meeting in December 2015 on a system of bridge financing of the SRF in the event of a shortage of funds in the SRF during its transitional period of operation (until 2024) through individual national credit lines not subject to mutualisation. It was confirmed that a permanent common backstop would be created during the transitional period to ensure full functioning of the SRF by the end of the transitional period.

In November 2015, the Commission submitted a proposal for an amendment to the SRM Regulation⁴⁸ aimed at creating a European Deposit Insurance Scheme (EDIS) in the banking union. The EDIS is to become the third pillar of the banking union, complementing the first and second pillars, namely the SSM and the SRM. The Commission's proposal for the third pillar aims to strengthen the banking union, increase depositor protection, support financial stability and weaken the nexus between banks and governments in the euro area. The EDIS proposal also included the gradual creation of a European Deposit Insurance Fund (DIF). After some Member States demanded that risks should be lowered across banking sectors before any further mutualisation, the Commission published a communication entitled "Towards the completion of the banking union", which partially maps out measures relating to the need for further risk reduction across banking sectors. In response to the Commission's proposal, the CNB stressed that suitable conditions had yet to be created for the introduction of a system of mutualisation. It pointed out that the adopted legislation had to be implemented and tested in practice, and that this should include verification of the effectiveness of the new institutional structure. It warned of a further possible increase in the risk of moral hazard stemming from the proposal. As regards the legal basis for the proposal, it pointed out that the proposal goes beyond mere harmonisation of measures to safeguard the internal market.

In the course of 2015, 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 participated in the Commission's public consultation on the CMU, stating among other things that it regards the CMU proposal as aimed partly at strengthening corporate financing and long-term projects using capital market instruments. It emphasised the need for a stable regulatory environment, a comprehensive cost-benefit analysis of any further regulation, the maintenance of the intermediating role of the banking sector, a reserved approach to the concept of qualified securitisation, consumer protection (including enhancement of financial literacy), no exemptions from capital requirements for risks arising from holdings of infrastructure assets, and no extension of the powers of ESMA or other supranational institutions to the detriment of national supervisory authorities.

As in 2014, the large number of legislative proposals issued by the European Commission in 2015 had a significant impact on the workload of the EBA, ESMA and EIOPA (the ESAs) and the European Systemic Risk Board (ESRB), especially in the preparation of regulatory and implementing technical standards.

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

⁴⁸ Proposal for an amendment to Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 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 and a Single Resolution Fund and amending Regulation (EU) No. 1093/2010.

PART B
THE FINANCIAL MARKET IN 2015

1. THE ECONOMIC ENVIRONMENT IN 2015⁴⁹

The Czech economy, which had returned to growth in 2013 Q4, surged in 2015. Real GDP growth of 4.3% was recorded for 2015 as a whole. All components of domestic demand, most notably gross capital formation and household consumption, contributed to the economic growth. The rise in household consumption was aided by relatively strong growth in real wages and salaries. The economic growth was also supported by a marked increase in government investment (financed primarily from EU funds), growth in external demand, low oil prices and – last but not least – still easy monetary conditions. Net exports made a slightly negative contribution to economic growth despite the growing external demand, as imports of consumer and investment goods continued to increase.

Inflation remained exceptionally low, averaging 0.3% in 2015. Both headline and monetary policy-relevant annual inflation were well below the lower boundary of the tolerance band around the CNB's target in 2015. The low inflation was due to subdued food price and administered price inflation and a deepening year-on-year decline in fuel prices. By contrast, core inflation accelerated above 1%.

The CNB Bank Board decided repeatedly to continue using the exchange rate as an additional instrument for easing the monetary conditions. At all its monetary policy meetings in 2015, it 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 is kept close to CZK 27 to the euro. It stated that a need to maintain expansionary monetary conditions at least to the current extent persisted.

The average CZK/EUR exchange rate appreciated slightly from 27.5 in 2014 to 27.3 in 2015. Conversely, the average CZK/USD rate weakened in year-on-year terms: in 2014 it had been 20.7, but in 2015 it reached 24.6.

The current account ended 2015 in a surplus of 0.9% of GDP. In absolute terms the surplus amounted to CZK 41.4 billion.

The average unemployment rate, as measured by the share of unemployed persons, decreased to 6.6% in 2015. Total employment and the number of employees converted into full-time equivalents both increased year on year. The average gross nominal wage in the national economy continued to rise in 2015, recording year-on-year growth of 3.4%. With nominal wage growth considerably outpacing the inflation rate, the average real wage increased for the second consecutive year, rising by 3.1% in 2015. The generally good macroeconomic results of the domestic economy were also reflected in a 3.0% year-on-year increase in total labour productivity in 2015.

⁴⁹ The data in this section are based on CZSO data available as of 12 April 2016.

Measures continued to be taken to reduce the public finance deficit in 2015. This led to a further decrease in the state budget deficit to 0.4% of GDP under ESA 95 methodology.⁵⁰ The government debt-to-GDP ratio also fell to 41.1% in 2015 as a result of these measures.

The Czech National Bank left its key interest rates unchanged at technical zero in 2015. The two-week repo rate thus remained at 0.05% (since the Bank Board's decision of 2 November 2012) and the discount and Lombard rates stayed unchanged at 0.05% and 0.25% respectively.

⁵⁰ ESA 95 – Eurostat's methodology for calculating the Maastricht convergence criteria on the government deficit and debt.

2. CREDIT INSTITUTION SECTORS

Data from the reporting statements submitted by banks for CNB supervisory purposes were used to prepare this Report. The information on the Czech banking sector consists of data on all banks and foreign bank branches operating in the Czech Republic. Data on the branches of those banks operating abroad are also included. The CNB is not included in the data. Some sections, dealing mainly with the sector composition of the banking sector, use data from monetary statistics reporting statements (which is expressly stated). For this reason, some of the figures are not fully comparable with the data given in other parts of this Report or in other CNB publications. For details see www.cnb.cz > Supervision, regulation > Aggregate information on the financial sector > Basic indicators of the financial market sectors > Banks, Credit unions.

2.1 STRUCTURE OF THE BANKING SECTOR

At the end of 2015, the Czech banking sector consisted of 46 banks and foreign bank branches ("banks"). The CNB granted no new banking licences during 2015. Two foreign bank branches – Bank of China (Hungary) Close Ltd. Prague Branch, odštěpný závod, and BNP Paribas Personan Finance SA, odštěpný závod – entered the Czech market in 2015, while the branch MEINL BANK Aktiengesellschaft, pobočka Praha, which had been operating on the domestic market since 2013, closed down. (See Table II.1)

The structure of the Czech banking sector has long been broadly unchanged. At the end of 2015 it consisted of four large banks, eight medium-sized banks and six small banks, along with five building societies and 23 foreign bank branches. The group of four large banks⁵¹ is still the largest component of the banking sector. Its share in total banking sector assets was almost 59%. (See Table II.2)

A total of 388 banks registered in other EU Member States were able to carry on business without establishing a branch in the Czech Republic on the basis of the single licence under EU law. Ten Czech banks were carrying on business in the EU in this way as of the end of 2015 (Komerční banka since 2004, GE Money Bank since 2005, PPF banka and Expobank since 2009, Česká exportní banka and Česká spořitelna since 2010, ČSOB and UniCredit Bank since 2013, J&T BANKA since 2014 and Raiffeisenbank since 2015).

Four domestic banks operate branches abroad (Fio banka, J&T BANKA, Komerční banka and UniCredit Bank). All of those branches are located in Slovakia.

TABLE II.1

NUMBER OF BANKS

	2013	2014	2015
BANKS, TOTAL	44	45	46
of which:			
banks	18	18	18
foreign bank branches	21	22	23
building societies	5	5	5

TABLE II.2

SHARES OF BANK GROUPS IN TOTAL ASSETS

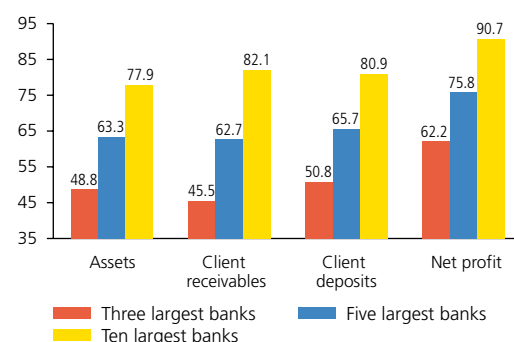
(as of end of period; in %)

	2013	2014	2015
BANKS, TOTAL	100.0	100.0	100.0
of which:			
large banks	58.7	57.1	58.7
medium-sized banks	19.9	21.1	19.6
small banks	3.1	3.4	4.2
foreign bank branches	9.1	9.8	9.6
building societies	9.2	8.6	7.9

CHART II.1

BANKING SECTOR CONCENTRATION

(in %; banks as of 31 December 2015)

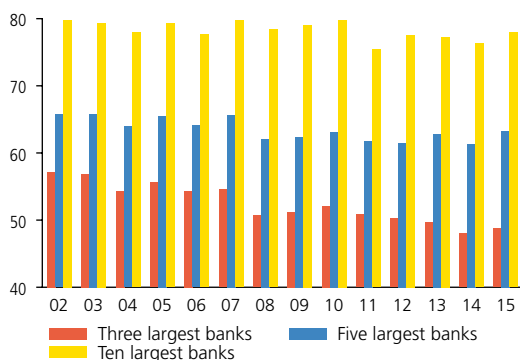


⁵¹ At the end of 2015, the group of four large banks consisted of Česká spořitelna, ČSOB, Komerční banka and UniCredit Bank. For details see Part C, Annexes.

CHART II.2

BANKING MARKET CONCENTRATION – ASSETS

(shares of the three, five and ten largest banks in %)



The degree of concentration of the Czech banking market, as expressed by the shares of the three, five and ten largest banks in total assets, has long been falling. Over the last ten years, the share of the three largest banks in the banking sector's total assets has dropped by 6.9 percentage points to 48.8%, that of the five largest banks by 2.2 percentage points to 63.3% and that of the ten largest banks by 1.4 percentage points to 77.9%. (See Charts II.1 and II.2)

Concentration in the loans to clients market, as expressed by the share of the three largest banks, has also long been gradually declining (down by 4.4 percentage points to 45.5% over the last ten years). By contrast, the share of the five and ten largest banks in the banking sector's total client receivables rose slightly – by 0.6 percentage point to 62.7% and by 2.8 percentage points to 82.1% respectively. (See Chart II.3)

The shares of the group of the largest banks also decreased in the client deposit market. Over the last ten years, the share of the three largest banks in the banking sector's total liabilities to clients has decreased by 7.9 percentage points to 50.8%, that of the five largest banks by 3.3 percentage points to 65.7% and that of the ten largest banks by 2.7 percentage points to 80.8%. (See Chart II.4)

CHART II.3

BANKING MARKET CONCENTRATION – CLIENT RECEIVABLES

(shares of the three, five and ten largest banks in %)

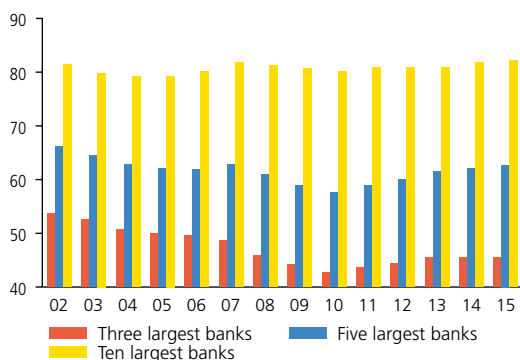
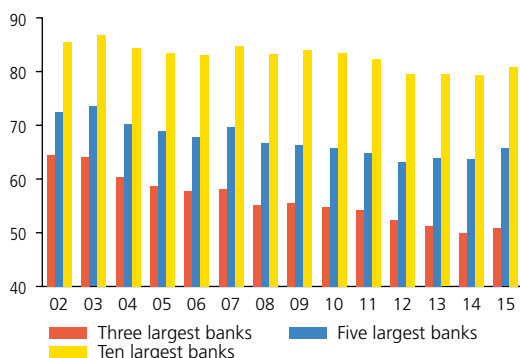


CHART II.4

BANKING MARKET CONCENTRATION – CLIENT DEPOSITS

(shares of the three, five and ten largest banks in %)



2.1.1 Ownership structure

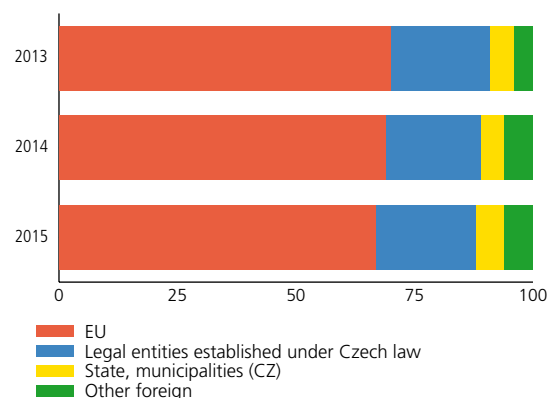
Foreign capital, mainly from the EU countries, has a dominant position in the Czech banking sector.

At the end of 2015, foreign owners directly or indirectly controlled 94.1% of the assets of the Czech banking sector,⁵² with foreign owners from EU Member States accounting for 89.7%. Foreign capital predominates in 15 banks, while nine banks are wholly foreign owned. There are eight Czech-controlled banks in the Czech Republic, two of which are state-controlled. (See Charts II.5 and II.6).

CHART II.5

OWNERSHIP STRUCTURE

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

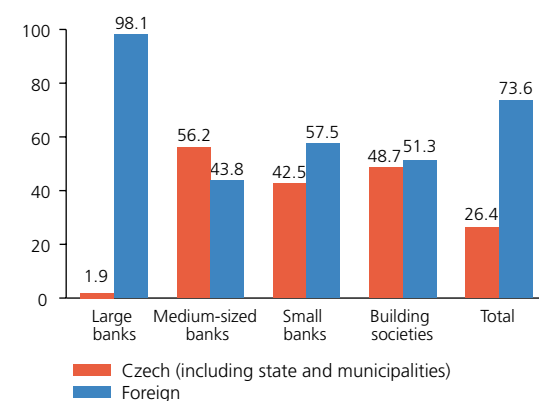


Note: Share in registered capital.

CHART II.6

CAPITAL ORIGIN

(shares in capital in %; banks as of 31 December 2015)

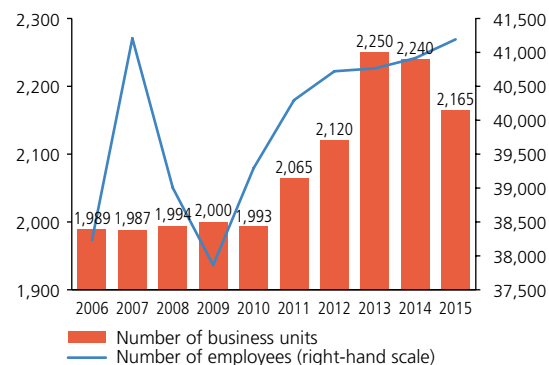


⁵² This refers to the share of the banking sector's assets controlled by foreign entities (i.e. foreign owners holding directly or indirectly at least 50% of the bank's shares) in the total assets of the banking sector.

CHART II.7

NUMBER OF EMPLOYEES AND BUSINESS UNITS

(inside and outside CZ; banks as of end of given year)

**2.2 EMPLOYEES AND BANKING UNITS**

A total of 41,192 persons were employed in the banking sector at the end of 2015.⁵³ The number of employees has increased minimally over the last three years, with the growth rate not exceeding 1% in any year. The four largest banks accounted for 67.2% of all banking sector employees in the period under review, while medium-sized and small banks accounted for 19.5% and 3.8% respectively. The remainder were employees of foreign bank branches and building societies (5.6% and 3.9% respectively). (See Chart II.7)

A total of 1,223 persons were working for Czech banks abroad.

The total number of business units ready to serve banking sector clients decreased by 74 to 2,074. There were thus slightly over 5,000 Czech citizens per banking unit. Banks had 91 business units abroad. Only one was located outside the EU/EEA. (See Table II.3)

The productivity of the banking sector, as measured by total assets administered per employee in the Czech Republic, rose by 1.2% year on year to CZK 136.8 million at the end of 2015.

TABLE II.3

EMPLOYEES AND BUSINESS UNITS IN THE CZECH REPUBLIC

(as of end of period)

	2013	2014	2015
NUMBER OF EMPLOYEES	39,483	39,12	39,969
Number of business units	2,158	2,148	2,074
Number of employees			
per bank	897.3	882.5	868.9
per business unit	18.3	18.5	19.3
Number of citizens			
per bank (thous.)	238.9	233.9	229.4
per business unit (thous.)	4.9	4.9	5.1
per employee	266.2	265.0	264.1

⁵³ The total number of banking sector employees in all countries where the banks operate (registered number of employees, full-time and part-time).

2.3 DISTRIBUTION CHANNELS AND PAYMENT CARDS

Banks provide their products and services via distribution channels. Business units at bank branches are still the mainstay. The number of domestic bank branches has not been reduced significantly as a result of digitisation, the internet and on-line banking. The largest decrease in the number of branches as being recorded by the group of large banks, mainly due to optimisation of their branch networks.

Banks simultaneously provide e-banking services allowing remote access to bank products and other services. The ATM network is one of the basic distribution channels of e-banking. At the end of 2015, a total of 4,539 ATMs were ready to serve clients, of which 97 were newly installed. This represents a year-on-year increase in number of 2.2%. ATMs with a cash withdrawal function account for almost 96% of all ATMs. (See Table II.4)

An increasing number of domestic banks' clients are using various other forms of electronic banking. Accounts can be managed remotely mainly using cards with a payment function, which totalled more than 11,800,000 in number at the end of 2015. Clients prefer debit cards, which increased in number by 4.1%. Debit cards account for almost 83% of all payment cards issued and more than 88% of the total volume of payment card transactions. The number of terminals at sales outlets has risen accordingly. The number of new terminals increased by 41,083, i.e. more than 40%, in 2015. Electronic terminals at sales outlets account for almost 68% of all terminals. (See Table II.5)

TABLE II.4

ACCEPTANCE DEVICES

(as of end of period)

	2013	2014	2015
ATMs, total	4,399	4,442	4,539
of which:			
ATMs with cash withdrawal function	4,364	4,436	4,343
ATMs with money transfer function	3,064	3,078	4,024
Terminals – acceptance devices at sales outlets	95,723	101,081	142,164
of which:			
Electronic terminals at sales outlets	79,957	84,382	96,364

TABLE II.5

PAYMENT CARDS

(number of cards issued in thousands)

	2013	2014	2015
Debit cards	8,777.3	9,399.2	9,781.6
Credit cards	1,609.7	1,584.9	2,055.4
Charge cards	4.9	5.0	4.5

2.4 ACTIVITIES OF THE BANKING SECTOR

2.4.1 Banking sector assets

The banking sector's total assets rose by CZK 160.2 billion (3.0%) year on year, reaching CZK 5,469.6 billion at the end of 2015. (See Table II.6)

TABLE II.6

BANKING SECTOR ASSETS

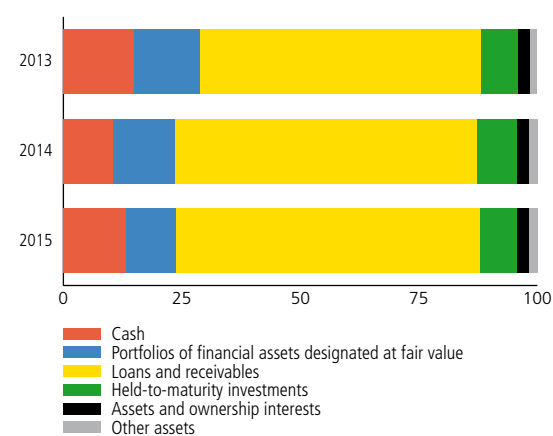
(in CZK billions)

	2013	2014	2015	Change 2015/2014 (in %)
NET ASSETS, TOTAL	5,142.4	5,309.4	5,469.6	3.0
Cash	43.1	49.4	56.1	13.6
Cash balances with central banks	662.5	465.4	621.7	33.6
Demand deposits of credit institutions	61.5	44.9	47.4	5.6
Financial assets held for trading	201.7	191.7	119.9	-37.4
Financial assets designated at fair value through profit or loss	21.7	15.0	11.1	-25.9
Available-for-sale financial assets	497.8	486.6	443.5	-8.9
Loans and receivables	3,050.3	3,379.5	3,504.9	3.7
Held-to-maturity investments	403.2	445.8	433.6	-2.7
Derivatives	32.5	53.1	44.6	-16.0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1.3	2.1	1.3	-39.9
Investments in subsidiaries, joint ventures and associates	84.2	98.7	95.5	-3.3
Tangible assets	29.4	27.9	25.9	-7.2
Intangible assets	15.2	15.3	18.9	23.1
Other assets	37.9	34.0	45.2	33.1

CHART II.8

STRUCTURE OF BANKING SECTOR ASSETS

(in %; as of end of period)



The prevailing business model of domestic banks based on deposit-taking and lending is reflected in the structure of total assets. Loans and receivables make up the largest share of total banking sector assets, accounting for 64.1% of the total as of 31 December 2015, 0.4 percentage point higher than a year earlier. Cash balances⁵⁴ and deposits at the CNB and credit institutions of up to 24 hours accounted for 13.3% of total assets (up by 2.8 percentage points year on year). Fair value financial asset portfolios, which are exposed to short-term price volatility on financial markets, accounted for 10.5% of total assets, i.e. 2.6 percentage points less than a year earlier. Held-to-maturity investments accounted for 7.9% of total assets (down by 0.5 percentage point year on year) and tangible and intangible assets and ownership interests for 2.6% (down by 0.1 percentage point year on year). The remaining 1.7% were other assets, including hedging derivatives, which accounted for around 0.8% of the total assets of the banking sector. (See Chart II.8)

54 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.

The biggest contribution to the growth in banking sector assets came from large banks, whose assets rose by CZK 183.5 billion (6.1%) to CZK 3,214.8 billion. Small banks' assets again saw the fastest growth, increasing by 24.8% year on year to above CZK 227 billion. The assets of medium-sized banks fell by 4.5% (CZK 50.1 billion) year on year to CZK 1,070.3 billion. The total assets of foreign bank branches increased by 0.5% year on year to CZK 522.6 billion. The total assets of building societies recorded a considerable decrease of CZK 21.2 billion (4.6%) to CZK 434.6 billion. (See Table II.7)

2.4.2 Loans and receivables of the banking sector

The net total loans and receivables of the banking sector in net terms (i.e. net of provisions) were up by 2.2% year on year to CZK 3,288.8 billion at the end of 2015.

Loans and receivables from central banks have been showing relatively high growth over the last two years and increased by 11.8% year on year to CZK 253.2 billion in 2015. By contrast, loans and receivables from financial institutions fell by a substantial 32.5% to CZK 202.7 billion.

Total loans and receivables provided to bank clients⁵⁵ ("client loans" or "loans to clients") showed faster growth, rising by 5.3% year on year to CZK 2,832.9 billion at the end of 2015. Client loans thus grew faster between 2015 and 2014 than between 2014 and 2013, when they rose by 4.6%. The share of client loans in the total loans of the banking sector rose by 2.5 percentage points year on year to 86.1% at the end of 2015. (See Chart II.9 and Table II.8)

TABLE II.7

BALANCE SHEET TOTALS OF BANK GROUPS

(in CZK billions)

	2013	2014	2015	Change 2015/2014 (in %)
BANKS, TOTAL	5,142.4	5,309.4	5,469.6	3.0
Large banks	3,018.3	3,031.4	3,214.8	6.1
Medium-sized banks	1,020.8	1,120.2	1,070.0	-4.5
Small banks	157.6	182.3	227.5	24.8
Foreign bank branches	473.8	519.8	522.6	0.5
Building societies	471.9	455.8	434.6	-4.6

CHART II.9

LOANS AND RECEIVABLES OF BANKING SECTOR

(in CZK billions; as of end of period)

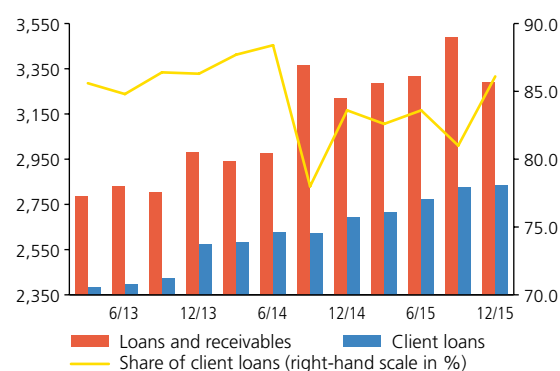


TABLE II.8

LOANS AND RECEIVABLES BY SECTOR

(in CZK billions)

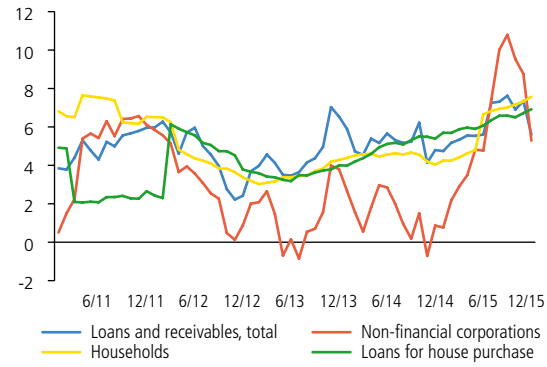
	2013	2014	2015	Change 2015/2014 (in %)
LOANS AND RECEIVABLES, TOTAL	2,979.3	3,218.2	3,288.8	2.2
Central banks	0.0	226.6	253.2	11.8
General government	82.4	87.1	83.8	-3.8
Credit institutions	407.5	300.4	202.7	-32.5
Other	2,489.4	2,604.1	2,749.1	5.6
Other financial institutions	n.a.	211.2	226.9	7.4
Non-financial corporations	n.a.	1,141.6	1,175.6	3.0
of which:				
Project financing	n.a.	173.9	160.6	-7.6
Households	n.a.	1,251.4	1,346.7	7.6
of which:				
Consumer credit	n.a.	167.2	174.7	4.4
Loans secured by property	n.a.	893.7	968.3	8.3
CLIENT LOANS	2,571.8	2,691.3	2,832.9	5.3

⁵⁵ Client loans comprise loans and receivables provided to general government, other financial institutions, non-financial corporations and households. Loans and receivables provided to central banks and other credit institutions are not included.

CHART II.10

ANNUAL RATES OF GROWTH OF CLIENT LOANS

(year-on-year change in %)



Loans to general government, the smallest component of client loans with a 3% share, decreased by 3.8% year on year to CZK 83.8 billion.

Loans provided to households and non-financial corporations are the largest-volume part of client loans and thus form the basis of total banking sector credit. Loans to households as a whole rose by 7.6% in 2015 to CZK 1,346.7 billion.

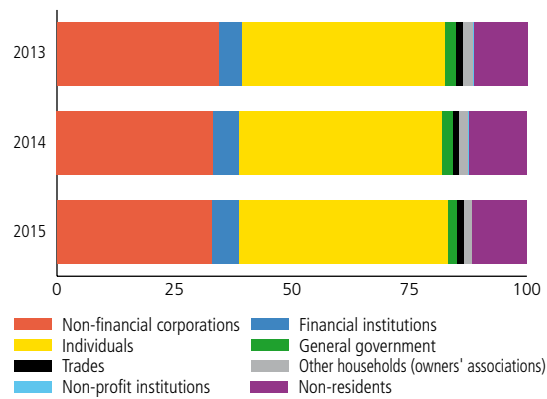
As regards purpose, loans secured by property are the main component of loans to households. These loans rose by 8.3% year on year to CZK 968.3 billion in 2015. Consumer credit of households also went up in 2015 – by 4.4% to CZK 174.7 billion.

Loans to non-financial corporations increased by 3.0% year on year to CZK 1,175.6 billion in 2015. A specific type of loans for this segment is project financing loans, which recorded a year-on-year decrease of 7.6% to CZK 160.6 billion.

CHART II.11

LOANS BY ECONOMIC SECTOR

(in %; as of end of period)



Monetary statistics data provide a more detailed view of the structure of loans to clients by sectoral breakdown and their comparison over the last three years.⁵⁶ Loans provided to households (broken down into individuals, trades and owners' associations⁵⁷) accounted for 47.5% of the banking sector's loan portfolio, with loans to individuals accounting for 44.4%, loans to trades for 1.3% and loans to other households (owners' associations) for 1.8% of total loans to bank clients. The share of loans to the corporate sector in total client loans has long been falling slightly in year-on-year terms and stood at 33.1% at the end of the year. Non-residents accounted for 11.5% of client loans, down by 0.7 percentage point from 2014. (See Chart II.11)

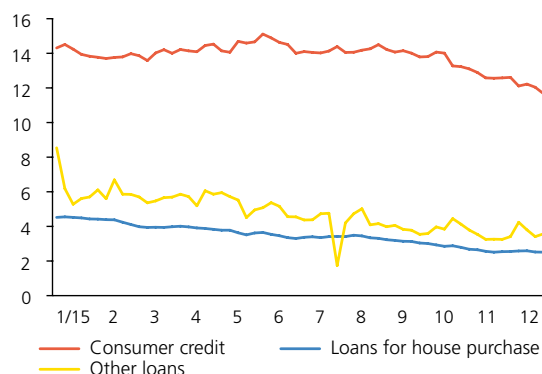
The environment of sustained low interest rates is reflected in interest rates on new loans. Average rates on new consumer credit and rates on other types of loans including house purchase loans gradually decreased in recent years. (See Chart II.12)

CHART II.12

INTEREST RATES ON NEW LOANS

Individuals

(in %; 2015)



⁵⁶ Data from the monetary statistics reporting statements submitted by banks were used to prepare Charts II.10, II.11 and II.12. 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.

⁵⁷ The household sector is divided into trades, individuals and other households – owners' associations.

2.4.3 Structure and growth of securities and equity portfolios

At the end of 2015, the banking sector held securities and equity (“total investment” or “investment”) amounting to CZK 1,250.1 billion, i.e. 4.3% less than at the end of 2014.⁵⁸ (See Table II.9)

As regards investment type, debt securities – in particular those issued by general government – prevailed. These debt securities represented 61.7% of the banking sector’s investment in securities and equity. Another 26.4% of such investment was in bonds issued by credit institutions and 3.8% was in debt securities issued by other clients. Debt instruments accounted for 91.9% of investment overall at the end of 2015. This represents a year-on-year decline of 0.5 percentage point. (See Chart II.13)

The total value of debt securities nevertheless fell by 4.9% year on year, mainly due to a 10.6% decrease in investment in general government debt.

Banks are involved to only a limited extent in stock markets and collective investment on their own account. Equity instruments in banks’ trading portfolios (held-for-trading shares designated at fair value through profit or loss and available-for-sale shares) accounted for only 1.2% of the banking sector’s total investment in securities. This represents a year-on-year increase of 0.5 percentage point. Investment in equity instruments rose by 74.1% year on year to CZK 14.6 billion, mainly due to a rise in investment in shares (of 125.1%).

Interests in associates and subsidiaries and in joint ventures are a relatively stable part of total investment (7.0%). The interests of domestic banks in associates and subsidiaries declined by 4.5% to CZK 87.0 billion in 2015. Controlling shares are predominant, accounting for 97.1% of the total value of ownership interests.

In 2015, as in previous years, ownership interests were held mainly by large banks. The total value of their interests accounted for 81.5% of the banking sector’s total ownership interests.

TABLE II.9

SECURITIES BY ISSUER’S SECTOR, PORTFOLIO AND TYPE

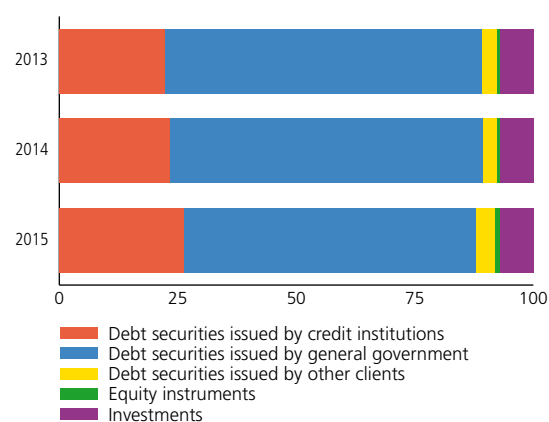
(in CZK billions)

	2013	2014	2015	Change 2015/2014 (in %)
SECURITIES AND INVESTMENTS, TOTAL	1,209.0	1,306.6	1,250.1	-4.3
Debt securities, total	1,115.3	1,207.0	1,148.5	-4.9
Debt securities issued by credit institutions	269.1	305.7	329.6	7.8
Debt securities issued by general government	810.0	862.2	771.2	-10.6
Debt securities issued by other clients	36.2	39.1	47.7	21.9
Equity instruments	9.4	8.4	14.6	74.1
Shares	3.0	4.0	9.0	125.1
Units	6.2	4.1	5.3	29.4
Other equity instruments	0.2	0.3	0.3	2.0
Investments in subsidiaries, joint ventures and associates	84.4	91.2	87.0	-4.5
Investments in subsidiaries	8.4	8.6	2.5	-71.0
Investments in subsidiaries – credit institutions	5.5	6.3	0.0	-100.0
Other investments in subsidiaries	2.9	2.3	2.5	7.5
Investments in associates	75.9	82.6	84.6	2.4
Investments in associates – credit institutions	33.3	36.6	39.5	7.8
Other investments in associates	42.7	46.0	45.1	-1.9

CHART II.13

SECURITIES AND INVESTMENTS OF BANKING SECTOR

(in %; as of end of period)



58 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.

2.4.4 Structure and growth of banking sector liabilities

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 by 3.0% year on year to CZK 5,469.6 billion in 2014. Liabilities increased by 3.0% (by CZK 145.3 billion to CZK 4,942.3 billion) and equity by 2.9% (by CZK 14.9 billion to CZK 527.2 billion). (See Table II.10)

TABLE II.10

BANKING SECTOR LIABILITIES

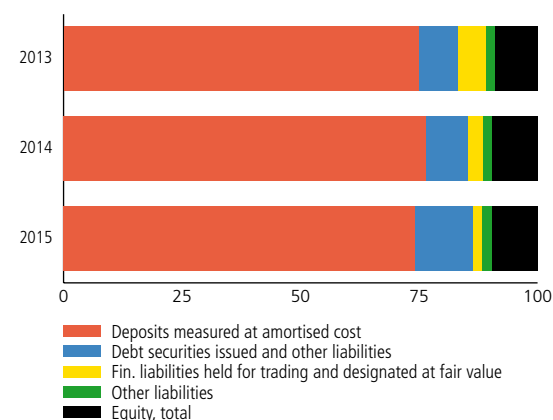
(in CZK billions)

	2013	2014	2015	Change 2015/2014 (in %)
LIABILITIES AND EQUITY, TOTAL	5,142.4	5,309.4	5,469.6	3.0
Liabilities, total	4,679.7	4,797.0	4,942.3	3.0
Financial liabilities held for trading	294.5	153.8	93.1	-39.5
Derivatives	77.8	85.7	63.7	-25.7
Short positions	15.0	16.1	17.2	6.9
Deposits	196.6	45.0	1.6	-96.5
Debt securities issued	5.1	7.1	10.1	42.6
Other financial liabilities	0.0	0.0	0.6	N/A
Financial liabilities designated at fair value through profit or loss	16.8	9.7	4.0	-58.4
Deposits	12.6	8.9	4.0	-54.7
Debt securities issued	4.2	0.8	0.0	-100.0
Financial liabilities measured at amortised cost	4,281.6	4,532.9	4,728.1	4.3
Deposits measured at amortised cost	3,863.9	4,060.7	4,057.7	-0.1
Debt securities issued and other liabilities	417.7	472.2	670.4	42.0
Derivatives – hedge accounting	27.5	33.3	27.4	-17.8
Provisions	11.3	11.5	12.5	8.9
Tax liabilities	7.8	8.9	9.0	1.0
Other liabilities	40.3	46.9	50.9	8.6
Liabilities included in disposal groups classified as held for sale	0.0	0.0	17.2	N/A
Equity, total	462.7	512.3	527.2	2.9
Capital	94.3	96.3	97.7	1.4
Share premium	50.8	54.0	62.6	16.0
Retained earnings	179.5	204.5	199.2	-2.6
Other reserves	55.6	55.3	53.1	-4.1
Profit or loss attributable to owners of the parent	61.0	63.1	66.6	5.5
Other equity	21.5	39.1	48.0	22.8

CHART II.14

STRUCTURE OF BANKING SECTOR LIABILITIES

(in %; as of end of period)



Total deposits (i.e. deposits measured at amortised cost and at fair value and deposits held for trading) accounted for 74.3% of banking sector liabilities, while total debt securities issued accounted for 12.4% and banks' equity for 9.6%. The remainder of the banking sector's liabilities (3.7%) were other liabilities items, e.g. reserves, tax liabilities and liabilities from derivatives transactions or short selling. (See Chart II.14)

The banking sector's total deposits decreased by 1.2% to CZK 4,063.3 billion in 2015. Deposits at amortised cost fell by 0.1% year on year to CZK 4,057.7 billion. The total value of the debt securities issued by the banking sector rose by 41.8% year on year to CZK 680.5 billion as of the end of 2015. The value of issued debt securities at amortised cost was CZK 670.4 billion at the end of 2015, up by 42.0% compared to the end of 2014. Issued debt securities held for trading in banks' liabilities increased by 42.6% year on year to CZK 10.1 billion.

Deposits of bank clients (i.e. deposits of other persons and deposits of general government excluding central banks and other credit institutions; also referred to as “client deposits”) account for most of the banking sector’s total deposits. They made up 89.4% of total deposits at the end of 2015. Deposits of other persons accounted for 84.0% and deposits of general government for 5.4% of the total deposits of the banking sector. Deposits received from other credit institutions accounted for 10.3% of the total sector. These deposits fell by 24.8% year on year to CZK 589.0 billion at the end of 2015. Deposits of central banks accounted for 0.3% of the banking sector’s total deposits. (See Chart II.15)

Capital represents the primary internal source of funding for banks’ business activities. The equity of the banking sector as a whole totalled CZK 527.6 billion at the end of 2015, up by 8.4% compared to the end of 2014. Retained earnings are the biggest equity item, amounting to CZK 199.2 billion and accounting for 37.8% of total equity. Bank capital increased by 1.4% year on year to CZK 97.7 billion and share premium rose by as much as 16.0% year on year to CZK 62.6 billion. Banks’ reserve funds fell by 4.1% year on year to CZK 53.1 billion. The total profit of the banking sector increased by 5.5% year on year to CZK 66.6 billion in 2015.

2.4.5 Deposits of bank clients and their structure

The growth rate of client deposits rose compared to 2014. The volume of client deposits rose by 2.2% in 2015, i.e. 0.3 percentage point more than in 2014. The total deposits of bank clients reached CZK 3,634.0 billion at the end of 2015. (See Table II.11)

As regards the individual groups of banks, small banks recorded the largest increase in client deposits (of 27.6% to CZK 541.6 billion). Client deposits in the group of large banks rose by 5.0% year on year to CZK 2,203.3 billion, accounting for 60.6% of the client deposits of the banking sector. Deposits in foreign bank branches also went up in 2015 (by 5.2% to CZK 306.5 billion), while medium-sized banks and building societies recorded an outflow of client deposits of 9.0% and 7.4% respectively in 2015.

Most of the banking sector’s client deposits are household deposits, which rose by 5.5% to CZK 2,168.1 billion in 2015, mainly as a result of a rise in the value of current account balances, which increased by 15.2% year on year to CZK 1,293.1 billion in 2015. The largest proportion of household deposits is held by large banks (55.8%), followed by building societies (17.7%) and medium-sized banks (12.7%).

Deposits of non-financial corporations showed the most dynamic growth in 2015 (compared to deposits of other segments), going up by 11.5% to CZK 1,047.3 billion.

CHART II.15

DEPOSITS OF BANKING SECTOR

(in CZK billions; as of end of period)

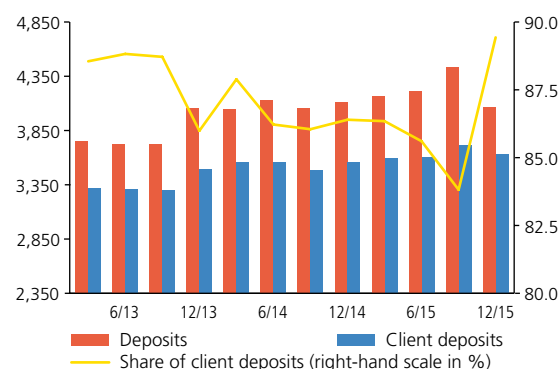


TABLE II.11

CLIENT DEPOSITS OF BANKING SECTOR

(in CZK billions)

	2013	2014	2015	Změna 2015/2014 (v %)
CLIENT DEPOSITS, TOTAL	3,490.2	3,554.9	3,634.0	2.2
General government	433.6	343.1	218.9	-36.2
Deposits of other entities and not broken down by sector	3,056.6	3,211.8	3,415.1	6.3
Deposits of other financial institutions	N/A	216.9	199.7	-7.9
Deposits of non-financial corporations	N/A	938.9	1,047.3	11.5
Deposits of households	N/A	2,056.0	2,168.1	5.5
Current accounts	N/A	1,122.7	1,293.1	15.2
Time deposits	N/A	313.9	296.3	-5.6
Deposits redeemable at notice	N/A	619.4	578.8	-6.6

CHART II.16

DEPOSITS BY ECONOMIC SECTOR

(in %; as of end of period)

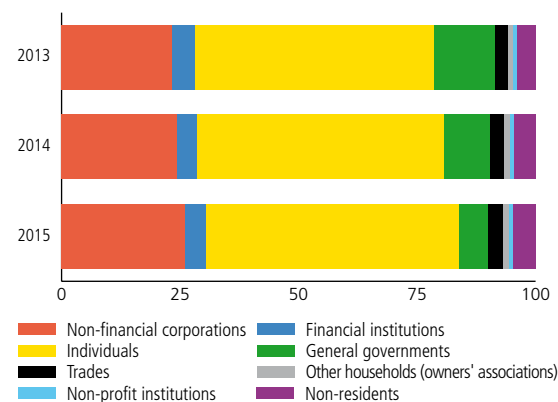
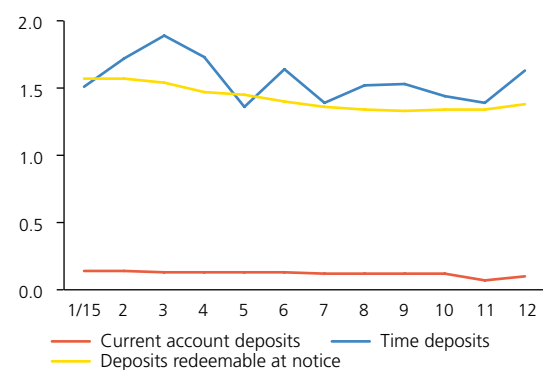


CHART II.17

INTEREST RATES ON NEW DEPOSITS

Individuals

(in %; 2015)



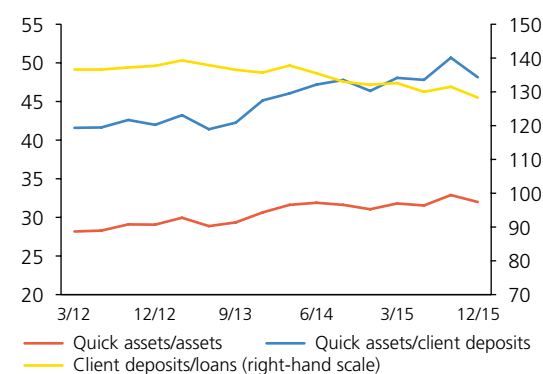
As in the case of loans, monetary statistics data provide a detailed view of the structure of client deposits by sectoral breakdown and their comparison over the last three years.⁵⁹ Deposits of households as a whole (i.e. deposits of individuals, trades and other households) accounted for 57.8% of total client deposits in 2015, i.e. 1.8 percentage points more than in 2014. Deposits of non-financial corporations accounted for 26.2% of total client deposits (up by 1.8 percentage points on 2014). The share of general government deposits fell by 3.8 percentage points year on year to 6.1%. Deposits of clients from other sectors have only very small shares in total client deposits, with financial institutions accounting for 4.3%, non-residents for 4.8% and non-profit organisations for just 0.9%. (See Chart II.16)

While household deposits in the banking sector rose in both absolute and relative terms, interest rates on new deposits continued to decline. The average rate on current account deposits fell by 0.04 percentage point over the course of the year to 0.10% at the end of 2015. Similarly, the average rate on new deposits redeemable at notice also decreased, in this case by as much as 1.63%. The average time deposit rate fluctuated around 1.5% during the year and stood at 1.38% at the end of 2015. (See Chart II.17)

CHART II.18

LIQUIDITY RATIOS OF BANKING SECTOR

(in %)



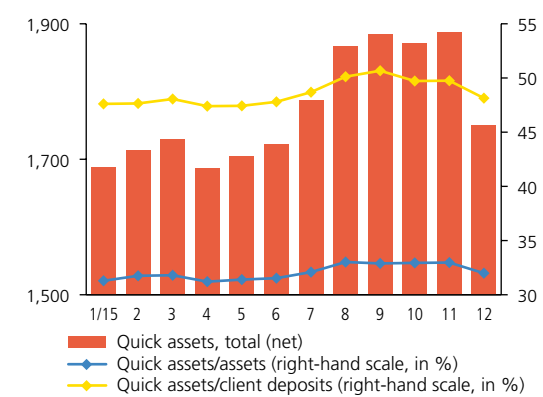
2.4.6 Liquidity situation of the banking sector

The banking sector as a whole has long been characterised by a good liquidity position with a sizeable excess of client deposits over client loans. The ratio of client deposits to loans provided to bank clients has stood above 130% over the past few years. Owing to different growth rates of loans and deposits over the last two years, with loans having risen faster than deposits in both 2014 and 2015, loan coverage by primary funds dropped gradually to 128.3% at the end of 2015. (See Chart II.18)

CHART II.19

QUICK ASSETS IN 2015

(in CZK billions; in %)



Despite the relative decline in the excess of deposits over loans, the quick asset ratio improved further in 2015. Quick assets increased by 6.1% year on year to CZK 1,749.5 billion at the end of 2015. The increase in quick assets was due mainly to a rise in deposits with central banks, with short-term deposits rising by 29.6% year on year and other deposits with central banks going up by 11.8% year on year to CZK 253.2 billion. Conversely, government bonds held to maturity in the balance sheets of Czech banks decreased by 10.6% year on year to CZK 771.1 billion. (See Chart II.19)

⁵⁹ Data from the monetary statistics reporting statements submitted by banks were used to prepare Charts II.16 and II.17. These statements use a different methodology than the banking supervision statements, so the data are slightly different from the banking supervision data.

The share of quick assets in the assets of the banking sector rose again year on year, this time by 0.8 percentage point to 32.0% at the end of 2015. The banking sector's sufficient liquidity buffer gives banks room to expand their lending activities.

However, the liquidity buffer levels differ across the individual groups of banks. Low ratios of quick assets to total assets relative to the other segments of the banking sector are recorded by building societies (22.2%), which deposit excess liquidity with their parent banks, and by medium-sized banks (22.7%). Conversely, small banks and foreign bank branches maintain higher capital buffers than the other groups of banks (46.5% and 46.6% respectively). (See Chart II.20)

The ratio of quick assets to client deposits also showed relatively favourable developments in 2015. It recorded an increase of 1.8 percentage points to 48.1% compared to the end of 2014. (See Chart II.19)

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. (See Table II.12)

2.4.7 The share of foreign currencies in the banking sector's activities⁶⁰

Although koruna assets and liabilities play the main role in the activities of the domestic banking sector, foreign currency assets and liabilities are becoming increasingly important, especially for some types of assets. (See Table II.13 and Chart II.21)

CHART II.20

LIQUIDITY RATIOS OF BANK GROUPS

(in %; as of 31 December 2015)

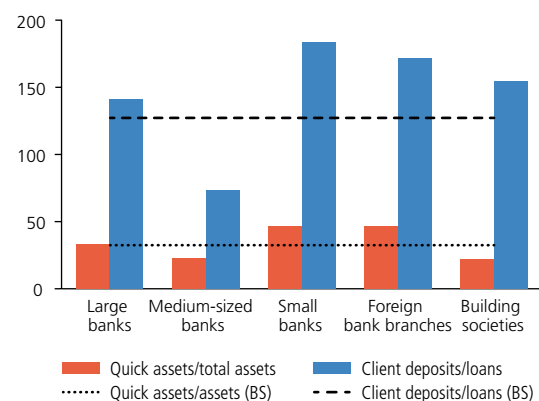


TABLE II.12

LIQUIDITY OF BANKING SECTOR

(in %/CZK billions; as of end of period)

	2013	2014	2015
QUICK ASSETS, TOTAL (CZK billions)	1,575.3	1,677.3	1,749.5
POSITION			
Position on interbank market (CZK billions)	-175.4	-255.2	-212.4
Ratio of position on interbank market to balance sheet total of BS (%)	-3.4	-4.8	-3.9
OTHER LIQUIDITY RATIOS			
Loan coverage by primary funds (%)	135.7	132.1	128.3
Quick assets/assets (%)	30.6	31.2	32.0

TABLE II.13

ASSETS AND LIABILITIES – FOREIGN CURRENCIES

(in CZK billions)

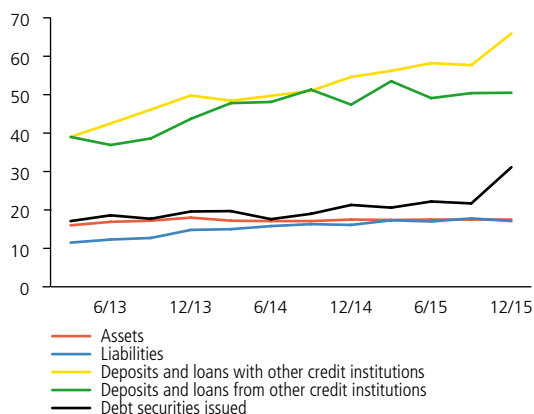
	2013	2014	2015	Change 2015/2014 (in %)
ASSETS, TOTAL	936.0	941.5	969.0	2.9
Cash	6.9	7.3	8.9	21.4
Deposits and loans with other credit institutions	256.4	224.6	206.3	-8.2
Loans and other client receivables, total	457.7	490.8	519.8	5.9
Debt securities held by bank	160.4	156.0	169.6	8.7
Equity instruments held by bank	22.5	22.7	25.4	11.5
Other assets	32.1	40.1	39.1	-2.4
LIABILITIES, TOTAL	770.9	869.6	947.9	9.0
Deposits and loans from other credit institutions	261.1	279.1	238.5	-14.6
Deposits and loans from clients	371.8	421.0	426.4	1.3
Debt securities issued	83.8	93.4	197.1	111.1
Equity and provisions	17.9	28.7	38.7	35.0
Other liabilities	36.3	47.3	47.1	-0.4

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

CHART II.21

SHARES OF FOREIGN CURRENCIES

(in %; banking sector balance sheet)



The foreign currency assets of the banking sector increased by 2.9% year on year to CZK 969.0 billion at the end of 2015. The growth in foreign currency assets was thus 0.1 percentage point lower than the percentage growth in the banking sector's total assets. As in 2014, the slower growth in foreign currency assets in 2015 was mainly a result of a decline in interbank foreign currency deposits and loans of 8.2% to CZK 206.3 billion. Foreign currency debt securities held by banks showed the opposite dynamics in 2015, increasing by 2.8% year on year to CZK 169.6 billion. The largest-volume item of foreign currency loans, client loans, rose by 5.9% year on year to CZK 519.8 billion.

At the end of 2015, foreign currency assets accounted for 17.5% of total assets of the banking sector, i.e. the same share as in 2014. Foreign currencies play the biggest role in interbank loans, accounting for 65.9%. This is 11.3 percentage points more than in the previous year (54.6%).

Foreign currency liabilities showed much faster growth than foreign currency assets in 2015, rising by 9.0% year on year to CZK 947.9 billion. This represents 17.1% of banking sector liabilities. The values of foreign currency assets and liabilities have gradually been converging over the last three years. Assets currently exceed liabilities by CZK 21.1 billion, whereas in 2013 the difference was CZK 165.1 billion.

Growth in foreign currency liabilities was affected mainly by an increase in securities issued, which rose by 111.1% year on year to CZK 197.1 billion. Foreign currency bonds accounted for 31.1% of total bonds issued at the end of 2015, up by 9.8 percentage points on the end of 2014. Foreign currency interbank loans and deposits grew by a modest 1.3% to CZK 426.4 billion. (See Table II.13 and Chart II.21)

2.4.8 Assets and liabilities vis-à-vis non-residents⁶¹

Non-resident assets fell by 2.5% year on year to CZK 794.6 billion at the end of 2015 and their share in the total assets of the banking sector decreased by 0.8 percentage points year on year to 14.3%. (See Table II.14 and Chart II.22)

TABLE II.14

ASSETS AND LIABILITIES – NON-RESIDENTS

(in CZK billions)

	2013	2014	2015	Change 2015/2014 (in %)
ASSETS, TOTAL	767.8	814.7	794.6	-2.5
Cash	6.9	7.3	8.9	21.4
Loans and deposits provided (credit institutions)	295.0	267.3	248.8	-6.9
Other loans and deposits provided	287.2	322.0	320.9	-0.3
Debt securities held by bank	93.5	107.1	119.3	11.4
Equity instruments held by bank	22.5	20.7	22.5	8.8
Other assets	62.7	90.2	74.2	-17.8
LIABILITIES, TOTAL	686.1	806.8	909.2	12.7
Loans and deposits accepted (credit institutions)	373.2	438.5	404.5	-7.7
Other loans and deposits accepted	132.1	156.9	167.9	7.0
Debt securities issued	48.3	63.1	206.6	227.5
Equity and provisions	42.9	42.6	46.3	8.7
Other liabilities	89.6	105.8	83.9	-20.7

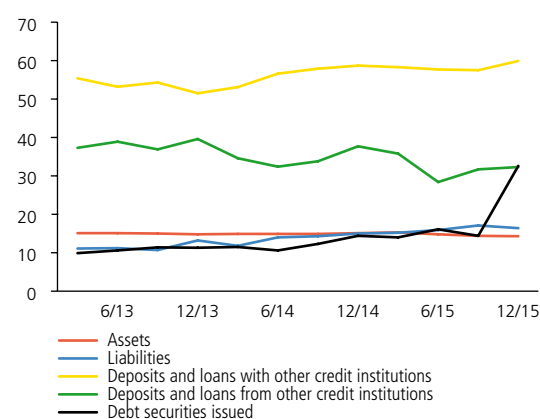
Client loans, which fell by 0.3% year on year to CZK 320.9 billion at the end of 2015, accounted for the largest share of non-resident assets (40.4%). Deposits and loans with foreign credit institutions, which account for 31.3% of non-resident assets, are the second largest item of non-resident assets. Such loans dropped by 6.9% year on year to CZK 248.8 billion. By contrast, the amount of foreign debt securities in banks' portfolios increased by 11.4% year on year to CZK 119.3 billion. Foreign debt securities now account for 32.6% of total debt securities, an increase of 18.2 percentage points compared to the end of 2014. Derivatives trading accounts for a comparatively large share of transactions with non-residents. However, banks restricted these transactions in 2015 in relative terms, as the positive fair value of derivatives went down by 21.6% to CZK 63.5 billion. This represented a drop of more than CZK 17.5 billion compared to 2014.

Non-resident liabilities rose by 12.7% year on year to CZK 909.2 billion at the end of 2015 and their share in the total liabilities of the banking sector increased by 1.4 percentage points to 16.4%. The largest item of non-resident liabilities is deposits accepted from foreign credit institutions, which dropped by 7.7% year on year to CZK 404.5 billion in 2015. This drop contributed to a decrease in the share of these

CHART II.22

NON-RESIDENT TRANSACTIONS

(in %; banking sector balance sheet)



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

deposits in deposits accepted from other credit institutions of 5.4 percentage points to 32.3%. Significant growth was recorded for bonds held by non-residents, which increased by 227.5% year on year to CZK 206.6 billion. (See Table II.14 and Chart II.22)

2.4.9 Territorial focus of banking sector activities

From a territorial point of view, total exposure as measured by assets held, receivables provided and deposits accepted reveals that the Czech banking sector is exposed primarily to the domestic market. The foreign exposure of the Czech banking sector is oriented mainly towards EU countries, which account for 83.8% of the sector's total exposure abroad as measured by assets held (and for 79.3% in the case of receivables and 88.4% in the case of deposits). Exposure to other countries is significant mainly in the case of receivables (21% of total foreign exposure). As regards exposure to individual countries, Slovakia is in first place (with 31.4% of total foreign exposure as measured by assets). The Czech banking sector also has significant exposure to the Netherlands (where holdings of receivables account for 17.8% of total foreign exposure). In terms of exposure as measured by deposits provided, the Czech banking sector is also significantly exposed to Austria (13.2% of foreign exposure) and the UK (15.2% of foreign exposure). (See Chart II.23)

CHART II.23

TERRITORIAL FOCUS OF BANKING SECTOR

(in %; as of 31 December 2015)

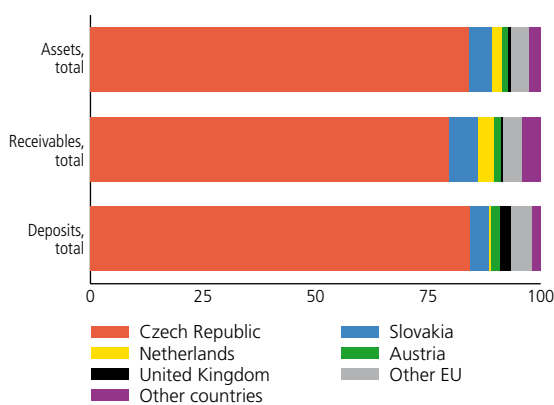


TABLE II.15

BANKING SECTOR OFF-BALANCE SHEET

(in CZK billions)

	2013	2014	2015	Change 2015/2014 (in %)
OFF-BALANCE SHEET ASSETS				
Loan commitments given	462.2	657.6	735.6	11.8
Financial guarantees given	257.4	179.0	159.2	-11.1
Other commitments given	N/A	200.6	241.6	20.4
OFF-BALANCE SHEET LIABILITIES				
Loan commitments received	8.0	7.8	7.0	-10.8
Financial guarantees received	464.7	452.3	405.8	-10.3
Other commitments received	N/A	1.3	1.4	7.9

2.4.10 Banking sector off-balance sheet⁶²

Loan commitments are contractual commitments of a bank to provide credit to a client in the future under terms specified in advance, such as the maximum amount of the expected loan, repayment dates and the type of collateral. Total loan commitments include both irrevocable and revocable commitments. Domestic banks had given loan commitments totalling CZK 735.6 billion at the end of 2015. This represented a year-on-year increase of 11.8%. (See Table II.15)

Another notional off-balance asset item is financial guarantees given, which fell by 11.1% year on year to CZK 159.2 billion.

⁶² 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. 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.

Besides loan commitments, banks gave other financial commitments (e.g. a commitment to provide a financial guarantee) totalling CZK 241.6 billion, up by 20.4% year on year.

Given the good liquidity position of the banking sector, notional off-balance sheet liabilities consist mainly of financial guarantees received, which totalled CZK 405.8 billion (down by 10.3% compared to 2014). Loan commitments received amounted to only CZK 7.0 billion. Other commitments received by banks were of limited significance, totalling CZK 1.4 billion.

2.5 ASSET QUALITY

TABLE II.16

CLASSIFICATION OF RECEIVABLES – CLIENT RECEIVABLES

(in CZK billions)

	2013	2014	2015	Change 2015/2014 (in %)
Receivables, total (gross)	2,655.7	2,775.2	2,916.4	5.1
Non-default	2,494.4	2,600.2	2,743.5	5.5
Standard receivables	2,375.7	2,500.3	2,665.0	6.6
Watch receivables	118.7	99.9	78.5	-21.4
Default receivables	161.3	175.0	172.9	-1.2
Substandard receivables	42.7	51.8	63.9	23.4
Doubtful receivables	23.1	19.2	13.4	-30.3
Loss receivables	95.5	104.0	95.6	-8.0
Allowances, total	92.7	92.5	90.7	-2.0
Non-default	9.6	9.2	10.9	17.6
Standard receivables	4.0	4.4	6.0	37.2
Watch receivables	5.6	4.9	4.9	0.0
Default receivables	83.1	83.3	79.8	-4.2
Substandard receivables	8.5	9.6	11.2	16.3
Doubtful receivables	8.0	6.8	4.6	-31.9
Loss receivables	66.6	66.9	64.0	-4.3
Coverage of non-default receivables (in %)	0.4	0.4	0.4	N/A
Coverage of default receivables (in %)	51.6	47.6	46.2	N/A

2.5.1 Default loans and receivables⁶³

When performing financial market supervision, the Czech National Bank has long paid great attention to regularly reviewing the quality of banking sector receivables. Receivables are classified as default or non-default on the basis of predefined criteria and an assessment of the quality of the receivables.

The quality of the domestic banking sector's loan portfolio as a whole improved slightly in 2015. Default receivables⁶⁴ (from clients and credit institutions in total) dropped by 1.2% year on year to CZK 173.3 billion, while total receivables increased by 1.6% year on year to CZK 3,165.6 billion (at gross value, i.e. excluding allowances). The share of default loans in total banking sector receivables thus fell by 0.1 percentage point year on year to 5.5%.

Receivables from clients, which decreased by 1.2% year on year to CZK 172.9 billion, accounted for the majority of default receivables (99.8%). Substandard receivables from clients grew by 23.4% to CZK 63.9 billion, while doubtful and loss receivables declined year on year. Doubtful receivables fell by 30.3% year on year to

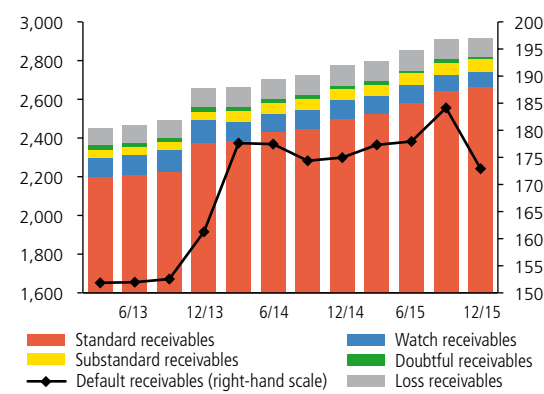
63 Classification of receivables according to CNB rules. See Decree No. 163/2014 Coll., on the pursuit of business of banks, credit unions and investment firms.

64 Substandard, doubtful and loss receivables.

CHART II.24

CLASSIFICATION OF RECEIVABLES FROM CLIENTS

(in CZK billions; as of end of period)



CZK 95.6 billion. Loss receivables also decreased, falling by 8.0% year on year to CZK 13.4 billion. (See Table II.16 and Chart II.24)

Default receivables from credit institutions rose by 2.4% year on year to CZK 368.7 billion at the end of 2015. (See Table II.17)

TABLE II.17

CLASSIFICATION OF RECEIVABLES – CREDIT INSTITUTIONS

(in CZK millions)

	2013	2014	2015	Change 2015/2014 (in %)
Receivables, total (gross)	450,707.2	340,196.8	249,214.7	-26.7
Non-default	450,298.9	339,836.6	248,845.9	-26.8
Standard receivables	447,751.7	337,345.3	246,095.9	-27.0
Watch receivables	2,547.1	2,491.3	2,750.0	10.4
Default receivables	408.3	360.3	368.7	2.4
Substandard receivables	242.0	0.0	246.4	N/A
Doubtful receivables	31.6	222.2	0.0	-100.0
Loss receivables	134.8	138.1	122.4	-11.4
Allowances, total	159.2	140.3	179.2	27.7
Non-default	31.4	1.0	25.9	2459.4
Standard receivables	31.4	0.8	11.4	1250.8
Watch receivables	0.0	0.2	14.5	8618.7
Default receivables	127.9	139.3	153.3	10.0
Substandard receivables	0.0	0.0	30.9	N/A
Doubtful receivables	3.6	1.2	0.0	-100.0
Loss receivables	124.3	138.1	122.4	-11.4
Coverage of non-default receivables (in %)	0.01	0.00	0.01	N/A
Coverage of default receivables (in %)	31.3	38.7	41.6	N/A

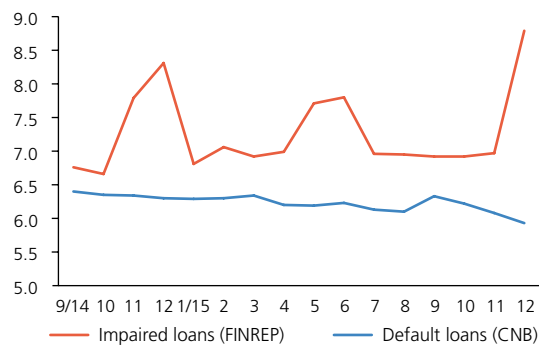
Total allowances, which banks create to cover losses from the client loan portfolio, decreased by 2.0% to CZK 90.7 billion in 2015. Most of these allowances were created for individual receivables. The total amount of allowances created to cover losses from the portfolio of loans to credit institutions rose by 27.7% to CZK 179.2 million in 2015.

Total coverage of default loans by allowances in the case of receivables from clients recorded a modest decline of 1.4 percentage points to 46.2% in 2015. As regards receivables from credit institutions, total coverage of default loans by allowances increased moderately by 2.9 percentage points to 41.6%.

CHART II.25

IMPAIRED LOANS AND DEFAULT LOANS

(in %; 2014 and 2015)

**2.5.2 Impaired loans and receivables**

In compliance with their reporting duties under the FINREP single reporting framework⁶⁵ and in accordance with the relevant accounting standards, banks have been reporting financial assets assigned to the portfolios of loans and other receivables and held-to-maturity financial investments broken down into unimpaired and impaired assets since 2014. The value of the impaired loans and receivables of the banking sector rose by 8.1% year on year to CZK 297.1 billion in 2015,⁶⁶ while the gross value of the total loans of the banking sector increased by 2.2%. The share of impaired loans in total loans thus rose by 0.5 percentage point year on year to 8.8% at the end of 2015. (See Chart II.25)

Loan quality in terms of the degree of impairment has long differed across economic sectors. The quality of loans and receivables provided to general government, other credit institutions and other financial institutions is above average relative to the quality of the sector as a whole. The share of impaired receivables in these sectors ranged between 0.1% and 1.7% in 2015. (See Chart II.26)

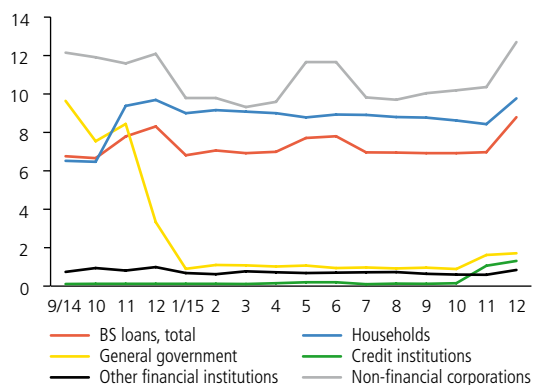
The quality of loans to households is worse. The share of impaired receivables in the household sector ranged between 8.4% and 9.8% in 2015. The share of impaired loans and receivables in this sector rose by 0.1 percentage point year on year.

Non-financial corporations recorded the highest share of impaired loans and receivables relative to total loans and receivables in 2015. The share of impaired loans and receivables in this segment rose by 0.6 percentage point year on year to 12.7% at the end of 2015.

CHART II.26

IMPAIRED LOANS

(in % of gross total banking sector loans)



⁶⁵ FINREP (Financial Reporting Framework) is the single reporting framework in the EU for the financial data of individual institutions, in particular their balance sheets and profit and loss accounts. It was prepared by the European Banking Authority (EBA) for the purposes of data reporting in accordance with the prudential requirements under CRR.

⁶⁶ The growth in the total amount of impaired receivables was affected by the activities of the Czech Export Bank.

2.6 BANKING SECTOR PERFORMANCE AND PROFITABILITY

2.6.1 Financial and operating profit

In 2015, as in previous years, the banking sector was affected by an environment of very low interest rates. Despite that, profit from financial activities increased by 3.9% year on year to CZK 174.4 billion. Net interest profit, which is the main component of the banking sector's financial profit, rose by 0.5% year on year to CZK 110.9 billion in 2015. The growth in interest profit was driven mainly by falling interest expenses (a year-on-year decrease of 17.5% to CZK 39.9 billion in 2015), while interest income declined by 5.0%. (See Table II.18 and Chart II.27)

TABLE II.18

BANKING SECTOR PROFITS

(in CZK billions)

	2013	2014	2015	Change 2015/2014 (in %)
Financial and operating profit	168.2	167.9	174.4	3.9
of which:				
Interest profit	105.5	110.4	110.9	0.5
Interest income	154.8	158.9	150.9	-5.0
Interest expenses	49.3	48.4	39.9	-17.6
Dividend income	8.8	6.7	7.7	14.9
Fee and commission profit	37.1	36.0	34.3	-4.8
Fee and commission income	49.9	49.0	47.6	-2.8
Fee and commission expenses	12.8	12.9	13.3	2.7
Administrative expenses	65.8	70.2	70.9	0.9
Staff expenses	34.3	34.7	35.2	1.4
Other administrative expenses	31.5	35.5	35.6	0.3
Depreciation	6.5	6.4	6.6	2.4
Provisions	1.6	1.3	0.9	-26.6
Impairment	21.0	13.8	15.8	14.2
Profit before tax	73.3	76.1	80.7	6.0
Tax expense	12.3	13.1	14.1	8.3
PROFIT AFTER TAX (current year)	61.0	63.1	66.6	5.5

The net interest rate margin for the banking sector as a whole declined by a further 0.2 percentage point year on year to 2.38%. The net interest rate margin decreased for large banks (by 0.27 percentage point) and for medium-sized banks (by 0.43 percentage point), as well as for small banks (by 0.07 percentage point). By contrast, the net interest margin of foreign bank branches and building societies rose by 0.23 and 0.08 percentage point respectively. (See Chart II.28)

Profit from fees and commissions continued to show a moderate downward trend, reflecting persisting competitive pressure on the banking services market. Despite that, fee and commission profit has long been the second largest and a relatively stable source of banking sector profit. It dropped by 4.8% year on year to CZK 34.3 billion in 2015 owing to a 2.8% decline in fee and commission income to CZK 47.6 billion and a 2.7% rise in fee and commission expenses to CZK 13.3 billion. (See Table II.18)

CHART II.27

DECOMPOSITION OF FINANCIAL PROFIT

(in %)

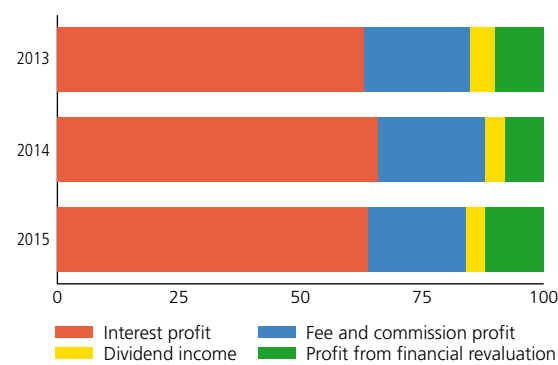
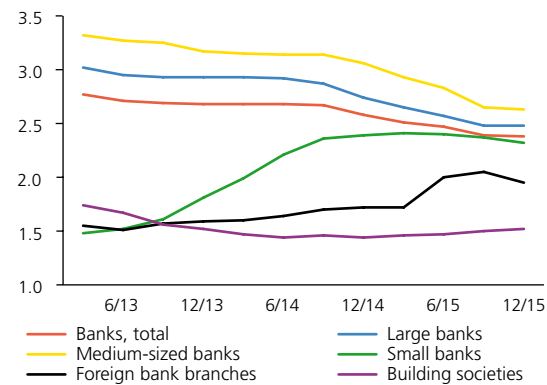


CHART II.28

NET INTEREST MARGIN (ANNUAL)

(in p.p.)



The profit of the banking sector is also affected by dividends paid by subsidiaries of domestic banks. Dividend income increased by 14.9% (CZK 1.0 billion) year on year to CZK 7.7 billion in 2015.

Profit from financial revaluation⁶⁷ also went up, mainly because of a year-on-year rise in profit from financial assets and liabilities held for trading. Profit from financial instruments held for trading amounted to CZK 9.3 billion in 2015, up by 128.7% compared to 2014. Unlike in 2014, when it incurred a loss of CZK 0.3 billion on hedging transactions, the banking sector made a profit of CZK 0.4 billion on these transactions in 2015. By contrast, the banking sector's gains from valuation changes amounted to CZK 4.6 billion in 2015, down by 45.2% compared to 2014. (See Chart II.27)

2.6.2 Administrative expenses and impairment

Administrative expenses rose by 0.9% year on year to CZK 70.9 billion in 2015. This means that 40.6% of the profit generated from financial activities was used to cover administrative expenses. The growth in administrative expenses was due mainly to a rise in personnel expenses of 1.4% to CZK 35.2 billion. By contrast, other administrative expenses were practically flat, rising by a mere 0.3% to CZK 35.6 billion. (See Table II.18 and Chart II.29)

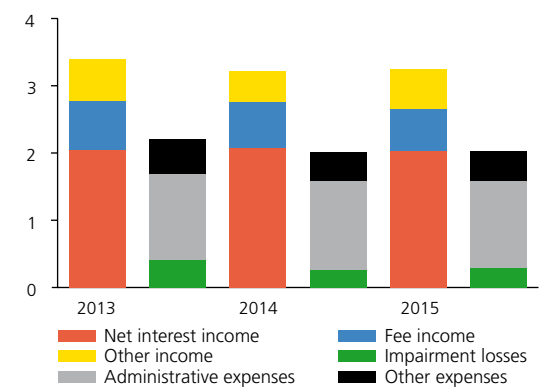
While administrative expenses reflect banks' ability to manage and efficiently perform current operational activities, asset impairment losses reflect the quality of risk management in the allocation of internal and external funds. These losses rose markedly year on year in 2015, rising by 14.2% to CZK 15.8 billion.

Corporate income tax expenses increased by 8.3% to CZK 14.1 billion in 2015.

CHART II.29

STRUCTURE OF INCOME AND EXPENSES

(in % of assets)



⁶⁷ The part of profit consisting mainly of gains or losses on financial assets and liabilities held for trading, hedging transactions and valuation changes.

2.6.3 Banking sector net profit

The net profit of the banking sector grew by 5.5% year on year to CZK 66.6 billion, owing mainly to higher interest rate profit, which is its key component. (See Chart II.30)

The biggest contributor to the banking sector's net profit in 2015 was the group of large banks, which generated a net profit of CZK 46.4 billion, i.e. 69.7% of the net profit of the banking sector as a whole. However, the share of large banks is shrinking compared to past years, having decreased by 1.9 percentage points compared to 2014 and by 7.1 percentage points compared to 2013. Medium-sized banks generated profit of CZK 12.7 billion and accounted for 19.1% of the banking sector's profit, up by 0.1 percentage point on 2014. With a net profit of CZK 0.5 billion, small banks had a 0.8% share in the banking sector's total net profit in 2015. The share of this segment in the total profit of the banking sector rose by 0.7 percentage point from 0.1% in 2014. Foreign bank branches generated a total net profit of CZK 3.8 billion and accounted for 5.7% of the banking sector's profit, up by 1.5 percentage points on 2014. Building societies recorded a drop in net profit of 2.2% to CZK 3.2 billion compared to 2014 and their share in the sector's net profit fell by 0.4 percentage point year on year to 4.7%. (See Chart II.31)

Most banks posted a net profit in 2015. Seven banks – including four foreign bank branches and two small banks – recorded losses. All large banks made a profit in 2015. The assets of the loss-making banks in 2015 made up less than 3% of the assets of the banking sector as a whole.

2.6.4 Banking sector profitability and efficiency

The domestic banking sector remains profitable even in the persisting environment of sustained low interest rates. The profit ratios of banking business were flat in 2015 despite the year-on-year rise in net profit. (See Chart II.32)

The return on assets (RoA) of the banking sector as a whole, as measured by the ratio of net profit to assets, reached 1.21% in 2015, a year-on-year increase of 0.01 percentage point. However, there are significant differences between bank groups. The RoA of the sector as a whole is determined by the performance of the segment of large banks, which account for 58.8% of the banking sector's assets and generate 69.7% of its profit. The RoA of large banks was 1.44% in 2015 (a year-on-year drop of 0.02 percentage point) and stayed above the sector average. The RoA of medium-sized banks remained close to the 2014 level (1.16%), falling by a mere 0.02 percentage point year on year to 1.14%. A further improvement in RoA in the small bank segment (by 0.23 percentage point to 0.26%), after losses in 2012 and 2013, is a positive phenomenon. The RoA of building societies is limited by legislation, which restricts their ability to react quickly to

CHART II.30

NET PROFIT OF BANKING SECTOR

(in CZK billions; in given period)

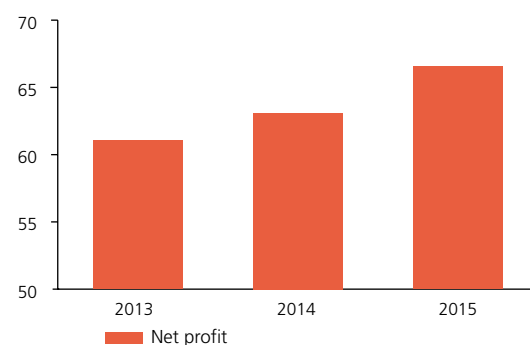


CHART II.31

SHARES OF BANK GROUPS IN PROFIT

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

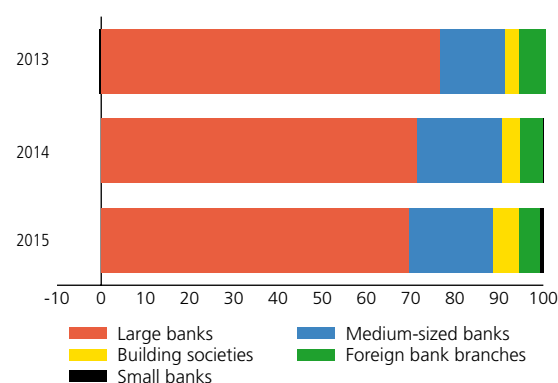


CHART II.32

PROFITABILITY OF BANKING SECTOR

(in %)

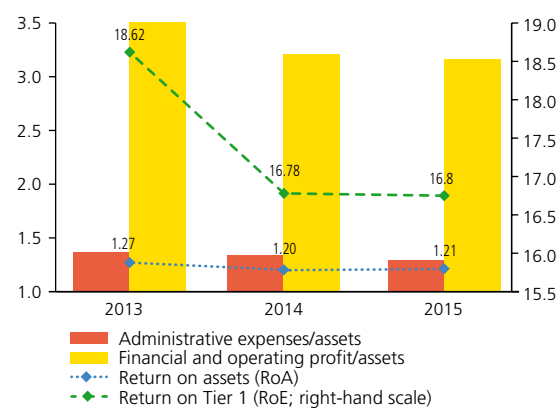
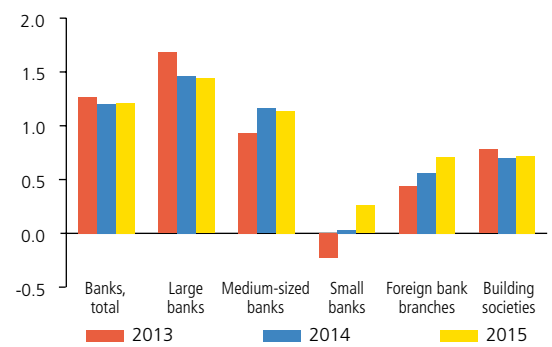


CHART II.33

RETURN ON ASSETS (ROA)

(in %; bank groups)



a drop in interest rates. In 2015, the RoA of this segment was almost flat at the 2014 level (0.70%), rising by just 0.02 percentage point year on year to 0.72%. (See Chart II.33)

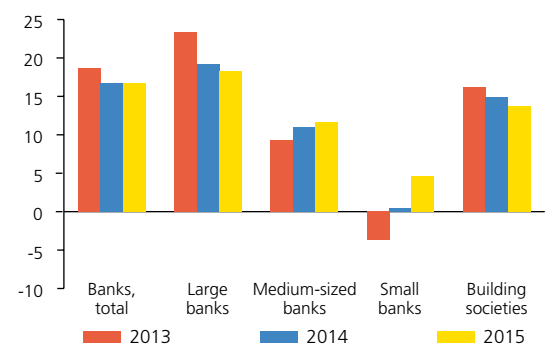
The return on equity of the banking sector as a whole, as measured by the ratio of net profit to Tier 1 capital⁶⁸ (RoE), was unchanged year on year at 16.8%. The RoE of large banks fell by 0.9 percentage point year on year to 18.3%. The RoE for the group of medium-sized banks continued to improve (by 0.6 percentage point to 11.6%) and that in the small bank segment moved further into positive territory (by 4.1 percentage points to 4.6%). The RoE of building societies fell again by 1.3 percentage point year on year to 13.7%. (See Chart II.34)

The ratio of administrative expenses to total assets was relatively favourable in 2015. It remained almost flat at the 2014 level (1.29%), recording a slight decrease of 0.05 percentage point year on year, while administrative expenses rose by 0.9%.

CHART II.34

RETURN ON TIER 1 (ROE)

(in %; bank groups)



The ratio of financial and operating profit to total assets was also broadly stagnant in 2015, seeing a modest year-on-year decline of 0.05 percentage point to 3.16%.

⁶⁸ Tier 1 is the highest quality and, for banks in the Czech Republic, also the most significant part of regulatory capital. Tier 1 consists mostly of registered capital, retained earnings and mandatory reserve funds.

2.7 CAPITALISATION OF THE BANKING SECTOR⁶⁹

Capital adequacy is one of the principal pillars of banking regulation and banking supervision.⁷⁰ The new regulatory framework based on Basel III and CRD IV puts emphasis on the requirement to hold more and better-quality capital. This will enable the relevant institutions to use it to cover any losses.

The Czech banking sector has long been well capitalised. The regulatory capital of the banking sector⁷¹ increased by CZK 23.4 billion during 2015, reaching CZK 420.5 billion at the year-end. This represents an increase of 5.9% compared to the end of 2014 and 4.2% compared to the end of 2013. (See Table II.19)

The capital of domestic banks is made up largely (97.5%) of high-quality Tier 1 capital.⁷² Tier 1 grew at a similar rate as total regulatory capital during 2015, rising by 6.0% year on year to CZK 410.0 billion. The components of Tier 1 recorded different growth rates in 2015. While Common Equity Tier 1⁷³ rose by 3.7% (CZK 14.3 billion) to CZK 398.2 billion, Additional Tier 1⁷⁴ more than quadrupled, increasing by CZK 8.9 billion to CZK 11.8 billion.

The use of Tier 2 capital, which consists primarily of subordinated debt, has long been low in the Czech banking sector. Tier 2 increased by 2.2% to CZK 10.5 billion in 2015. The share of Tier 2 in the total regulatory capital of the banking sector was 2.5%.

TABLE II.19

REGULATORY CAPITAL OF BANKING SECTOR (in CZK billions)

	2013	2014	2015	Change 2015/2014 (in %)
CAPITAL, TOTAL	368.2	397.1	420.5	5.9
Tier 1 capital	356.3	386.8	410.0	6.0
Common Equity T1 (CET1)	N/A	384.0	398.2	3.7
Additional T1 (AT1)	N/A	2.8	11.8	315.8
Tier 2 capital	11.9	10.2	10.5	2.2

69 In section 2.7 *Capitalisation of the banking sector* 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).

The indicators and values in time series are calculated according to the prudential rules in effect in the given period. When analysing the data it is therefore necessary to take into account potential methodological differences between 2013 and 2014. 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.

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

71 This excludes foreign bank branches operating in the Czech Republic, whose activities are covered by the regulatory capital of their head offices, and that capital is monitored and assessed by the competent foreign supervisory authority.

72 In the interests of comparability with the new methodology, the Tier 1 capital ratio for 2013 is converted into Tier 1 that can be used for the calculation of capital adequacy. As a result, it may differ to some extent from the previously published ratio.

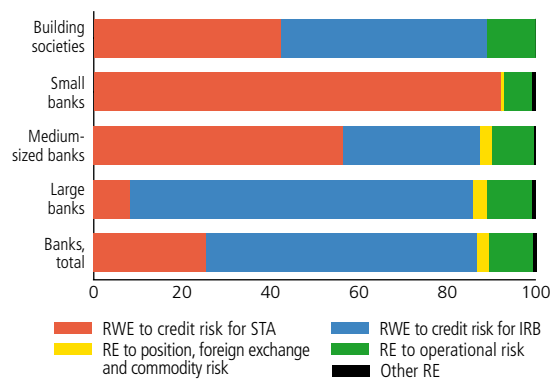
73 Common Equity Tier 1 (CET1).

74 Additional Tier 1 (AT 1).

CHART II.35

RISK EXPOSURE STRUCTURE

(in %; as of 31 December 2015)



The risk exposures of the banking sector rose by 3.7% (CZK 81.0 billion) year on year to CZK 2,288.8 billion at the end of 2015.

The risk exposure (RE) structure reflects the conservative business model of domestic banks. Calculated risk-weighted exposures to credit risk rose by 4.5% year on year to CZK 1,983.7 billion at the end of 2015. Risk exposures to credit risk accounted for 86.7% of total risk exposures. (See Chart II.35)

Banks determine their risk-weighted exposures (RWE) to credit risk on the basis of a standardised approach (STA) or with the aid of advanced methods using their own internal models (IRB). Risk-weighted exposures calculated using the advanced approach strongly predominate in Czech banks, accounting for 61.3% of total calculated exposures in 2015.

Risk exposures to operational risk rose by 0.2% year on year to CZK 225.9 billion, accounting for 9.9% of total risk exposures.

Risk exposures to position, foreign exchange and commodity risks, which primarily cover market risk, decreased by 9.0% year on year to CZK 64.4 billion and had a 2.8% share in total risk exposures. Other risk exposures amounted to CZK 15.1 billion, accounting for a mere 0.7% of total risk exposures.

The Czech banking sector continued to strengthen its capital ratio in 2015. The total capital ratio stood at 18.4% at the end of 2015, up by 0.4 percentage point compared to the end of 2014 and 1.3 percentage point compared to the end of 2013. The Tier 1 capital ratio rose by 0.4 percentage point year on year to 17.9%. (See Chart II.36)

The capital ratios of the group of large banks were similar to those of the banking sector as a whole. The total capital ratio and the Tier 1 capital ratio of this bank group both strengthened by 1.0 percentage point – to 18.0% and 17.9% respectively. The group of medium-sized banks recorded the highest capital ratio levels relative to the other bank groups at the end of 2015, its total capital ratio reaching 19.8% and its Tier 1 capital ratio 18.6%. By contrast, the group of small banks has the lowest capital ratios, with a total capital ratio of 15.8% and a Tier 1 capital ratio of 14.5%. Building societies recorded aggregate capital ratios of 17.7%, their Tier 1 capital ratio being the same as their total capital ratio. (See Chart II.37)

The banking sector is compliant with the new CRD IV/CRR capital regulations by a sufficient margin. All banks were compliant with the required minimum total capital ratio of 8% and the required minimum Tier 1 capital ratio of 6%. The lowest individual Tier 1 capital ratio was 11.1%. Banks representing more than 72% of the sector's assets had a Tier 1 capital ratio higher than 15% at the end of 2015.

CHART II.36

CAPITAL AND CAPITAL RATIOS

(in CZK billions; as of end of period)

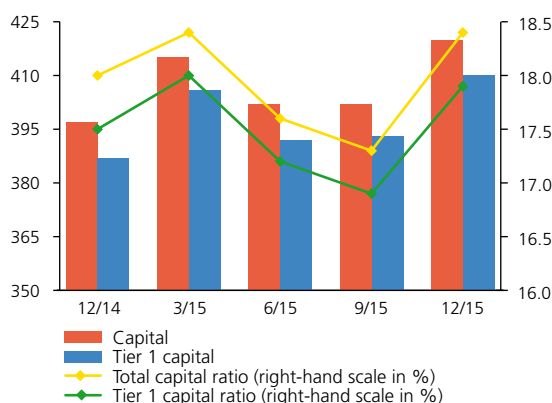
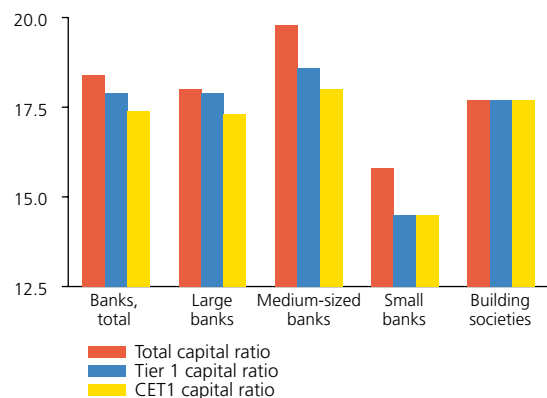


CHART II.37

CAPITAL RATIOS BY BANK GROUP

(in %; as of 31 December 2015)



The ratios of Tier 1 capital to total assets and to total loans and receivables, which express the aggregate leverage ratios of the Czech banking sector, increased, respectively, by 0.2 and 0.3 percentage point to 7.5% and 11.7%. The implementation of the leverage ratio as a new regulatory requirement as from 2018 is being considered under the planned new CRD IV. This ratio would be defined as the ratio of Tier 1 capital to non-risk-weighted exposures, with a preliminary regulatory limit of 3%.

2.8 THE CREDIT UNION SECTOR⁷⁵

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 2015. The number of entities was unchanged throughout 2015.⁷⁶ The Czech National Bank granted no new banking licences and no credit union converted into a bank. (See Table II.20)

Three credit unions submitted applications for conversion into a bank by the end of 2015. These three credit unions accounted for more than 74% of the sector's total assets in the period under review.

The credit union sector has a minority position in the Czech credit institution sector. Credit unions accounted for only 0.6% of the total assets of credit institutions (banks plus credit unions). This share is stable, having recorded a very slight increase of 0.06 percentage point since 2013.

The concentration of the credit union sector is high, as again evidenced by figures at the end of 2015. Almost 77% of total assets are managed by the three largest credit unions. Concentration is particularly high on the loan and deposit market. (See Chart II.38)

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

The number of employees in the credit union sector is falling steadily. At the end of 2015, the year-on-year decrease in the number of credit unions' employees was just under 2.5%.

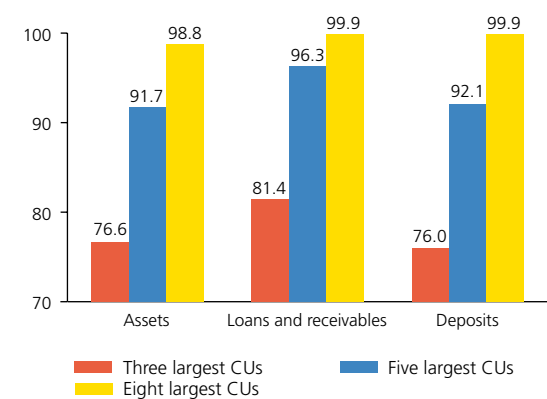
TABLE II.20

NUMBER OF CREDIT UNIONS (CUs as of 31 December of given year)			
	2013	2014	2015
CREDIT UNIONS, TOTAL	12	11	11
Number of members of CUs	53,594	57,179	51,185
Number of new memberships	9,978	16,158	3,890
Number of memberships terminated	1,336	1,719	9,848
Number of employees of CUs (in CZ) ⁱ⁾	541	463	458

i) Registered number of employees

CHART II.38

CONCENTRATION OF CREDIT UNION SECTOR
(shares in %; as of 31 December 2015)



⁷⁵ Internal audits are being conducted at entities in the credit union sector. The figures on the credit union sector presented here may therefore undergo some changes.

⁷⁶ The current structure of the sector was affected by changes in 2013 and 2014, as Metropolitní spořitelni družstvo closed down 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.

2.8.2 Activities of the credit union sector⁷⁷

TABLE II.21

CREDIT UNION SECTOR ASSETS

(CUs as of 31 December of given year; in CZK billions)

	Amount (in CZK billions)			Structure 2015 (in %)
	2013	2014	2015	
TOTAL NET ASSETS	31.6	31.3	32.3	100.0
Cash, cash balances at central banks and other demand deposits	5.6	6.9	8.1	25.0
Financial assets held for trading	0.4	0.7	0.6	2.0
Financial assets designated at fair value through profit or loss	0.4	0.6	0.9	2.8
Available-for-sale financial assets	0.1	0.1	0.0	0.0
Loans and receivables	24.0	22.0	21.7	67.1
Held-to-maturity investments	0.0	0.1	0.1	0.2
Tangible and intangible assets	0.8	0.7	0.7	2.2
Tax assets	0.1	0.1	0.1	0.4
Other assets	0.2	0.2	0.1	0.5

The total assets of the credit union sector rose by CZK 1.1 billion (3.4%) year on year to CZK 32.3 billion. Only four credit unions contributed to the growth in total assets, while the remaining seven recorded a drop in balance sheet assets. The annual rate of change in the assets of individual credit unions in 2015 ranged from an almost 55% decline to growth exceeding 47%. (See Table II.21)

Loans and other receivables accounted for more than 67% of assets in the sector's balance sheet at the end of 2015. Loans decreased moderately year on year both in absolute terms (by CZK 0.3 billion) and relative to the sector's total assets (a year-on-year drop in share of 3.4 percentage points) during 2015. Six of the 11 credit unions recorded an increase in lending and four a decrease (one credit union does not report loans or other receivables).

Loans provided to non-financial corporations form the majority of the lending of domestic credit unions. Their share was almost 62% at the end of 2015. Significant growth was recorded for loans and receivables with the central bank as counterparty, whose share in total loans rose by 6.9 percentage points to CZK 4.0 billion. Loans provided to households decreased by more than 10% year on year, or by CZK 0.2 billion in absolute terms. (See Chart II.39)

CHART II.39

RECEIVABLES OF CUS

(shares of sectors in %; as of 31 December 2015)

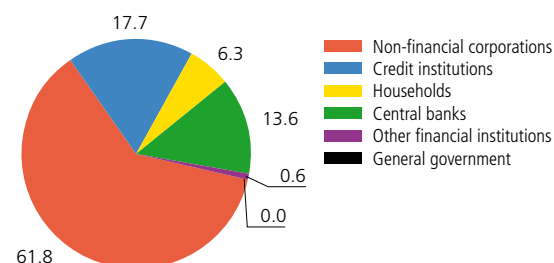
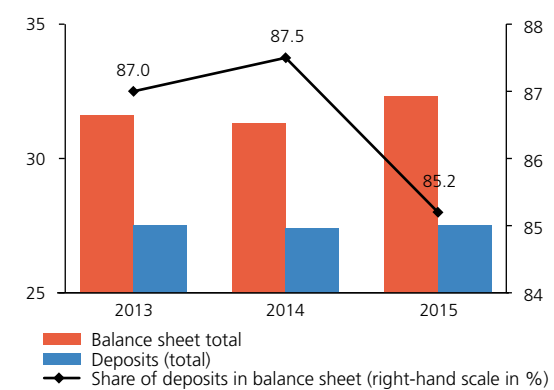


CHART II.40

DEPOSITS IN CU BALANCE SHEET

(CUs as of 31 December of given year; in CZK billions; in %)



⁷⁷ 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.22

CREDIT UNION SECTOR LIABILITIES

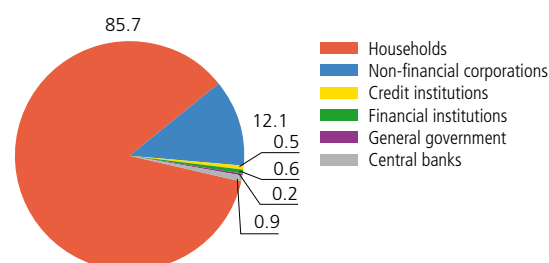
(CUs as of 31 December of given year)

	Amount (in CZK billions)			Structure 2015 (in %)
	2013	2014	2015	
LIABILITIES AND EQUITY	31.6	31.3	32.3	100.0
Liabilities, total	31.3	31.1	28.1	86.8
Financial liabilities held for trading	0.0	0.0	0.3	0.8
Financial liabilities measured at amortised cost	27.5	27.4	27.5	85.2
Derivatives – hedge accounting	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0
Tax liabilities	0.1	0.0	0.0	0.1
Share capital repayable on demand	3.4	3.4	0.0	0.0
Other liabilities	0.3	0.3	0.2	0.7
Equity, total	0.3	0.2	4.3	13.2
Capital	0.0	0.0	4.0	12.4
Accumulated other comprehensive income	0.0	0.0	0.0	0.0
Retained earnings	0.1	0.1	0.1	0.3
Other reserves	0.3	0.1	0.1	0.4
Profit or loss	0.0	0.0	0.0	0.1

CHART II.41

DEPOSITS OF CREDIT UNIONS

(shares of economic sectors in %; as of 31 December 2015)



Another important item in the sector's balance sheet is cash, which accounted for 25.0% of total assets.⁷⁸

In line with the core activity of credit unions, deposits dominate the liability side of their balance sheet (see Table II.22). The total value of their more than 85% share in total assets was CZK 27.5 billion at the end of 2015.⁷⁹ The share of deposits in credit unions' total assets decreased by 2.3 percentage point year on year in 2015. The majority of credit union deposits (85.7%) were household deposits. (See Charts II.40 and II.41)

Only commitments and financial guarantees given and received are now monitored in the off-balance sheet.⁸⁰ Loan commitments given increased markedly (by more than 110%) in 2015. Most of the loan commitments given (90.4%) were to non-financial corporations. Financial guarantees given and received also mostly pertained to non-financial corporations (52.0% and 77.1% respectively). In the off-balance sheet, there was markedly lower year-on-year growth in financial guarantees given and received in 2015 (7.1% and 11.6% respectively). Loan commitments received related solely to credit institutions and were unchanged in value. (See Table II.23)

TABLE II.23

CREDIT UNION SECTOR OFF-BALANCE SHEET

(CUs as of 31 December of given year; in CZK millions)

	2013	2014	2015
Loan commitments given	1,345.8	582.1	1,255.1
Financial guarantees given	66.6	58.4	62.5
Other commitments given	n.a.	7.9	2.6
Loan commitments received	311.5	285.0	285.0
Financial guarantees received	496.7	554.7	618.8
Other commitments received	n.a.	0.6	0.6

⁷⁸ The year-on-year increase in cash of CZK 1.2 billion is also a result of a change in reporting methodology that came into effect in 2014. 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.

⁷⁹ Under the new reporting methodology, deposits now also include deposits at central banks.

⁸⁰ 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.

2.8.3 Profits of the credit union sector⁸¹

The performance of the credit union sector improved in 2015 compared to the previous year. The sector as a whole generated a net profit of CZK 32.5 million in 2015, a year-on-year increase of CZK 14.2 million. Eight credit unions made a profit, while three reported a loss.

The continuing environment of very low interest rates was reflected primarily in a further year-on-year decline in interest income of 10.6%, while interest expenses recorded a year-on-year drop of 1.2%. Conversely, income from fees and commissions increased by 10.2%, while related costs rose by 70.5%. Trading in financial assets recorded a profit again at the end of 2015, while the profit fell by more than 25%. By contrast, the loss due to write-offs of both financial and non-financial assets was markedly lower than in 2014. Loan impairment losses fell by almost 34% to CZK 248.5 million in the period under review. Administrative expenses rose by 19.0%, due mainly to growth in other administrative expenses. Overall personnel expenses were virtually unchanged. (See Table II.24)

2.8.4 Risks of the credit union sector

The biggest risk faced by the credit union sector is credit risk.⁸² The risk-weighted exposure to credit risk of CZK 24.0 billion accounted for 90.8% of the sector's risk exposures. The risk-weighted exposure to operational risk in the period under review was CZK 2.2 billion. Other risk exposures were insignificant.

Loan portfolio receivables decreased by 3.8% year on year, with non-default loans essentially stagnating and default loans decreasing by almost one-fifth. Growth (of 6.4%) was recorded for loans classified as standard.

The share of loss receivables from clients⁸³ in credit unions' total investment portfolio was 11.6% at the end of 2015, up by 2.4 percentage points compared with the end of 2014. At the same time, allowances set aside to cover losses dropped by more than 11.1% in the period under review. These allowances were created almost solely for individual receivables. (See Table II.25).

⁸¹ Data are always reported from the start of the year to the end of the period under review. The information content of the data in 2013 is affected by the different accounting periods applying to institutions in the credit union sector.

⁸² Capital requirements were monitored until 2013 and risk-weighted exposures have been monitored since 2014. Capital requirements were converted to risk-weighted exposures using a coefficient of 12.5. This may give rise to differences in sum totals.

⁸³ Receivables from clients are receivables from general government and other clients, i.e. legal and natural persons except credit institutions, which are monitored separately and comprise banks, foreign bank branches and credit unions.

TABLE II.24

CREDIT UNION SECTOR PROFITS			
(CUs as of 31 December of given year; in CZK millions)			
	2013	2014	2015
FINANCIAL PROFIT	1,450.2	1,151.8	1,089.3
of which:			
interest profit	1,268.8	1,156.0	971.6
fee and commission profit	105.2	99.0	99.3
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	-1.1	18.8	14.0
gains on financial assets designated at fair value through profit or loss	-15.0	-5.0	-6.4
gains from hedge accounting	0.0	-1.1	0.4
gains from other activities	178.3	119.8	135.6
ADMINISTRATIVE EXPENSES	775.2	639.0	760.2
DEPRECIATION AND PROVISIONS	48.8	50.3	42.6
IMPAIRMENT	589.0	375.8	248.5
GROSS PROFIT before tax	37.3	86.8	38.0
tax expense	57.1	68.5	5.5
NET PROFIT	-19.8	18.3	32.5

TABLE II.25

CLASSIFICATION OF RECEIVABLES				
(CUs as of 31 December of given year)				
	Amount (in CZK billions)			Change 2015/2014 (in %)
	2013	2014	2015	
A. INVESTMENT PORTFOLIO	27.8	27.7	26.6	-3.8
RECEIVABLES BY DEFAULT STATUS				
non-default	22.5	21.4	21.5	0.7
standard	17.1	15.4	16.4	6.4
watch	5.4	6.0	5.1	-13.9
default	5.3	6.3	5.1	-19.0
substandard	2.3	2.5	1.4	-46.0
doubtful	1.1	1.2	0.6	-48.3
loss	1.8	2.6	3.1	21.3
B. INVESTMENT PORTFOLIO	5.3	6.3	5.1	-19.0
DEFAULT RECEIVABLES FROM CLIENTS				
substandard	2.3	2.5	1.4	-46.0
doubtful	1.1	1.2	0.6	-48.3
loss	1.8	2.6	3.1	21.3
C. ALLOWANCES AND LOSS OF VALUE	0.9	1.2	1.1	-11.1
allowances for individually assessed financial assets	0.9	1.2	1.1	-11.1
allowances for individually non-impaired assets	0.0	0.0	0.0	x
allowances for portfolio of individually immaterial assets	0.0	0.0	0.0	-84.2
D. DEFAULT RECEIVABLES (in %) share of default receivables in total investment portfolio	19.0	22.7	19.1	-15.9

Table II.26**LIQUIDITY RATIOS**

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

	2013	2014	2015
Quick assets	5,938.4	7,459.2	8,601.5
Quick assets/assets	18.8	23.8	26.6
Deposits/loans	113.8	124.1	128.2

Table II.27**CAPITAL STRUCTURE**

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

	2013	2014	2015
Capital	3,954.0	3,715.1	4,175.0
Tier 1 (T1) capital	3,607.3	3,421.0	4,082.4
Tier 2 (T2) capital	346.7	294.1	92.6
T1 capital ratio	13.03	12.45	15.45
Surplus (+) / deficit (-) of T1 capital	1,392.7	1,771.6	2,497.5
Total capital ratio	14.28	13.51	15.80
Surplus (+) / deficit (-) of total capital	1,739.4	1,516.0	2,061.7

Table II.28**CAPITAL RATIOS**

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

	2014	2015	Structure 2015 (in %)
CAPITAL	3,715.1	4,175.0	100.0
Tier 1 (T1) capital	3,421.0	4,082.4	97.8
Common equity Tier 1 (CET1) capital	3,421.0	4,082.4	97.8
Capital instruments eligible as CET1 capital	3,366.3	4,009.6	96.0
Retained earnings	13.0	28.6	0.7
Other reserves	93.0	115.3	2.8
Funds for general banking risk	0.1	0.1	0.0
Adjustments to CET1 due to prudential filters	-0.6	-0.3	0.0
Other transitional adjustments to Tier 1 (CET1) capital	-50.8	-70.9	-1.7
Tier 2 (T2) capital	346.7	294.1	7.0
Capital instruments and subordinated loans eligible as T2 capital	294.1	92.6	2.2
CET1 capital ratio	12.45	15.45	n.a.
Surplus (+) / deficit (-) of CET1 capital	2,184.0	2,893.7	69.3
T1 capital ratio	12.45	15.45	n.a.
Surplus (+) / deficit (-) of T1 capital	161.1	227.0	5.4
Total capital ratio	13.51	15.80	n.a.
Surplus (+) / deficit (-) of total capital	1,516.0	2,061.7	49.4
Combined buffer requirement	243.8	257.1	6.2
Capital conservation buffer	344.1	358.5	8.6

The sector as a whole has sufficient liquidity. The ratio of deposits to loans has been higher than 120% for two years now, and the credit union sector's liquidity position was good throughout 2015. Quick assets increased by CZK 1.1 billion (15.3%) year on year. The share of quick assets in the credit union sector's total assets is increasing, reaching 26.6% at the end of 2015 (representing a rise of 2.8 percentage points). In particular, an increase in cash of 17.6% helped strengthen the liquidity position. (See Table II.26)

2.8.5 Capitalisation of the credit union sector

The capitalisation of the credit union sector as a whole improved in 2015.

The capital of credit unions grew at a higher rate (12.4%) than total balance sheet assets (3.4%) in 2015. It thus increased by almost CZK 460 million. The capital is made up largely (97.8%) of high-quality Tier 1 capital, which increased by 19.3% in 2015. The Tier 1 capital ratio increased year on year to 15.45%. The total capital ratio was also higher at 15.80%. All credit unions were compliant with the required minimum total capital ratio of 8% and the required minimum Tier 1 capital ratio of 6% as of 31 December 2015. No credit union fell below 10%. (See Tables II.27 and II.28)

3. THE CAPITAL MARKET

3.1 INVESTMENT FIRMS

3.1.1 Licensed investment firms

There were 62 investment firms registered on the Czech capital market as of the end of 2015, 13 of them banks, 20 non-bank investment firms, 15 foreign bank branches and 14 branches of foreign non-bank investment firms. Nine domestic management companies managing assets of clients under contract (asset management companies, AMCs⁸⁴) held investment firm licences at the end of 2015. (See Chart III.1)

As of 31 December 2015, entities licensed as investment firms⁸⁵ had 1.2 million clients, of which 277,500 were clients of domestic non-bank investment firms and 880,400 were clients of bank investment firms. Foreign bank branches and branches of foreign investment firms had 25,700 and 11,200 clients respectively at the end of 2015. Domestic AMCs had almost 1,000 clients.

3.1.2 Client assets and managed funds

At the end of 2015, the assets of clients of investment firms totalled CZK 3,797.8 billion, up by 14.0% on the same period a year earlier. Of the total, the assets of clients of domestic non-bank investment firms amounted to CZK 490.6 billion (up by 7.2% year on year), the assets of clients of domestic banks CZK 2,774.0 billion (up by 14.4%) and the assets of clients of AMCs CZK 258.8 billion (up by 3.5%). The assets of clients of branches of foreign banks and branches of foreign investment firms amounted to CZK 273.2 billion and CZK 1.2 billion respectively, representing an increase of 38.2% and an increase of CZK 0.7 billion year on year respectively. (See Chart III.2)

As of 31 December 2015, investment firms managed funds totalling CZK 699.1 billion (up by 3.3% year on year), of which CZK 381.7 billion fell to domestic non-bank investment firms (up by 5.3%), CZK 68.5 billion to domestic bank investment firms (down by 5.1%) and CZK 251.5 billion to AMCs (up by 2.4%). Minimal or zero levels of managed funds were registered by foreign bank branches and foreign investment firms. (See Chart III.3)

⁸⁴ Management companies which provide the core investment service of asset management for a client if an investment instrument is part of such assets pursuant to Article 4(2)(d) of the Capital Market Undertakings Act (referred to as "asset management companies" or "AMCs").

⁸⁵ Entities licensed by the CNB and branches of entities registered in another Member State of the European Union and authorised to provide investment services in the Czech Republic.

CHART III.1

INVESTMENT FIRMS

(numbers of firms at end of period)

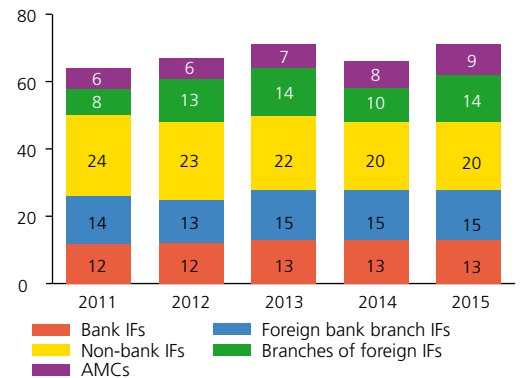


CHART III.2

CLIENT ASSETS

Licensed IFs

(in CZK billions; at end of period)

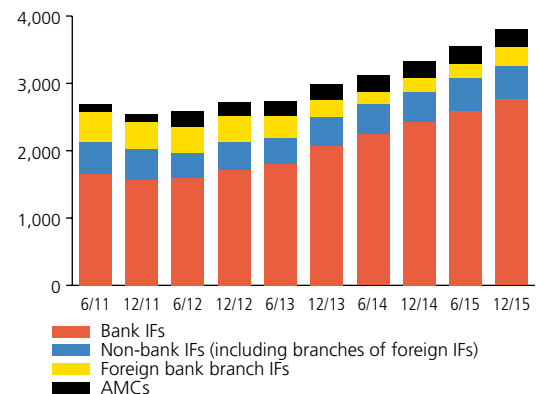


CHART III.3

FUNDS MANAGED

Licensed IFs

(in CZK billions; at end of period)

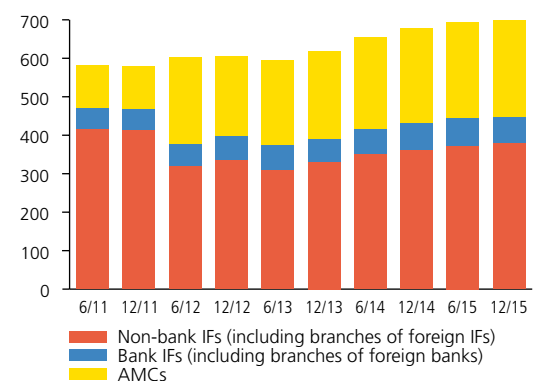


CHART III.4

SECURITIES TRADES

(in %; structure in 2015)

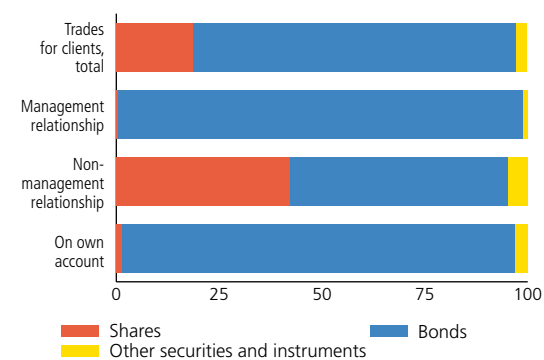


CHART III.5

SECURITIES TRADES

(in %; structure by entities in 2015)

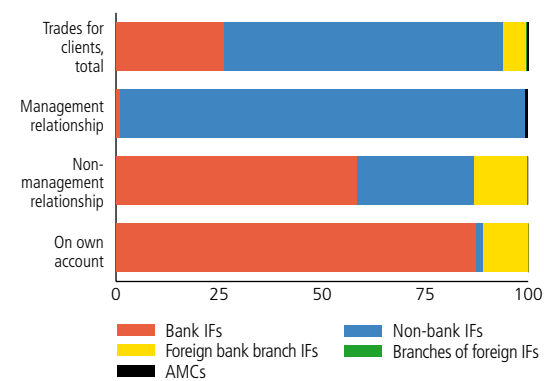


TABLE III.1

VOLUMES OF SECURITIES TRADES BY INVESTMENT FIRMS

(in CZK billions)

	2013	2014	2015	
Securities trades for clients	IFs, total	29,886.1	39,016.2	17,459.2
	Bank IFs	5,015.3	4,574.5	4,571.7
	Non-bank IFs	22,235.6	32,861.0	11,824.8
	Foreign bank branch IFs	2,556.7	1,502.5	988.9
	Branches of foreign IFs	0.0	1.4	11.0
	AMCs	78.5	76.7	62.7
On own account	IFs, total	42,504.4	53,813.2	41,538.1
	Bank IFs	41,286.6	50,778.4	36,289.2
	Non-bank IFs	305.0	353.5	644.7
	Foreign bank branch IFs	912.7	2,681.3	4,604.2
	Branches of foreign IFs	0.0	0.0	0.0
	AMCs	0.0	0.0	0.0

As regards structure, most of the managed funds were investment securities (82.2%), in particular bonds (79.1%, or CZK 553.3 billion). Collective investment securities and cash also had significant shares, accounting for 15.0% and just under 3% respectively.

3.1.3 Volumes of trading in securities

Investment firms carried out trades for their clients totalling CZK 17,459.2 billion in 2015 (a year-on-year decline of 55.3%).⁸⁶ Trades under a management relationship accounted for most of this figure (56.3%). The structure of trades was dominated by bonds (78.6%), followed by shares (18.7%). (See Chart III.4)

Securities trades carried out for clients by bank investment firms totalled CZK 4,571.7 billion. Non-bank investment firms carried out trades for their clients amounting to CZK 11,824.9 billion (i.e. 64.0% less than in 2014), while client trades of AMCs reached CZK 62.7 billion, client trades of foreign bank branches totalled CZK 988.9 billion and client trades of organisational units of foreign investment firms amounted to CZK 11.0 billion. (See Chart III.5 and Table III.1)

Investment firms carried out trades for their own account totalling CZK 41,538.1 billion in 2015, down by 22.8% compared to 2014. The largest proportion (87.4%) 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 644.7 billion, while foreign bank branches' trades for their own account over the same period totalled CZK 4,604.2 billion. The structure of trades for own account carried out by investment firms was dominated by bonds, which accounted for 95.7%. (See Chart III.5 and Table III.1)

⁸⁶ 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 firms⁸⁷

The investment firm sector was sufficiently capitalised in 2015. The regulatory capital of domestic non-bank investment firms (20 entities) totalled CZK 2.8 billion, of which Common Equity Tier 1 (CET1) accounted for 99.3%. (See Chart III.4)

Calculated risk exposures⁸⁸ for individual types of risk amounted to CZK 10.6 billion for domestic non-bank investment firms, of which CZK 1.6 billion were risk exposures for investment firms with a restricted licence to provide investment services and investment firms with a restricted licence for own-account trading under Articles 95(2) and 98 of the CRR and Articles 96(2) and 98 of the CRR respectively.

Risk-weighted exposures to credit risk under the standardised approach (STA) accounted for the largest part of risk exposures (44.8%). Risk exposures to operational risk also recorded a significant share (35.1%), while lower risk exposures were calculated for position, foreign exchange and commodity risk (10.3%). Additional risk exposures due to the application of overheads accounted for 9.0% of total risk exposures for non-bank investment firms. (See Chart III.7)

Domestic non-bank investment firms recorded rather better profits in 2015 than in 2014. The total net profit of non-bank investment firms rose by 15.5% year on year to CZK 0.8 billion. This was largely due to a year-on-year increase in profit from financial and operating activities of 17.0% to CZK 3.2 billion, driven by a rise in the net margin on fees and commissions of 12.4% to CZK 2.6 billion. A decrease in the net interest margin of 10.3% and an increase in administrative expenses of 18.3% to CZK 2.1 billion acted in the opposite direction. (See Table III.2)

Turning to the costs of domestic non-bank investment firms, administrative expenses accounted for 24.2% of their average assets and 66.0% of profit from financial and operating activities. Profit from financial and operating activities represented 36.9% of the average assets of domestic non-bank investment firms, up by 2.8 percentage points on 2014. Net profit was 9.1% of the average assets of domestic non-bank investment firms and 28.1% of Tier 1 capital. This was 0.2 and 1.4 percentage points higher, respectively, than in 2014.

⁸⁷ This section analyses the capital and profits of domestic non-bank investment firms, unless stated otherwise.

⁸⁸ 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).

CHART III.6

CET1 CAPITAL RATIOS
Non-bank investment firms
(numbers of IFs; as of 31 December 2015)

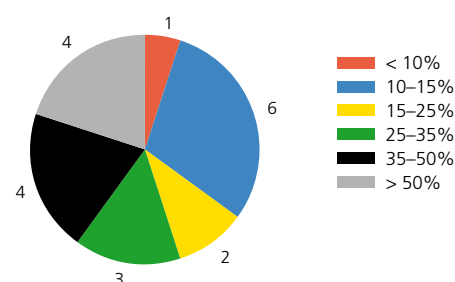


CHART III.7

RISK EXPOSURES
Non-bank IFs
(structure in %; at end of period)

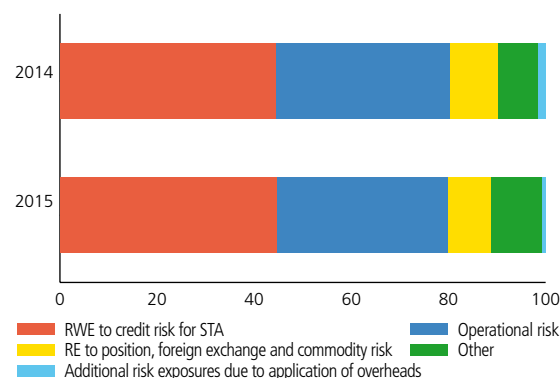


TABLE III.2

PROFIT AND LOSS ACCOUNT – NON-BANK IFS
(in CZK millions)

	2013	2014	2015	Change 2015/2014 (in %)
Financial and operating profit	2,794.4	2,714.6	3,177.2	17.0
of which:				
Interest profit	115.1	93.6	83.9	-10.3
Dividend income	12.4	36.0	41.2	14.4
Fee and commission profit	2,292.5	2,297.6	2,582.2	12.4
Profit from revaluation of assets	371.1	303.2	491.6	62.1
Other operating gain/loss	3.2	-15.8	-21.7	37.4
Administrative expenses	1,674.0	1,750.7	2,070.2	18.3
Depreciation and provisions	100.2	85.6	74.1	-13.5
Impairment	2.4	4.5	25.5	467.8
Profit or (-) loss from other activities	0.0	-2.8	0.8	-
Tax expense	214.8	173.3	202.2	16.7
PROFIT FOR YEAR AFTER TAX	802.9	697.9	806.1	15.5

3.2 FUND INVESTMENT

3.2.1 Management companies and investment funds

A total of 28 management companies, one branch of a foreign management company, 195 mutual funds and 92 investment funds with legal personality were registered in the management companies and investment funds sector at the end of 2015. Almost three-quarters (140) of the total number of mutual funds were collective investment funds intended for the public, of which 53 were standard funds, and more than a quarter (55) were mutual funds for qualified investors. All 92 investment funds with legal personality were funds for qualified investors.

The assets in collective investment funds managed by Czech management companies and the branch of a foreign management company totalled CZK 224.1 billion at the end of 2015 (up by 25.9% year on year). Market concentration in terms of the value of the assets managed by collective investment funds recorded a decline during 2015. At the end of 2015, the three companies with the largest market shares were managing 65.1% of the assets of collective investment funds (down by 1.3 percentage points year on year). (See Chart III.8)

The assets managed by funds for qualified investors managed by Czech management companies and the branch of a foreign management company amounted to CZK 121.7 billion at the end of 2015, up by 3.8% on the same period of 2014.

The assets in investment funds managed by Czech management companies and the branch of a foreign management company therefore rose by 17.2% year on year to CZK 345.8 billion.

3.2.2 Assets of collective investment funds⁸⁹

The assets of collective investment funds amounted to CZK 224.1 billion at the end of 2015, up by CZK 46.1 billion (25.9%) on the end of 2014. Compared to end-2013 and end-2012, the assets were a full 59.9% and 87.3% higher respectively. (See Chart III.9)

As regards fund type, mixed funds managed the largest amount of assets at the end of 2015. They accounted for 40.1% of the total assets of collective investment funds (up by 0.8 percentage point). At the end of 2015, mixed funds were managing assets of CZK 89.9 billion, an increase of 28.6% compared to the end of 2014.

⁸⁹ In the course of 2014, 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 primarily contains life-cycle funds.

CHART III.8

CONCENTRATION OF MANAGEMENT COMPANIES BY VOLUME OF ASSETS MANAGED

(in %; at end of period)

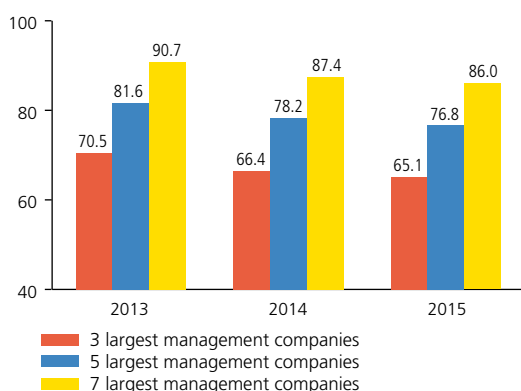
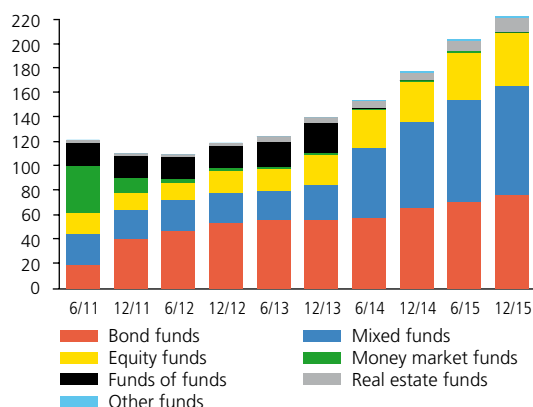


CHART III.9

ASSETS BY FUND TYPE – HALF-YEARLY

Collective investment funds

(in CZK billions; at end of period)



Bond funds were managing assets totalling CZK 77.5 billion, 16.0% higher than in the same period of 2014. The share of assets in bond funds in the total assets of domestic collective investment funds fell slightly by 3.0 percentage points year on year to 34.6%.

Assets of CZK 42.7 billion were being managed by equity funds at the end of 2015. This represents 19.0% of the assets of collective investment funds. Real estate funds were managing CZK 12.2 billion (5.4%) of the assets of collective investment funds, more than double the amount observed at the end of 2014. The other types of funds had relatively low asset levels at the end of 2015.

3.2.3 Structure of collective investment fund assets

As regards the structure of investment, the largest part (37.6%) of the assets of collective investment funds was invested in debt securities at the end of 2015, with 20.3% invested in bonds issued by general government and 17.3% in bonds issued by other entities. The share of debt securities in total assets fell by 5.8 percentage points year on year. Investments in shares and similar investment securities amounted to 16.1% of assets at the end of 2015, i.e. the same share as at the end of 2014. (See Chart III.10)

Collective investment funds had 27.0% of their assets invested in securities of collective investment funds, 1.2 percentage points more than in the same period of 2014. In all, 16.1% of assets were invested in deposits and other receivables, up by 3.7 percentage points on 2014. Other investments, for instance real estate and holdings in other companies, accounted for the remainder (3.2%) of the assets of collective investment funds.

The structure of the assets in the individual types of funds reflects the funds' investment orientation. The bulk of bond funds' assets (77.2%) are invested in debt securities, followed by deposits at banks (14.1%), collective investment fund securities (8.1%) and other investments (0.5%). Mixed funds invest a large part of their assets in collective investment fund securities (47.5%) and bonds (26.4%). A smaller proportion of the assets of these funds is invested in deposits at banks (15.9%), shares (9.7%) and other assets (0.5%). In line with their investment strategy, equity funds invest mainly in shares (63.9%) and to a lesser extent in collective investment fund securities (24.9%). The rest of the assets of these funds are invested in deposits at banks (9.9%) and other assets (1.3%). (See Chart III.11)

CHART III.10

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

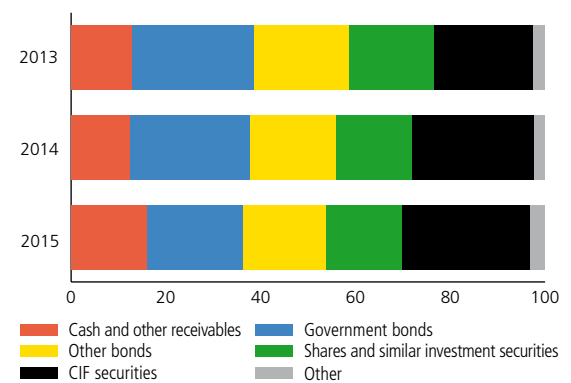


CHART III.11

ASSET STRUCTURE BY FUND TYPE
Collective investment funds
(in %; as of 31 December 2015)

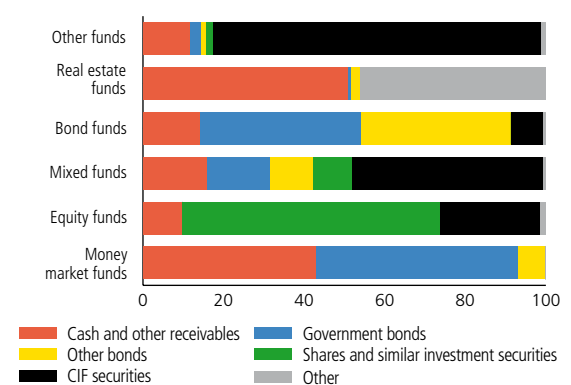


TABLE III.3

UNIT SALES AND REDEMPTIONS IN 2015

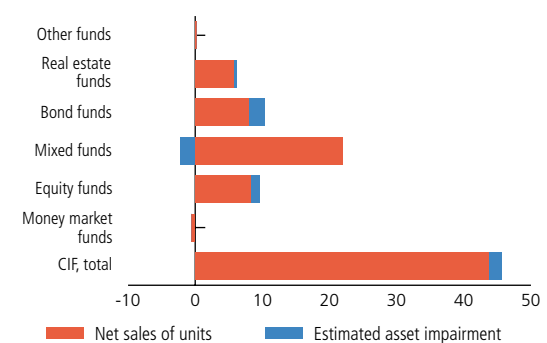
(in CZK millions)

	Units issued	Units redeemed	Balance
COLLECTIVE INVESTMENT FUNDS, total	87,133.7	43,280.4	43,853.3
Money market	138.1	720.7	-582.6
Equity	14,191.4	5,822.9	8,368.5
Mixed	36,511.8	14,513.9	21,997.9
Bond	29,280.5	21,220.9	8,059.6
Funds of funds	0.0	0.0	0.0
Real estate	6,657.8	817.8	5,840.1
Others	354.1	184.3	169.8

CHART III.12

DECOMPOSITION OF YEAR-ON-YEAR CHANGE IN ASSETS
Collective investment funds

(in CZK billions; as of 31 December 2015)



3.2.4 Sales and redemptions of fund units

The total assets of collective investment funds are significantly affected by the net value of unit issues and redemptions. Positive net sales of units (except for money market funds) were recorded in 2015. The amount received for units issued (CZK 87.1 billion) was higher than the amount paid out of the assets of collective investment mutual funds for units redeemed (CZK 43.3 billion). The resulting difference between units issued and redeemed was thus positive at CZK 44 billion (up by CZK 10.1 billion year on year), contributing to a rise in the total balance sheet assets of collective investment funds. (See Table III.3 and Chart III.12)

Investment of collective investment fund assets generated a net profit of CZK 0.3 billion in 2015, down by CZK 4.4 billion from a year earlier. All the main fund types contributed to the deterioration in the sector's profit, with profit from investment of equity fund assets falling by CZK 1.6 billion year on year, bond funds generating a profit CZK 0.9 billion lower than a year earlier and mixed funds posting a net profit CZK 1.8 billion lower than in 2014.

3.2.5 Structure of the fund market in 2015

In recent years, the fund investment sector has gone through a series of legislative changes, which are gradually affecting its structure.

The Act on Management Companies and Investment Funds (2013) had a significant impact on the market. It introduced new legal forms of investment funds modelled on the legal systems of European countries with advanced capital markets (such as Luxembourg and Germany). Alongside traditional legal forms, new forms can now be established, specifically a joint-stock company with variable registered capital (SICAV⁹⁰), a limited partnership with units (SICAR) or a trust. However, only funds for qualified investors, not collective investment funds, can take the form of a SICAR or a trust. The Act also introduced the possibility of separating administration from management of an investment fund.

Following the implementation of the UCITS IV directive (and the related possibility of cross-border management of standard funds), two domestic management companies are managing standard funds in another EU Member State. Conversely, one branch of a foreign management company is managing standard funds in the Czech

90 A total of 48 SICAV funds, with assets of CZK 26.6 billion invested in them, were registered in the Czech Republic at the end of 2015.

Republic. Foreign funds comparable to collective investment funds, which represent major competition for domestic funds, are also being offered to the Czech public on a cross-border basis.⁹¹

Following the implementation of the AIFMD directive (2013), investment in alternative investment funds from other EU Member States may be offered in the Czech Republic just like in all other EU Member States. In the Czech Republic, these investments may be offered publicly to qualified investors. Investments in alternative investment funds from non-EU countries may also be offered publicly.⁹²

In connection with the AIFMD, specialised European funds – European Social Entrepreneurship Funds (EuSEFs) and European Venture Capital Funds (EuVEECAs) – may be established. No domestic funds of this type have been set up in the Czech Republic, but 14 EuVEECAs are being offered in the Czech Republic on a cross-border basis.

In 2015, some funds for qualified investors applied for their securities to be admitted to trading on the Prague Stock Exchange (securities of 18 funds for qualified investors had been admitted by the end of 2015). However, these funds are hardly ever actively traded, so their long-term presence on the regulated market is uncertain.

⁹¹ Investment in 1,208 foreign funds comparable to standard funds and eight foreign funds comparable to special funds could be publicly offered in the Czech Republic at the end of 2015. According to figures from the Czech Capital Market Association, a total of CZK 181.8 billion was invested in foreign collective investment funds at the end of 2015.

⁹² Investment in 93 foreign funds comparable to funds for qualified investors (excluding EuSEFs and EuVEECAs) could be publicly offered in the Czech Republic at the end of 2015.

3.3 PENSION MANAGEMENT COMPANIES AND THEIR FUNDS

For the private pension scheme and savings sector, 2015 was the third and last year of the second pillar allowing fund retirement saving. Pension management companies operated in an environment full of legislative changes. In addition to transformed funds (the previous private pension schemes) and participation funds (the reformed third pillar), they managed retirement funds, which are gradually being phased out.

3.3.1 Pension management companies

A total of eight pension management companies (PMCs) were active in the private pension scheme and savings sector as of 31 December 2015. Five of them offered all types of savings and three offered only supplementary pension savings, including private pension schemes.

PMCs generated a net after-tax profit of CZK 0.8 billion in 2015 (up by CZK 0.2 billion year on year). Profit from financial and operating activities rose by CZK 0.2 billion year on year to CZK 1.9 billion. The net profit generated from fees and commissions amounted to CZK 1.8 billion in 2015. Payments for intermediation (CZK 0.5 billion) and payments for portfolio management (CZK 0.3 billion) were the highest expense items and payments for fund asset management (CZK 2.1 billion) were the highest income item. Income from gains in asset value was CZK 0.7 billion. Administrative expenses, another important expense item, amounted to CZK 1.0 billion.

The total capital of PMCs increased by 5.7% year on year to CZK 8.8 billion, representing a capital ratio of 133.9% (down by 5.9 percentage points year on year) in relation to the specified capital requirements of CZK 6.6 billion. (See Table III.4)

TABLE III.4

CAPITAL AND CAPITAL REQUIREMENTS

PMCs

	2013	2014	2015	Change 2015/2014 (in %)
Capital, total (in CZK billions)	9.1	8.3	8.8	5.7
Capital requirements (in CZK billions)	6.1	6.0	6.6	10.3
Capital in relation to capital requirements (in %)	148.5	139.7	133.9	N/A

The total number of planholders in the second and third pillars saw a year-on-year decline from 4.9 million to 4.7 million during 2015. The number of retirement savings planholders rose from 83,200 at the end of 2014 to 84,500 at the end of 2015. The number of supplementary pension savings planholders recorded a year-on-year increase from 224,300 to 367,200. By contrast, as policies were terminated and

no new planholders could enter the scheme, the number of pension scheme planholders fell further from 4.6 million at the end of 2014 to 4.3 million at the end of 2015. (See Table III.5)

TABLE III.5

NUMBERS AND STRUCTURE OF PARTICIPANTS

(in thousands; as of the end of the period)

	2013	2014	2015
Numbers of second and third pillar participants			
Number of retirement savings planholders	81.1	83.2	84.5
Number of supplementary pension savings planholders	90.5	224.3	367.2
Number of private pension scheme planholders	4,870.1	4,569.4	4,259.9
Third pillar participants by contribution type			
Planholders with own contribution	4,844.3	4,680.3	4,525.4
Planholders with employer contribution	1,334.6	1,318.8	1,283.4
Planholders with state contribution	4,445.6	3,733.8	3,789.6

At the end of 2015, PMCs were managing assets in 55 funds, the largest part of which were participation funds (27), 20 were retirement funds and the remaining eight were transformed funds. Despite their low number, transformed funds accounted for 96.4% of total assets in PMCs' funds. (See Chart III.13)

CHART III.13

PMC FUNDS

(numbers of funds; as of 31 December 2015)

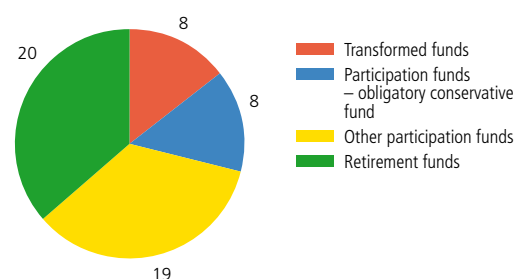


CHART III.14

ASSETS BY FUND TYPE – HALF-YEARLY

Collective investment funds

(in CZK billions; at end of period)

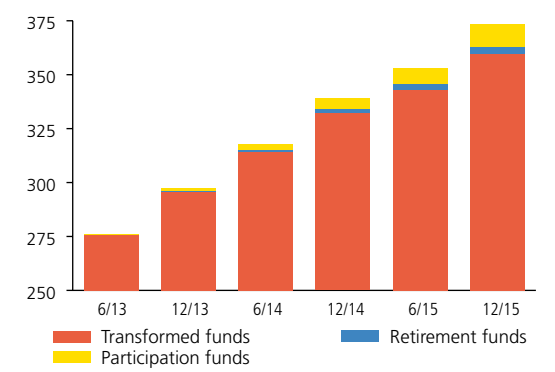


CHART III.15

ASSETS OF PMC FUNDS

(in %; as of 31 December 2015)

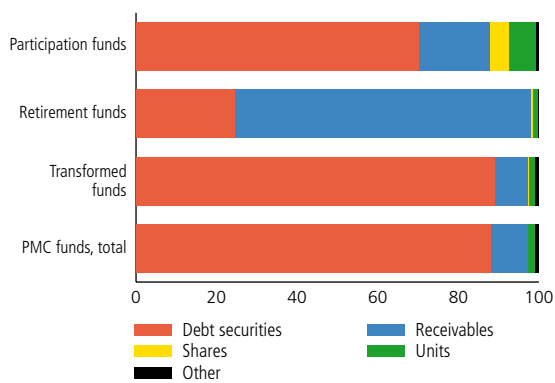
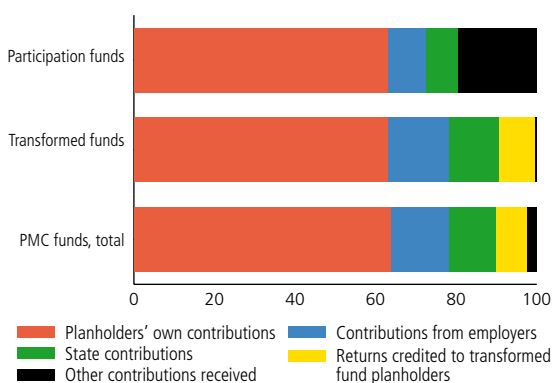


CHART III.16

CONTRIBUTIONS RECEIVED

PMC funds

(in %; as of 31 December 2015)



3.3.2 Assets of PMC funds

The assets in funds managed by PMCs totalled CZK 373.1 billion at the end of 2015, up by 10.0% on 2014. A majority of the assets (96.4%) were in transformed funds, 2.8% were in participation funds and 0.8% were in retirement funds. (See Chart III.14)

Transformed funds managed by PMCs placed the bulk of their assets in debt securities (89.2% of total assets), while investing just 1.7% of total assets in shares and units, 8.2% in time deposits and on term accounts and 0.9% in other assets.

Participation funds also placed most of their assets in debt securities, but the share was smaller than in the case of transformed funds (70.4%). These funds had 17.4% of their assets invested in time deposits and on term accounts and 11.6% in shares and units, with other assets accounting for the rest.

By contrast, retirement funds had the largest part of their assets invested in time deposits and on term accounts (73.5%), whereas debt securities accounted for just 24.7% of their assets. (See Chart III.15)

3.3.3 Contributions in PMC funds

In 2015 PMC funds received contributions totalling CZK 56.1 billion, up by 0.6% on 2014. Of this amount, 86.7% (i.e. 3.9 percentage points less than in 2014) went into transformed funds, 10.8% into participation funds and 2.5% into retirement funds.

With regard to structure, the majority of the contributions were planholders' own contributions (63.9%), while contributions from employers represented 14.3% and state contributions accounted for 11.7%. Roughly 7.7% were returns on contributions credited to transformed fund planholders. About 1.8% (CZK 1.0 billion) were funds transferred from transformed funds to participation funds and 0.3% were transfers among PMCs. The remainder (0.3%) were funds received from other sources and as yet unidentified payments which have been credited to the depositary's account but not to a specific retirement savings, supplementary pension savings or private pension scheme planholder. (See Charts III.16 and III.17)

PMC funds paid out a total of CZK 21.3 billion to planholders in 2015, up by 12.4% compared to 2014. Of this amount, 89.3% (CZK 19.0 billion) were funds paid to planholders and 5.4% (CZK 1.1 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 (1.4%) and other funds paid. The balance of funds received and paid was CZK 34.8 billion in 2015 (down by CZK 2.0 billion year on year). The difference between planholders' own funds and the funds paid to them amounted to CZK 16.8 billion in 2015, a year-on-year decrease of CZK 1.2 billion. (See Chart III.18)

Transformed funds of PMCs paid out a total of CZK 18.8 billion to planholders in 2015. This was 11.2% more than in 2014. Lump-sum settlements represented the largest part of this figure (77.4%). Surrenders also accounted for a significant proportion (16.7%).

Participation funds of PMCs paid out a total of CZK 0.25 billion to planholders in 2015, with surrenders accounting for the largest share (55.1%), followed by retirement pensions (40.7%).

CHART III.17

TOTAL CONTRIBUTIONS RECEIVED BY PMC FUNDS

(in CZK billions; at end of period)

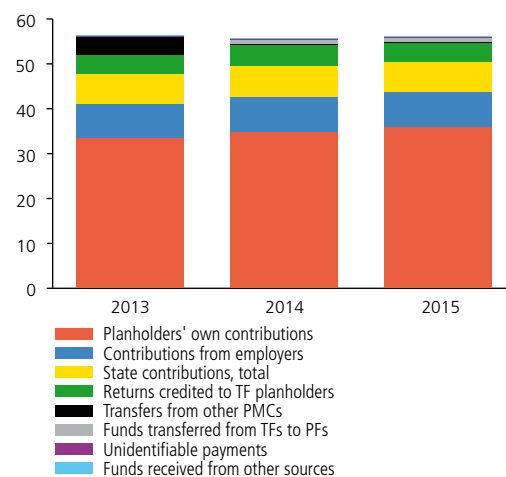


CHART III.18

BENEFITS PAID TO PLANHOLDERS**PMC funds**

(in %; as of 31 December 2015)

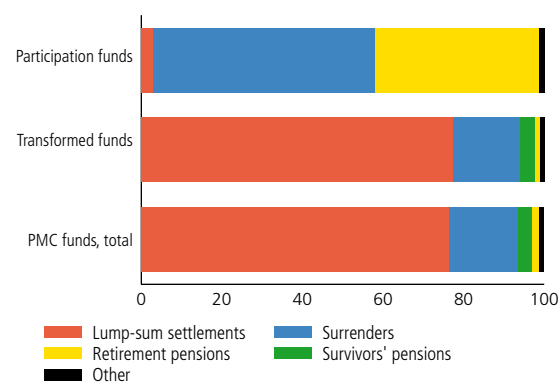


CHART III.19

NUMBERS OF REGISTERED ISSUES ON PSE

(at end of period)

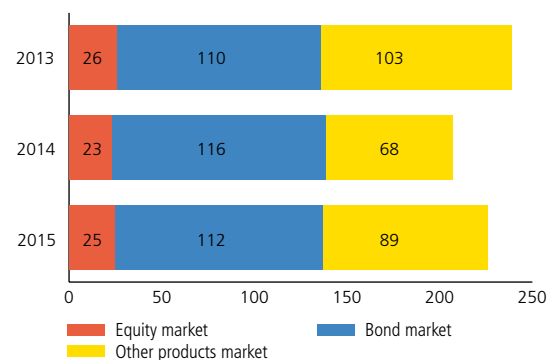


CHART III.20

SHARE TRADING ON PSE

(in CZK billions; at end of period)

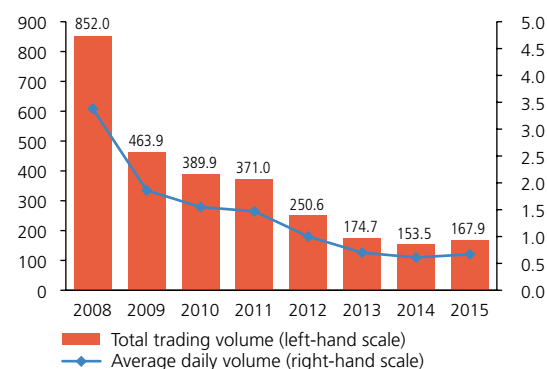
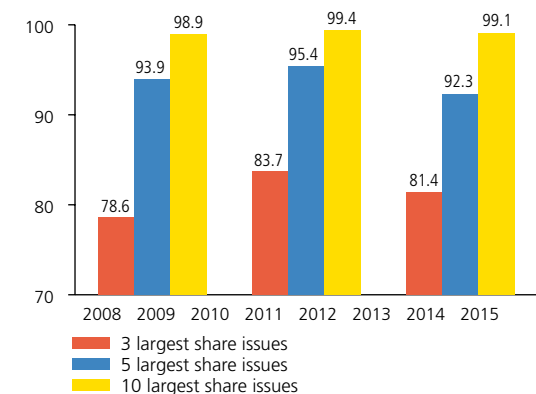


CHART III.21

CONCENTRATION OF SHARE TRADING ON PSE

(in %; shares in total annual trading volume)



3.4 REGULATED MARKETS

3.4.1 Trading on the Prague Stock Exchange⁹³

A total of 25 issues could be traded on the share and unit market of the Prague Stock Exchange (PSE) at the end of 2015, i.e. two more than at the end of 2014, of which 15 were domestic issues. In all, 112 issues were registered on the bond market, four fewer than at the end of 2014. As regards the other PSE products market, a total of 89 issues had been admitted to trading as of 31 December 2015, of which 19 were issues of non-leveraged investment certificates and 17 were issues of leveraged investment certificates, 20 were issues of warrants, 16 were issues of separated coupons and 17 were issues of investment fund shares. (See Chart III.19)

In terms of share market trading, the PSE enjoyed a relatively successful year. The total volume of trades on the share market increased by 9.4% year on year to CZK 167.9 billion in 2015. The most successful month was March with CZK 17.9 billion and the weakest month was December with CZK 11.2 billion. The average daily trading volume grew to CZK 674.3 million from a long-term low of CZK 614.0 million in 2014. This was the first year-on-year increase in the average daily trading volume on the PSE in seven years, although the figure was the second lowest recorded in that period. Apart from the volume indicators, the total number of transactions also rose, reaching 785,551 in 2015. This is 156,044 more than in 2014 and 178,562 more than in 2013. (See Chart III.20)

As usual, ČEZ shares were the most traded issue on the PSE (CZK 59.7 billion), accounting for more than one-third (35.5%) of the total volume of share trades in 2015, followed by Komerční banka (CZK 53.4 billion) and Erste Group Bank (CZK 23.6 billion). These three issues accounted for almost 81.4% of the total volume of share trades on the PSE in 2015.

Share trading on the PSE remained highly concentrated in 2015, with the three most traded share issues accounting for 81.4%, the five most traded issues for 92.3% and the ten most traded issues for almost 99.1% of the total volume of share trades. (See Chart III.21)

Unlike in the previous two years, the market capitalisation of shares traded on the PSE increased by 5.8% year on year to CZK 1,100.5 billion at the end of 2015. Domestic issues accounted for 57.8% (CZK 636.2 billion) of the total market capitalisation. After a one-year hiatus, the Erste Group Bank issue was again the largest in terms of market capitalisation, accounting for 30.6% of total market capitalisation, followed by ČEZ with a share of 21.7% and KB with a share of 17.1%. (See Chart III.22)

⁹³ 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.

In December 2015, the newly subscribed shares of Kofola ČeskoSlovensko started to be traded on the PSE. The PSE accounts for 99.95% of trading in this issue, which is simultaneously traded on the Warsaw Stock Exchange.

The PSE's PX index increased by 1.0% (9.6 points) year on year. However, it ended 2015 below 1,000 points again, at 956.3 points. The PX index recorded its yearly maximum of 1,058.4 points on 13 April 2015 and its yearly minimum of 919.7 points on 14 December 2015. (See Chart III.23)

Corporate issues totalling CZK 5.1 billion were the only bonds traded on the PSE bond market in 2015.

Only very small volumes of other products were traded in 2015. The volume of trading in investment certificates more than halved year on year, falling from CZK 564.5 million to CZK 223.5 million. The volume of trading in warrants went up by CZK 0.12 million year on year compared to 2014, reaching CZK 38.5 million. By contrast, issues of separated coupons and investment fund shares were not traded in 2015.

CHART III.22

MARKET CAPITALISATION OF SHARES ON PSE

(in CZK billions; at end of period)

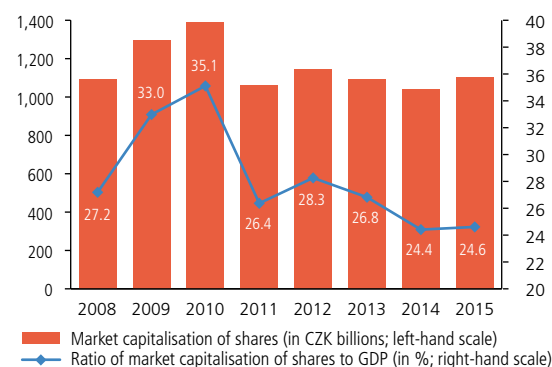


CHART III.23

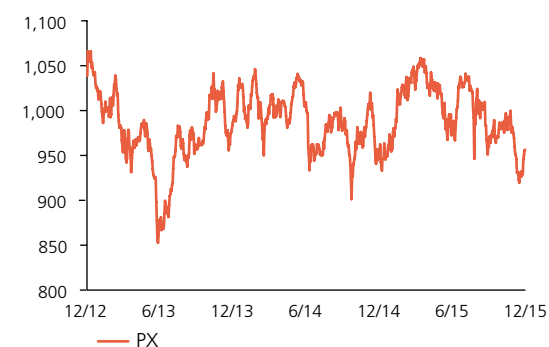
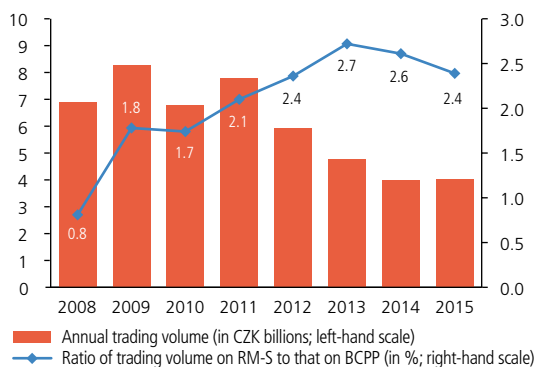
PX INDEX

CHART III.24

SHARE TRADING ON RM-S

(share trading volumes; all markets)

3.4.2 Trading on the RM-SYSTÉM exchange⁹⁴

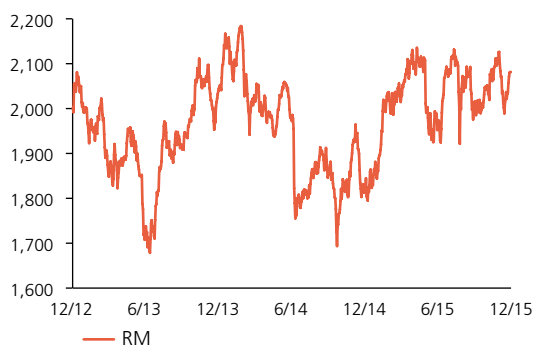
Total share trading on the other domestic regulated market (RM-S) amounted to CZK 4.0 billion in 2015 (up by 0.4% on a year earlier). (See Chart III.24)

The volume of bond trades totalled CZK 8.7 million, representing a year-on-year decrease of 86.1%.

The RM index reached 2,081.2 points at the end of 2015, an increase of 14.4% compared to the end of 2014 (1,819.7 points). The RM index recorded its yearly maximum of 2,147.9 points on 1 December 2015 and its yearly minimum of 1,789.0 points as early as 1 January 2015. (See Chart III.25)

CHART III.25

RM INDEX



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

4. THE INSURANCE MARKET

4.1 INSURANCE MARKET ENTITIES

A total of 31 domestic insurance undertakings and 23 branches of foreign insurance undertakings (all from EU countries) were operating in the Czech market as at 31 December 2015. This figure excludes the Czech Insurers' Bureau⁹⁵ and the reinsurance undertaking VIG RE zajišťovna, a.s.

Compared to 2014, the number of domestic insurance undertakings operating in the Czech insurance market decreased by one, while the number of branches of foreign insurance undertakings increased by three. 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 18) focus on non-life insurance, while five specialise in life insurance. Most domestic insurance undertakings also focus either on non-life insurance (15 entities) or on both life and non-life insurance (14 entities). (See Table IV.1)

In addition to the above-mentioned domestic insurance undertakings and branches of foreign insurance undertakings, which have been granted a licence by the CNB, insurance undertakings and branches of insurance undertakings from EU and EEA countries can operate in the Czech insurance market under the freedom to provide services on a temporary basis. The number of such entities increased to 825 in 2015. Most of these insurance undertakings operate in the non-life insurance market.

The reinsurance undertaking VIG RE zajišťovna, a.s., has been active in the Czech insurance market since September 2008. It is authorised to assume reinsurance risks in all segments of both the life insurance and non-life insurance markets as well as to carry on related activities (such as consultancy, intermediation, training and examination of reinsurance cases).

Of the total number of 31 domestic insurance undertakings, 18 were controlled by foreign owners as at the end of 2015. (See Chart IV.1)

Table IV.1

MARKET STRUCTURE BY TYPE OF INSURANCE UNDERTAKING	2013	2014	2015
NUMBER OF DOMESTIC INSURANCE UNDERTAKINGS	33	32	31
of which:			
non-life	16	15	15
life	2	2	2
both life and non-life	15	15	14
NUMBER OF BRANCHES OF INSURANCE UNDERTAKINGS FROM EU AND THIRD COUNTRIES	18	20	23
of which:			
non-life	15	16	18
life	3	4	5
both life and non-life	0	0	0
NUMBER OF INSURANCE UNDERTAKINGS, TOTAL	51	52	54
of which:			
non-life	31	31	33
life	5	6	7
both life and non-life	15	15	14

Chart IV.1

NUMBERS OF DOMESTIC INSURANCE UNDERTAKINGS BY OWNERSHIP STRUCTURE

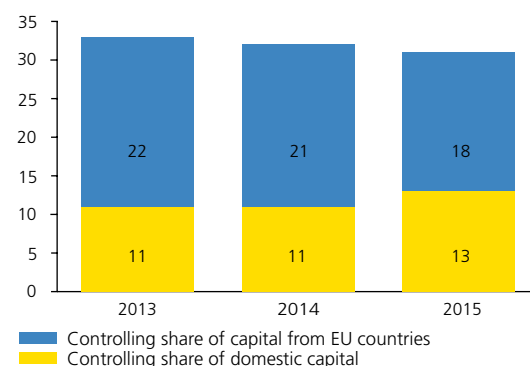
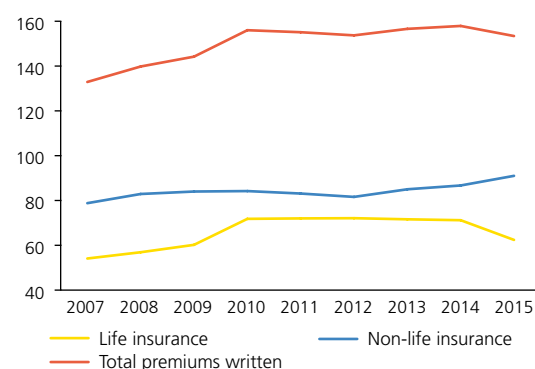


Chart IV.2

GROSS PREMIUMS WRITTEN

(in CZK billions)

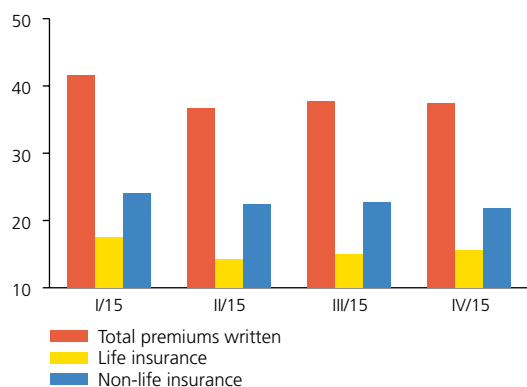


⁹⁵ The Czech Insurers' Bureau (Česká kancelář pojistitelů, ČKP) is a professional organisation of insurers licensed to provide motor third party liability insurance. For details on its activities and financial performance, see www.ckp.cz.

CHART IV.3

GROSS PREMIUMS WRITTEN

(in CZK billions)



4.2 PREMIUMS WRITTEN

Gross premiums written are one of the key indicators of the insurance market. Gross premiums written decreased by 2.8% in 2015 compared to 2014. The drop in total gross premiums written was driven by a decrease in life insurance of 12.4%, while premiums written in non-life insurance went up by 5.0%. Total gross premiums written amounted to CZK 153.4 billion in 2015.

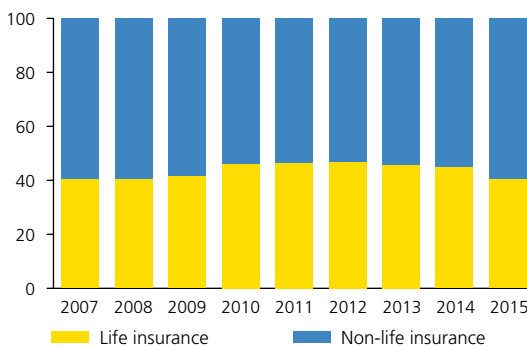
Premiums written in life insurance decreased by CZK 8.8 billion year on year to CZK 62.4 billion at the end of 2015. The drop in premiums written in life insurance in 2015 was mainly due to a decline in capital life insurance. Premiums written in non-life insurance increased by CZK 4.3 billion year on year in 2015. Total gross premiums written in non-life insurance amounted to CZK 91.0 billion. (See Chart IV.2)

The share of life insurance in total premiums written declined by 4.4 percentage points to 40.7% in 2015 compared to the previous year. This share reached its historical high of 46.9% in 2012 (See Chart IV.4)

CHART IV.4

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

(in %)



Total insurance penetration, as measured by the ratio of gross premiums written to GDP at current prices, is an important macroeconomic indicator relating to the insurance market. Insurance penetration declined by 0.3 percentage point year on year to 3.4% in 2015. (See Table IV.2)

An important instrument used by insurance companies to mitigate the risks arising from potential large-scale losses is reinsurance. This instrument is used primarily by non-life insurers in cases where high claim settlement limits could put their financial stability and solvency at risk. In 2015, premiums written ceded to reinsurers in non-life insurance amounted to CZK 26.9 billion. This represents 29.6% of gross premiums written. The share of premiums ceded to reinsurers is significantly lower in life insurance than in non-life insurance. Of the total volume of premiums written in life insurance, premiums of CZK 4.7 billion were ceded to reinsurers. This represents 7.5% of total premiums written in life insurance.

TABLE IV.2

TOTAL INSURANCE PENETRATION IN CZECH REPUBLIC

	Amount (in CZK billions)			Change 2015/2014 (in %)
	2013	2014	2015	
Premiums written	156.6	157.9	153.4	-2.8
GDP (at current prices)	4,077	4,261	4,476	5.0
	in %			
Premiums written/GDP	3.8	3.7	3.4	x

In the category of life insurance products, the share of investment life insurance in premiums written increased while that of standard products with a guaranteed yield declined. Even so, premiums written fell by 5.6% year on year in investment life insurance as well. In the case of standard products with a guaranteed yield, premiums written decreased by 31.9%. Premiums written in life insurance were influenced by tax changes and the continuing environment of low interest rates. The share of investment life insurance in the life insurance market increased by 4.1 percentage points to 56.3%. The share of traditional products such as assurance on death, assurance on survival or earlier death and marriage assurance in total premiums written in life insurance went down to 23.6%. (See Chart IV.6)

The largest category of the non-life insurance market is motor third party liability insurance, which accounted for 26% of non-life insurance premiums written. It was followed by insurance against damage to or loss of property (24.9%) and insurance against damage to or loss of land vehicles (17.1%). Insurance against damage to or loss of land vehicles was the fastest-growing product in 2015 (5.4%). (See Chart IV.7)

CHART IV.5

SHARES OF PREMIUMS WRITTEN IN GDP

(in %)

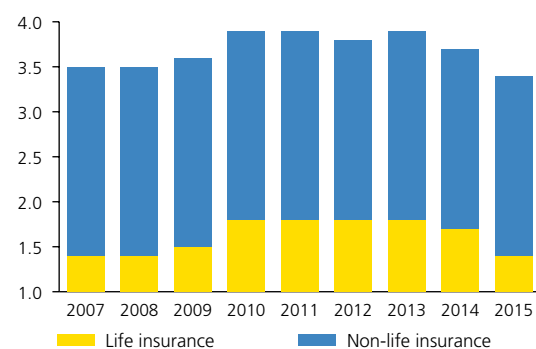


CHART IV.6

SHARES OF CLASSES OF LIFE INSURANCE IN PREMIUMS WRITTEN

(in %)

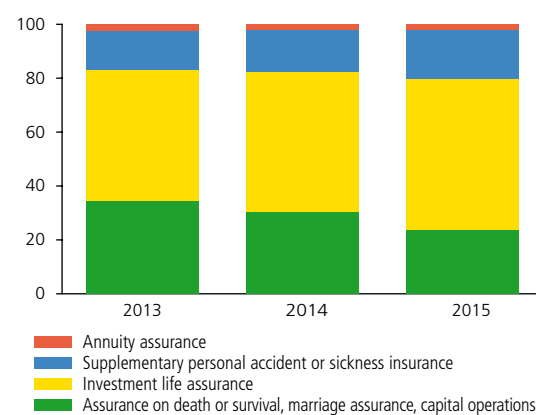
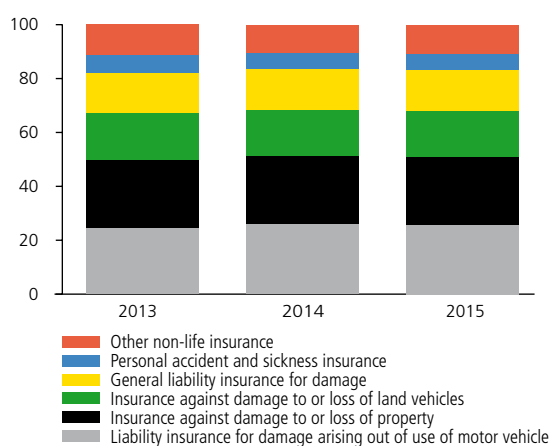


CHART IV.7

SHARES OF CLASSES OF NON-LIFE INSURANCE IN PREMIUMS WRITTEN

(in %)



4.3 CLAIM SETTLEMENT COSTS

TABLE IV.3

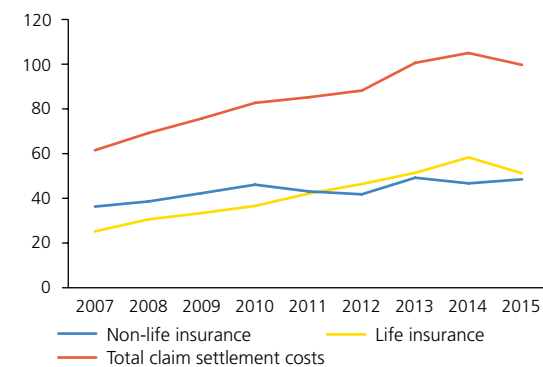
PREMIUMS WRITTEN BY INSURANCE CLASS

Insurance class	Amount (in CZK billions)			Change 2015/2014 (in %)
	2013	2014	2015	
TOTAL LIFE INSURANCE	71.6	71.2	62.4	-12.4
Assurance on death or survival, marriage assurance, capital operations	24.7	21.6	14.7	-31.9
Annuity assurance	1.8	1.5	1.4	-6.7
Investment life assurance	34.8	37.2	35.1	-5.6
Supplementary personal accident and sickness insurance	10.3	10.9	11.2	2.8
TOTAL NON-LIFE INSURANCE	85.0	86.7	91.0	5.0
Liability insurance for damage arising out of use of motor vehicle	21.0	22.8	23.7	3.9
Insurance against damage to or loss of property	21.5	21.7	22.7	4.6
Insurance against damage to or loss of land vehicles	14.5	14.8	15.6	5.4
General liability insurance for damage	12.9	13.2	13.8	4.5
Accident and sickness insurance	5.5	5.3	5.5	3.8
Other non-life insurance	9.6	8.9	9.7	9.0

CHART IV.8

CLAIM SETTLEMENT COSTS

(in CZK billions)



Claim settlement costs totalled CZK 99.7 billion in 2015, decreasing by 5% year on year. In the previous year, 2014, claim settlement costs had increased by 4.4%. Non-life insurance claim settlement costs increased by 3.9% in 2015. Life insurance costs showed the opposite trend by falling by 12.2%. (See Chart IV.8)

The share of reinsurers in claim settlement costs is approximately equal to their share in premiums written. In non-life insurance, where the share of reinsurers in claim settlement costs plays a larger role, the share fell by 1.5 percentage points to 24.5%. In life insurance, the share of reinsurers increased slightly by 0.6 percentage point to 3.5%. Non-life insurance claim settlement costs borne by reinsurers decreased by 2.1% to CZK 11.9 billion. In life insurance, claim settlement costs borne by reinsurers grew by 4.5% compared to 2014. In absolute terms, however, the amount was much lower than in non-life insurance (only CZK 1.8 billion).

4.4 ASSETS OF INSURANCE UNDERTAKINGS

The total assets of insurance undertakings stood at CZK 483.7 billion as of 31 December 2015. This represents a year-on-year decrease of 0.8%. A year earlier, the total assets of insurance undertakings had increased by 1.7% year on year. At the end of 2015, the total assets of domestic insurance undertakings amounted to CZK 431.4 billion (down by 4.3% year on year) and those of branches of insurance undertakings CZK 52.3 billion (up by 47.3%). (See Table IV.4)

TABLE IV.4

SHARES OF INSURANCE UNDERTAKINGS IN TOTAL ASSETS

	Amount (in CZK billions)			Structure 2015 (in %)
	2013	2014	2015	
TOTAL ASSETS	479.1	487.4	483.7	100.0
Domestic insurance undertakings	442.3	451.0	431.4	89.2
Branches of insurance undertakings	36.8	36.4	52.3	10.8

TABLE IV.5

ASSET STRUCTURE OF DOMESTIC INSURANCE UNDERTAKINGS

	Amount (in CZK billions)			Structure 2015 (in %)
	2013	2014	2015	
TOTAL ASSETS	442.3	451.0	431.4	100.0
Financial placements (investment)	330.5	340.2	320.5	74.3
of which:				
real estate	5.1	5.0	4.9	1.1
participating interests	20.1	21.3	22.0	5.1
shares, variable-yield securities	22.7	23.9	25.6	5.9
bonds and other fixed-income securities	260.6	273.0	252.7	58.6
deposits at financial institutions	22.7	15.0	14.8	3.4
other financial placements	-0.7	2.0	0.5	0.1
Financial placements of unit-linked life insurance	70.3	68.8	65.9	15.3
Debtors (receivables)	15.5	14.3	14.0	3.2
Other assets	26.0	27.7	31.0	7.2

Financial placement (investment)⁹⁶ is the largest asset item in the balance sheet of domestic insurance undertakings. Its share in total assets was 74.3% as of 31 December 2015. This represents a year-on-year decrease of 1.1 percentage points. Debt securities are the largest financial placement (investment) item. Their share in total assets decreased by 1.9 percentage points to 58.6% in 2015. The major financial placement items of domestic insurance undertakings also include shares and participating interests (accounting for 5.9% and 5.1% of total assets respectively). The share of financial placement of unit-linked life insurance in total assets was 15.3% at the end of 2015. (See Table IV.5)

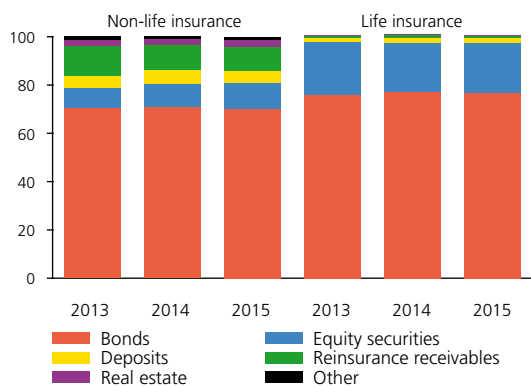
As technical provisions for life insurance are of a long-term nature, longer maturity bonds dominate investments arising from technical provisions for life insurance, and equity securities also have a large share. Investments arising from technical provisions for non-life insurance are made up of more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

⁹⁶ Financial placement (investment) is defined differently than financial placement of assets arising from technical provisions. Financial placement (investment) excludes reinsurance receivables.

CHART IV.9

INVESTMENTS OF DOMESTIC INSURANCE UNDERTAKINGS

(in %)



The investments of domestic insurance undertakings arising from technical provisions (both life and non-life insurance) are dominated by bonds. Bonds account for 70.1% of investments arising from technical provisions for non-life insurance. This ratio decreased by one percentage point compared to 2015. Equity securities are the second-largest investment item arising from technical provisions for non-life insurance, with a share of 11.0%. Reinsurance receivables also have quite high share (10.2%).

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 76.7%. Equity securities have a significant 20.8% share. Reinsurance receivables have a negligible share of just 1.2%. Investments arising from technical provisions for life insurance also include items linked with investment life insurance. (See Chart IV.9)

4.5 LIABILITIES OF INSURANCE UNDERTAKINGS

Technical provisions are the most important, and also a specific, liability item for insurance undertakings. Technical provisions are reported gross and net of reinsurers' share in technical provisions. In 2015, the share of net technical provisions (excluding the provision for unit-linked life insurance) in the total liabilities of domestic insurance undertakings decreased slightly by 0.7 percentage point year on year to 57.6%. Another rather specific liability item for insurance undertakings relating to technical provisions 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 evolution of this provision was similar to that of financial placement of unit-linked life insurance, falling by 4.2% in 2015, and its share in liabilities was 15.3%. (See Table IV.6)

Another quite important liability item for domestic insurance undertakings besides technical provisions, is equity capital, which decreased by 2.4% during 2015 and accounted for 17.8% of total liabilities. Registered capital has the largest share in equity (33.5%). Other major equity items include retained earnings and other capital funds (accounting for 30.5% and 22.0% respectively) and current year profit (accounting for 8.7%).

At the end of 2015, the total gross technical provisions of domestic insurance undertakings, including the provision for unit-linked life insurance, were down by 4.6% year on year to CZK 348.1 billion. Gross technical provisions for life insurance decreased by 6.8%, while those for non-life insurance edged up by 0.8%. The total net technical provisions of domestic insurance undertakings fell by 5.2% in 2015. (See Table IV.7)

TABLE IV.6

LIABILITY STRUCTURE OF DOMESTIC INSURANCE UNDERTAKINGS

	Amount (in CZK billions)			Structure 2015 (in %)
	2013	2014	2015	
TOTAL LIABILITIES	442.3	451.0	431.4	100.0
Shareholders' equity	80.5	78.5	76.6	17.8
Technical provisions ^{a)}	253.4	262.9	248.6	57.6
Provision for unit-linked life insurance ^{a)}	70.3	68.8	65.9	15.3
Creditors (liabilities)	22.4	23.1	21.7	5.0
Other liabilities	15.7	17.7	18.6	4.3

a) net amount

CHART IV.10

NET TECHNICAL PROVISIONS OF DOMESTIC INSURANCE UNDERTAKINGS

(in CZK billions)

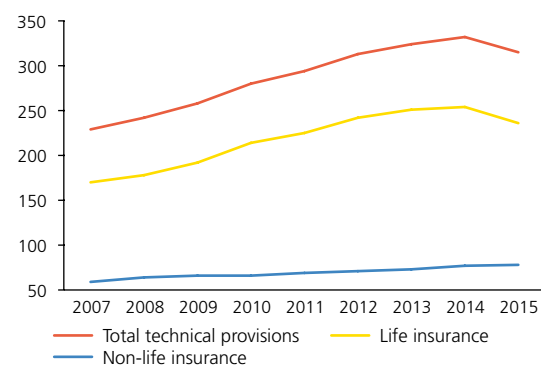


TABLE IV.7

TECHNICAL PROVISIONS OF DOMESTIC INSURANCE UNDERTAKINGS

	Amount (in CZK billions)			Change 2015/2014 (in %)
	2013	2014	2015	
GROSS TECHNICAL PROVISIONS, TOTAL	355.3	364.8	348.1	-4.6
of which:				
non-life insurance	101.3	106.3	107.1	0.8
life insurance	254.0	258.5	241.0	-6.8
NET TECHNICAL PROVISIONS, TOTAL	323.7	331.6	314.5	-5.2
of which:				
non-life insurance	72.5	77.2	78.2	1.3
life insurance	251.2	254.4	236.3	-7.1

CHART IV.11

PROFITS OF INSURANCE UNDERTAKINGS

(in CZK billions)

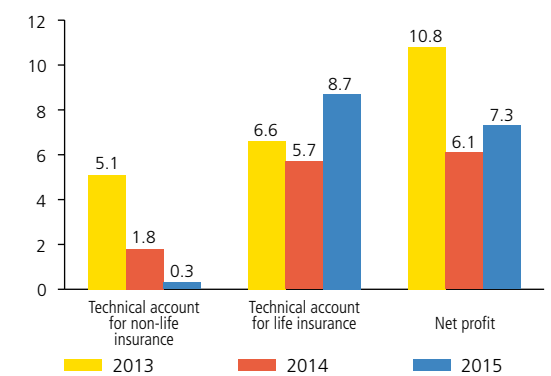


TABLE IV.8

PROFIT OF INSURANCE UNDERTAKINGS

	Amount (in CZK billions)			Structure (in %)
	2013	2014	2015	
NET PROFIT, TOTAL	10.8	6.1	7.3	100.0
Domestic insurance undertakings	10.3	5.4	6.7	91.8
Branches of insurance undertakings	0.5	0.7	0.6	8.2

TABLE IV.9

SELECTED PROFITABILITY AND EFFICIENCY INDICATORS FOR DOMESTIC INSURANCE UNDERTAKINGS

(in %)

	2013	2014	2015
INSURANCE SECTOR, TOTAL			
Net profit/assets (RoA)	2.3	1.2	1.6
Net profit/shareholders' equity (RoE)	12.7	6.9	8.7
Net profit/earned premiums	8.8	4.6	6.0
NON-LIFE INSURANCE			
Profit on technical account for non-life insurance/earned premiums	9.3	2.6	0.2
Claims incurred, including change in TPs/earned premiums	60.8	66.1	60.6
Net operating costs/earned premiums	31.8	31.8	30.5
Acquisition costs for insurance contracts/earned premiums	25.0	25.2	24.7
Administrative expenses/earned premiums	16.2	16.1	15.5
LIFE INSURANCE			
Profit on technical account for life insurance/earned premiums	9.8	8.4	15.6
Claims incurred, including change in TPs/earned premiums	70.9	83.7	84.9
Net operating costs/earned premiums	22.2	22.0	23.0
Acquisition costs for insurance contracts/earned premiums	17.3	17.3	18.3
Administrative expenses/earned premiums	6.7	6.7	7.5

4.6 PROFITS OF INSURANCE UNDERTAKINGS

Insurance undertakings operating in the Czech market (including branches of foreign insurers) recorded good results in 2015. The net profit of the sector as a whole was CZK 7.3 billion. This is 19.7% more than in 2014, when the insurance market generated a profit of CZK 6.1 billion. The technical account⁹⁷ for non-life insurance ended in a slight profit of CZK 0.3 billion. The technical account for life insurance recorded a profit of CZK 8.7 billion in 2015 (up by 52.6% year on year). (See Chart IV.11)

The net profit created by the insurance sector as a whole was chiefly due to domestic insurance undertakings, which accounted for 91.8% of the total. Their profit improved by 24.1% year on year in 2015. The net profit of branches of insurance undertakings decreased by 14.3% to just CZK 0.6 billion. (See Table IV.8)

The improved results in comparison with 2014 were reflected in the profitability and efficiency ratios. Return on assets (RoA), as measured as the ratio of net profit to assets, increased from 1.2% in 2014 to 1.6%. The ratio of net profit to equity (RoE) rose by 1.8 percentage points year on year to 8.7% in 2015 and the ratio of net profit to earned premiums⁹⁸ increased by 1.4 percentage points year on year to 6.0%.

As regards non-life insurance, the ratio of claims incurred, including change in technical provisions, to earned premiums saw an improvement, falling by 5.5 percentage points to 60.6%. The ratio of net operating costs to earned premiums decreased slightly to 30.5%.

Compared to 2014, the ratio of the technical account for life insurance to earned premiums improved to 15.6%. However, there was a slight increase in the ratio of claims incurred, including change in technical provisions, to earned premiums (this ratio increased by 1.2 percentage points year on year to 84.9%). The other monitored ratios on the technical account for life insurance were little changed from 2014. (See Table IV.9)

⁹⁷ 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.

⁹⁸ Earned premiums and claim settlement costs, including change in technical provisions, are net of reinsurance.

PART C – ANNEXES

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

Annex 1

MAIN INDICATORS OF MONETARY AND ECONOMIC DEVELOPMENTS IN THE CZECH REPUBLIC

		2011	2012	2013	2014	2015
Gross domestic product ¹⁾²⁾	Volume (in CZK billions)	3,823.4	3,845.9	3,883.8	4,266.1	4,472.3
	Increase (in %)	1.8	-1.0	-0.9	2.0	4.2
Output – percentage increase	Industry (sales) ¹⁾	7.6	1.7	1.4	8.4	2.5
	Construction ²⁾	-3.6	-7.6	-6.7	4.3	7.1
Prices ³⁾	Inflation rate (in %)	1.9	3.3	1.4	0.4	0.3
Unemployment	Unemployment rate (in %)	6.7	6.8	7.7	7.7	6.6
Foreign trade ²⁾	Exports of goods and services (in %)	9.5	4.4	0.1	8.7	7.1
	Imports of goods and services (in %)	7.0	2.2	0.6	9.5	7.9
Average wage ²⁾	Nominal (in %) ⁵⁾	2.5	2.7	0.1	2.4	3.4
	Real (in %) ⁵⁾	0.6	-0.6	-1.3	2.0	3.1
Balance of payments	Current account (in CZK billions)	-104.0	-51.3	-56.0	26.1	41.4
	Financial account (in CZK billions)	59.4	74.3	187.9	48.0	193.8
State budget balance	(in CZK billions)	-142.8	-101.0	-81.3	-77.8	-62.8
State budget balance/GDP	(in %)	-3.7	-2.6	-2.1	-1.8	-1.4
Exchange rates ⁴⁾	CZK/USD	17.7	19.6	19.6	20.7	24.6
	CZK/EUR	24.6	25.1	26.0	27.5	27.3
Average interbank deposit rate (PRIBOR)	7-day	0.82	0.64	0.21	0.17	0.15
	3-month	1.19	1.00	0.46	0.36	0.31
in % ⁴⁾	6-month	1.53	1.24	0.58	0.43	0.39
Discount rate ⁶⁾	(in %)	0.25	0.05	0.05	0.05	0.05
Lombard rate ⁶⁾	(in %)	1.75	0.25	0.25	0.25	0.25
2W repo rate ⁶⁾	(in %)	0.75	0.05	0.05	0.05	0.05
PX capital market index		911.1	1,038.7	989.0	946.7	956.3

Source: CZSO (macroeconomic indicators) data for 2015 as of 14 April 2016, PSE, CNB

1) Current prices

2) Percentage increase on a year earlier in real terms

3) Inflation rate, average

4) Annual averages from monthly averages

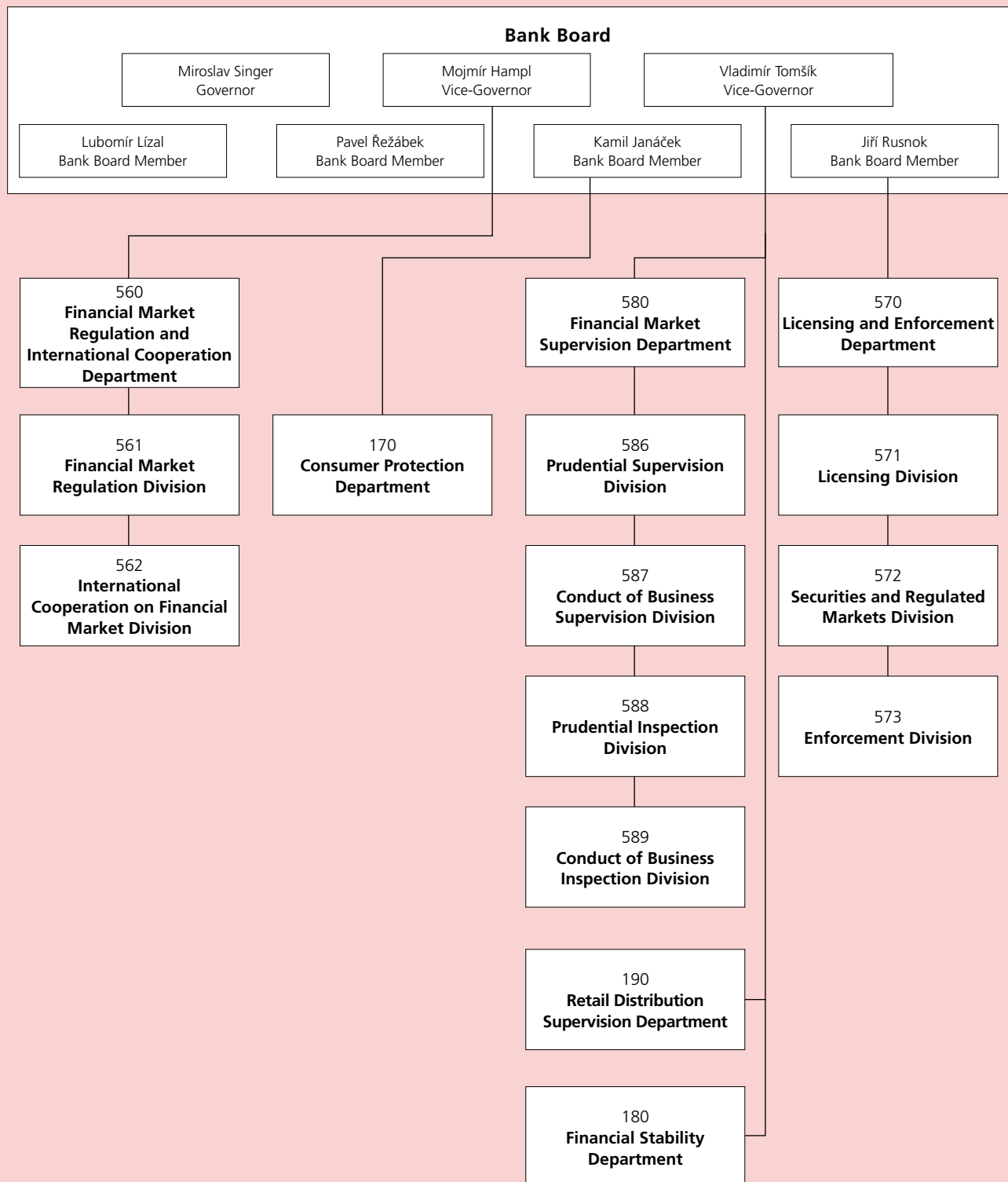
5) Recalculated numbers, whole national economy

6) As of 31 December of given year

Annex 2

ORGANISATIONAL STRUCTURE OF CNB FINANCIAL MARKET SUPERVISION

as of 31 December 2015



Annex 3

BREAKDOWN OF BANKS INTO GROUPS ¹⁾

(as of 31 December 2015)

I. Large banks	IV. Foreign bank branches
1. Česká spořitelna, a. s.	1. Bank Gutmann Aktiengesellschaft, pobočka Česká republika
2. Československá obchodní banka, a. s.	2. Bank of China (Hungary) Close Ltd. Prague branch, odštěpný závod
3. Komerční banka, a. s.	3. Bank of Tokyo-Mitsubishi UFJ (Holland) N. V. Prague Branch, organizační složka
4. UniCredit Bank Czech Republic and Slovakia, a. s.	4. BNP Paribas Fortis SA/NV, pobočka Česká republika
	5. BNP Paribas Personal Finance SA, odštěpný závod
	6. Citibank Europe plc, organizační složka
	7. COMMERZBANK Aktiengesellschaft, pobočka Praha
	8. Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka
	9. HSBC Bank plc - pobočka Praha
	10. ING Bank N. V.
	11. mBank S.A., organizační složka
	12. Oberbank AG pobočka Česká republika
	13. Poštová banka, a. s., pobočka Česká republika
	14. PRIVAT BANK der Raiffeisenlandesbank Oberösterreich Aktiengesellschaft, pobočka Česká republika
	15. Raiffeisenbank im Stiftland eG pobočka Cheb, odštěpný závod
	16. Saxo Bank A/S, organizační složka
	17. Sumitomo Mitsui Banking Corporation Europe Limited, Prague Branch
	18. The Royal Bank of Scotland plc, organizační složka
	19. Volksbank Löbau-Zittau eG, pobočka
	20. Všeobecná úverová banka a. s., pobočka Praha (zkráceně VUB, a. s., pobočka Praha)
	21. Waldviertler Sparkasse Bank AG
	22. Western Union International Bank GmbH, organizační složka
	23. 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.
II. Medium-sized banks	
1. Česká exportní banka, a. s.	
2. Českomoravská záruční a rozvojová banka, a. s.	
3. GE Money Bank, a. s.	
4. Hypoteční banka, a. s.	
5. J&T BANKA, a. s.	
6. PPF banka a. s.	
7. Raiffeisenbank a. s.	
8. Sberbank CZ, a. s.	
III. Small banks	
1. Air Bank a. s.	
2. Equa bank a. s.	
3. ERB bank, a. s.	
4. Expobank CZ a. s.	
5. Fio banka, a. s.	
6. Wüstenrot hypoteční banka 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 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 2015)

- | |
|---|
| 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 2015)

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. mBank S.A., organizační složka
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 úverová banka a.s., pobočka Praha; zkráceně: VUB, a.s., pobočka Praha
	15. Western Union International Bank GmbH, organizační složka
II. Investment firms – non-banks	IV. Investment firms – branches (organisational units) of foreign non-bank investment firms
1. 42 Financial Services a.s.	1. Admiral Markets AS, organizační složka
2. AKCENTA CZ a.s.	2. Catus AG Vermögensverwaltung
3. ATLANTA SAFE, a.s.	3. Dom Maklerski Banku Ochrony Środowiska Spółka Akcyjna, organizační složka Česká republika
4. ATLANTIK finanční trhy, a.s.	4. European Investment Centre, o.c.p., a.s. – organizační složka
5. BH Securities a.s.	5. GKFX Financial Services Limited
6. brokerjet České spořitelny, a.s.	6. Goldenburg Group Limited
7. Citfin - Finanční trhy, a.s.	7. LaSalle Investment Management, organizační složka
8. Colosseum, a.s.	8. Leadcapital Markets Ltd
9. Conseq Investment Management, a.s.	9. Lynx B.V., organizační složka
10. CYRRUS, a.s.	10. Monecor (London) Ltd
11. CYRRUS CORPORATE FINANCE, a.s.	11. Nuntius Brokerage and Investment Services S.A., odštěpný závod
12. EFEKTA CONSULTING, a.s.	12. OKTAVEST GmbH
13. Generali Investments CEE, a.s.	13. RELIANTCO INVESTMENTS LTD, organizační složka
14. HighSky Brokers, a.s.	14. X-TRADE BROKERS DOM MAKLERSKI SPÓŁKA AKCYJNA, organizační složka
15. NN Investment Partners C.R., a.s.	
16. Patria Finance, a.s.	
17. Pioneer Asset Management, a.s.	
18. Roklen360 a.s.	
19. RSJ a.s.	
20. WOOD & Company Financial Services, a.s.	
	V. Investment companies carrying on asset management
	1. AXA investiční společnost a.s.
	2. CARDUUS Asset Management, investiční společnost, a.s.
	3. ČP INVEST investiční společnost, a.s.
	4. ČSOB Asset Management, a.s., investiční společnost
	5. Investiční kapitálová společnost KB, a.s.
	6. J&T INVESTIČNÍ SPOLEČNOST, a.s.
	7. Partners investiční společnost, a.s.
	8. WOOD & Company investiční společnost, a.s.
	9. ZFP Investments, investiční společnost, a.s.

Annex 6**PENSION MANAGEMENT COMPANIES**

(as of 31 December 2015)

- | |
|---|
| 1. Allianz penzijní společnost, a.s. |
| 2. AXA penzijní společnost a.s. |
| 3. Conseq penzijní společnost, a.s. |
| 4. Česká spořitelna - penzijní společnost, a.s. |
| 5. ČSOB Penzijní společnost, a. s., člen skupiny ČSOB |
| 6. KB Penzijní společnost, a.s. |
| 7. NN Penzijní společnost, a.s. |
| 8. Penzijní společnost České pojišťovny, a.s. |

Annex 7**MANAGEMENT COMPANIES**

(as of 31 December 2015)

- | | |
|--|--|
| 1. AKRO investiční společnost, a.s. | 15. Jet Investment Management, a.s. |
| 2. AMISTA investiční společnost, a.s. | 16. J&T INVESTIČNÍ SPOLEČNOST, a.s. |
| 3. Art of Finance Investiční společnost, a.s. | 17. Partners investiční společnost, a.s. |
| 4. AVANT investiční společnost, a.s. | 18. Pioneer investiční společnost, a.s. |
| 5. AXA investiční společnost a.s. | 19. PROSPERITA investiční společnost, a.s. |
| 6. CARDUUS Asset Management, investiční společnost, a.s. | 20. QI investiční společnost, a.s. |
| 7. CLOVIS, investiční společnost, a.s. | 21. Raiffeisen investiční společnost a.s. |
| 8. Conseq Funds investiční společnost, a.s. | 22. REDSIDE investiční společnost, a.s. |
| 9. ČP INVEST investiční společnost, a.s. | 23. REICO investiční společnost České spořitelny, a.s. |
| 10. ČSOB Asset Management, a.s., investiční společnost | 24. Safety invest funds, investiční společnost, a.s. |
| 11. DELTA Investiční společnost, a.s. | 25. VIG Asset Management investiční společnost, a.s. |
| 12. I.C.P. Czech, investiční společnost, a.s. | 26. WMS investiční společnost, a.s. |
| 13. Investiční kapitálová společnost KB, a.s. | 27. WOOD & Company investiční společnost, a.s. |
| 14. INVESTIKA, investiční společnost, a.s. | 28. ZFP Investments, investiční společnost, a.s. |

Annex 8

INSURANCE UNDERTAKINGS

(as of 31 December 2015)

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 – odštěpný závod zahraniční právnické osoby
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
9. Česká pojišťovna a.s.	organizační složka pro Českou republiku
10. ČSOB Pojišťovna, a.s., člen holdingu ČSOB	9. Colonnade Insurance S.A., organizační složka
11. DIRECT pojišťovna, a.s.	10. COMPAGNIE FRANCAISE D'ASSURANCE POUR LE COMMERCE EXTERIEUR
12. ERGO pojišťovna, a.s.	organizační složka Česko
13. ERV Evropská pojišťovna, a.s.	11. D.A.S. Rechtsschutz AG, pobočka pro ČR
14. Exportní garanční a pojišťovací společnost, a.s.	12. EULER HERMES SA, organizační složka
15. Generali Pojišťovna a.s.	13. HDI Versicherung AG, organizační složka
16. HALALI, všeobecná pojišťovna, a.s.	14. INTER PARTNER ASSISTANCE, organizační složka
17. Hasičská vzájemná pojišťovna, a.s.	15. MetLife Europe Insurance Limited, pobočka pro Českou republiku
18. ING pojišťovna, a.s.	16. MetLife Europe Limited, pobočka pro Českou republiku
19. Komerční pojišťovna, a.s.	17. NN Životná poisťovňa, a.s., pobočka pro Českou republiku
20. Kooperativa pojišťovna, a.s., Vienna Insurance Group	18. NN Životní pojišťovna N.V., pobočka pro Českou republiku
21. KUPEG úvěrová pojišťovna, a.s.	19. NOVIS Poistovňa a.s., odštěpný závod
22. MAXIMA pojišťovna, a.s.	20. Österreichische Hagelversicherung – Versicherungsverein auf
23. Pojišťovna České spořitelny, a.s., Vienna Insurance Group	Gegenseitigkeit, Agra pojišťovna, organizační složka
24. Pojišťovna VZP, a.s.	21. QBE INSURANCE (EUROPE) LIMITED, organizační složka
25. PRVNÍ KLUBOVÁ pojišťovna a.s.	22. Stewart Title Limited, organizační složka
26. Servisní pojišťovna a.s.	23. Union poisťovňa, a.s., pobočka pro Českou republiku
27. Slavia pojišťovna a.s.	
28. UNIQA pojišťovna, a.s.	
29. Vitalitas pojišťovna, a.s.	
30. Wüstenrot pojišťovna a.s.	
31. Wüstenrot, životní pojišťovna, a.s.	

Annex 9

(BASE) BOND PROSPECTUSES AND SUPPLEMENTS THERETO IN 2015

Issuer	Document type	Decision date	Decision
ThomasLloyd Cleantech Infrastructure (Czech) a.s.	Prospectus	13 January 2015	Agreed
ThomasLloyd Cleantech Infrastructure (Czech) a.s.	Prospectus	13 January 2015	Agreed
UNICAPITAL ENERGY, a.s.	Base prospectus	06 March 2015	Agreed
Hypoteční banka, a.s.	Supplement	07 March 2015	Agreed
OMCG, s.r.o.	Supplement	26 March 2015	Denied
Sberbank CZ, a.s.	Supplement	27 March 2015	Agreed
UNICAPITAL ENERGY, a.s.	Supplement	05 May 2015	Agreed
CPI BYTY, a.s.	Base prospectus	06 May 2015	Agreed
ČEZ, a. s.	Base prospectus	28 May 2015	Agreed
UNICAPITAL ENERGY, a.s.	Supplement	05 June 2015	Agreed
ŠKODA TRANSPORTATION a.s.	Prospectus	19 June 2015	Agreed
Czech Property Investments, a. s.	Prospectus	02 July 2015	Agreed
Severomoravské vodovody a kanalizace Ostrava a.s.	Prospectus	15 July 2015	Agreed
Bydlení na Vinohradech s.r.o.	Base prospectus	27 July 2015	Agreed
CPI Retail Portfolio I, a.s.	Prospectus	05 August 2015	Agreed
eFi Palace, s.r.o.	Base prospectus	09 September 2015	Agreed
EPH Financing CZ, a.s.	Prospectus	24 September 2015	Agreed
e-Finance, a.s.	Prospectus	26 September 2015	Agreed
Hypoteční banka, a.s.	Base prospectus	01 October 2015	Agreed
Conseq Funds investiční společnost, a.s.	Base prospectus	17 November 2015	Agreed
ThomasLloyd Cleantech Infrastructure (Czech) a.s.	Prospectus	24 November 2015	Agreed
ThomasLloyd Cleantech Infrastructure (Czech) a.s.	Prospectus	24 November 2015	Agreed
Wüstenrot hypoteční banka a.s.	Base prospectus	11 December 2015	Agreed
Československá obchodní banka, a.s.	Supplement	16 December 2015	Agreed
UNICAPITAL ENERGY, a.s.	Supplement	16 December 2015	Agreed

■ Debt securities with a unit face value of greater than EUR 100,000

Annex 10

SHARE PROSPECTUSES AND SUPPLEMENTS THERETO IN 2015

Issuer	Purpose of prospectus	Decision date	Decision
O2 Czech Republic, a.s.	Public offering	28 March 2015	Agreed
Imperial nemovitostní, uzavřený investiční fond a.s.	Admission to trading on RM	25 May 2015	Agreed
UNIMEX GROUP, uzavřený investiční fond, a.s.	Admission to trading on RM	27 May 2015	Agreed
BEMETT nemovitostní uzavřený investiční fond, a.s.	Admission to trading on RM	24 September 2015	Agreed
Kofola ČeskoSlovensko a.s.	Admission to trading on RM	29 September 2015	Agreed
IFIS investiční fond, a.s.	Admission to trading on RM	19 October 2015	Agreed
Kofola ČeskoSlovensko a.s.	Public offering and admission to trading on RM	19 November 2015	Agreed
APS FUND ALPHA uzavřený investiční fond, a.s.	Admission to trading on RM	05 December 2015	Agreed
ČEZ OZ uzavřený investiční fond a.s.	Admission to trading on RM	22 December 2015	Agreed

Note: RM = regulated market

■ Document equivalent to prospectus (Article 35(4)(b) of Capital Market Undertakings Act)

Annex 11

TAKEOVER BIDS, PUBLIC CONTRACT OFFERS AND COMPULSORY PURCHASES IN 2015

Proposer	Target company	Type of transaction	Decision date	Decision
LAPASAN s.r.o.	Pivovary Lobkowicz Group, a.s.	Mandatory takeover bid	27 November 2015	Agreed

Annex 12

LICENSING PROCEEDINGS IN THE MARKET INFRASTRUCTURE AREA IN 2015

Regulated entity	Subject of proceedings	Decision date	Decision
RM-System, česká burza cenných papírů, a.s.	Prior consent to performance of senior officer for Mr Daniel Dittrich	14 March 2015	Agreed
Centrální depozitář cenných papírů, a.s.	Change in Settlement System Rules	30 April 2015	Agreed
Burza cenných papírů Praha, a.s.	Registration of further lines of business	18 December 2015	Suspended

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
AnaCredit	Analytical Credit Datasets
APRC	annual percentage rate of charge
ATC	Advisory Technical Committee
AVA	additional valuation adjustment
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
BS	banking sector
CCR	Central Credit Register
CET 1	Common Equity Tier 1
CFD	contract for difference
CFM	Committee on Financial Markets (OECD)
CIB	Czech Insurers' Bureau
CNB	Czech National Bank
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
ECAI	External Credit Assessment Institution
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EDIS	European Deposit Insurance Scheme
EEA	European Economic Area
EFC	Economic and Financial Committee
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds
EMIR	European Market Infrastructure Regulation
EP	European Parliament
ERPB	European Retail Payment Board
ESAs	European Supervisory Authorities
ESA 95	European System of Integrated Economic Accounts (calculation of the Maastricht convergence criteria of government deficit and debt)
ESCB	European System of Central Banks
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
FINREP	Financial Reporting Framework
FSC	Financial Services Committee
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
IP-KI	investment adviser specialising in collective investment
IRB	Internal Ratings Based Approach
IRRBB	Interest Rate Risk in the Banking Book
IS/IT	information systems and technology
ITS	implementing technical standards
IWG	Instruments Working Group
MAR	Market Abuse Regulation
MCD	Mortgage Credit Directive
MF	Ministry of Finance
MiFID/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)
PIN	personal identification number
PRIPs	Packaged Retail Investment Products Regulation
PSD	Directive on Payment Services in the Internal Market
PSE	Prague Stock Exchange (Burza cenných papírů Praha, a.s.)
PSSC	Payment and Settlement Systems Committee
PXE	Power Exchange Central Europe
RE	risk exposure
RM-S	RM-SYSTÉM, česká burza cenných papírů a.s.
RoA	return on assets
RoE	return on equity
RTS	regulatory technical standards
RWE	risk weighted exposure
SEPA	Single Euro Payments Area
SFT-DS	Securities Financing Transactions – Data Store
SFTR	Regulation on Reporting and Transparency of Securities Financing Transactions
SKD	Short-term Bond System
SREP	supervisory review and evaluation process

SRF	Single Resolution Fund
SRMR	Single Resolution Mechanism Regulation
SSM	Single Supervisory Mechanism
SVYT	Transaction Settlement System
T2-S	TARGET2-Securities
TARGET2	Trans-European Automated Real-time Gross Settlement Express Transfer System
TD	Directive on Transparency of Listed Companies
TFEU	Treaty on the Functioning of the European Union
TPs	technical provisions
UCITS	Undertakings for Collective Investment in Transferable Securities Directive
UK	United Kingdom
USD	US dollar
VaR	value at risk
VIP	very important person

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