



# CNB CZECH NATIONAL BANK



Annual  
Report  
2013







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NATIONAL  
BANK

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# MANDATE OF THE CZECH NATIONAL BANK

- **to maintain price stability,**
  - **to maintain financial stability and see to the sound operation of the financial system in the Czech Republic,**
  - **to issue banknotes and coins, manage the circulation of currency and administer clearing between banks,**
  - **to supervise the entities operating on the financial market.**
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- *Through monetary policy* we seek to preserve price stability, i.e. low and stable inflation. Through *macroprudential policy* we foster financial stability and resilience of the financial system, which are necessary conditions for the maintenance of price stability. Through the joint action of monetary policy and macroprudential policy, we contribute to maintaining confidence in the value of the Czech koruna and safeguarding the stability of the macroeconomic environment.
  - *By supervising the financial market and creating prudential rules and rules of conduct towards clients* we protect the clients of persons and institutions carrying on business on the financial market.
  - *By managing the interbank payment system and issuing banknotes and coins* we ensure smooth payments and cash circulation.
  - *As the bank of the state,* we provide banking services to the state and the public sector.
  - In line with our primary objective, we *manage international reserves with professional care.*
  - We are a *part of the European System of Central Banks* and contribute to the fulfilment of the ESCB's objectives and tasks.

## I WHAT WE BUILD ON

### II INDEPENDENCE

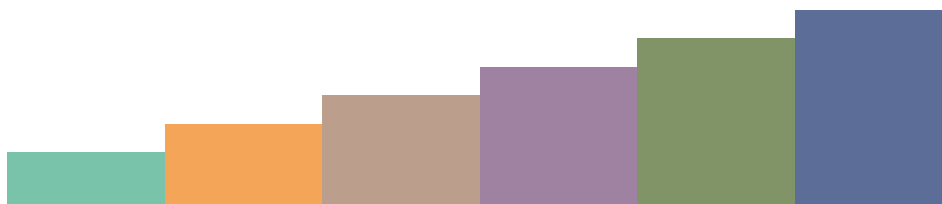
Broad independence of the central bank is a key condition for successful implementation of monetary policy, i.e. for sustained non-inflationary growth of the economy, as well as for objective supervision of the financial market.

### II OPENNESS AND CREDIBILITY

A high degree of independence must go hand in hand with a high degree of accountability to the public for fulfilling our objectives. We inform the public and their elected representatives regularly and openly about our objectives and their fulfilment and about our opinions, plans and predictions. This makes our actions comprehensible, predictable and therefore credible.

### II PROFICIENCY

Proficient and competent employees are vital if the CNB is to succeed in enhancing its reputation as a credible and open institution at home and on the international stage.





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# THE YEAR AT A GLANCE

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- The recession continued in 2013 and was accompanied by a labour market downturn and falling inflation. The CNB forecast prepared at the end of 2013 pointed to a risk of the Czech economy falling into deflation, with all the adverse effects that entails. As the room for lowering monetary policy interest rates had been exhausted, the Bank Board decided at its November 2013 meeting to start using the koruna exchange rate as an additional instrument for easing the monetary conditions.
- The Bank Board publicly declared that the CNB would intervene in the foreign exchange market if needed to weaken the koruna so as to maintain the exchange rate of the koruna close to CZK 27 to the euro. It made clear that it was resolved to intervene in such volumes and for such duration as needed to fulfil its mandate, namely to maintain price stability.
- In December, the CNB revoked the credit union licence of Metropolitní spořitelní družstvo (MSD) due to serious shortcomings in this institution's business that were harming the interests of its depositors. MSD closed down as a result of this decision.
- In 2013, the CNB constructively influenced the ongoing legislative process in the EU in the financial market area and contributed to changes in the regulatory framework on the domestic market. It drafted a number of expert opinions on legislative proposals for the Ministry of Finance and promoted the CNB's views at the meetings of various committees of the European Supervisory Authorities. It contributed to the preparation of financial market laws and prepared a number of decrees and explanatory and methodological opinions interpreting the application of regulatory requirements pertaining to financial market participants.
- An important amendment to the Act on the Czech National Bank (effective from 17 August 2013) was published in the Collection of Laws under No. 227/2013. This amendment removed some minor shortcomings in the Act relating to EU law. It also modified the CNB's role in the area of financial stability and macroprudential policy, specified the CNB's tasks concerning statistics and reporting in more detail, legally defined the property law position of the CNB, including the ownership of international reserves, repealed the CNB's authorisation to issue regulations known as provisions and terminated the activities of the Financial Market Committee. Other minor changes to the Act on the CNB clarified some legislative provisions, in particular regarding the CNB's activities on the capital market and administrative proceedings.
- At the end of April 2013, the Bank Board approved a project to systematically reorganise the CNB's branch network by reducing the number of branches from seven to four. Two branches in Bohemia (Prague and Hradec Králové) and two branches in Moravia (Brno and Ostrava) will be preserved, while the branches in Ústí nad Labem, Plzeň and České Budějovice will be converted into regional offices. The project will be implemented gradually and is scheduled to be completed in mid-2014.
- In their Assessment of the Fulfilment of the Maastricht Convergence Criteria and the Degree of Economic Alignment of the Czech Republic with the Euro Area, the Czech National Bank and the Ministry of Finance recommended that the Czech government should not set a target date for adopting the euro for the time being and thus should not attempt to enter ERM II during 2014.
- Last year saw the twentieth anniversary of the CNB and the Czech currency. To celebrate, the CNB organised a touring interactive exhibition targeted mainly at higher-grade primary school pupils. The aim of the exhibition was to show how the CNB looks after the soundness and stability of the Czech currency. The anniversary activities were rounded off in June by the CNB Open Day, subtitled *Here we have been protecting the Czech koruna for twenty years*.





# GOVERNOR'S FOREWORD

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2013 was an exceptional year for the Czech National Bank in several respects. In November, foreign exchange interventions aimed at weakening the koruna became our most important monetary policy measure. We had repeatedly informed the markets and the public since November 2012 about the reasons for this step. It was then that the CNB had cut its two-week repo rate to technical zero, thereby exhausting the possibility of easing the monetary conditions using interest rates, which are our main monetary policy instrument. As from the end of 2012, the Bank Board regarded a weakening of the koruna as the most appropriate instrument for any further easing of the monetary conditions.

The disinflationary pressures – stemming from both the external environment and the domestic economy – strengthened steadily throughout 2013. This led to a growing need to ease the monetary conditions further, all the more so because our verbal interventions against the koruna were gradually losing their effect. The deepening disinflationary tendencies, which were increasing the risk of an ever larger undershooting of the inflation target, culminated in a risk of deflation at the close of the year. The deflationary factors included the widest output gap since the onset of the crisis, the lowest-ever wage growth in private companies, persistent growth in unemployment, deferred household consumption and corporate investment, the lowest inflation expectations in history and a marked drop in electricity prices in January 2014.

In November the Bank Board assessed the danger of a recessionary/deflationary spiral as being so high that the CNB entered the foreign exchange market and weakened the koruna by just under 5%. At the same

time, it announced a public exchange rate commitment to intervene in the foreign exchange market to keep the exchange rate of the koruna close to CZK 27 to the euro until the CNB is certain that the risk of undershooting the inflation target of 2% has fallen significantly. It is worth mentioning that the interventions took only a few days and since then the koruna exchange rate has been determined solely by supply and demand.

The weakening of the koruna was aimed at averting the risk of deflation, accelerating the return to the inflation target, facilitating a faster economic recovery and fostering an earlier exit from zero interest rates than if we had not weakened the koruna. The commencement of interventions did not change our monetary policy very much. The CNB continued to fulfil its obligation to maintain price stability, with interest rates merely replaced by a different instrument for easing the monetary conditions. Our target is therefore unchanged, only the transmission channels used to hit the target are different.

Based on the statistics published since November 2013, we can preliminarily conclude that the weakening of the koruna averted the risk of deflation, did not lead to excessive price growth and facilitated a non-inflationary economic recovery. By weakening the koruna the CNB did not destabilise the economic environment, in contrast to what some of our critics have claimed. On the contrary, it stabilised the economy in the medium term. We are seeing a high degree of correlation between actual developments and our initial forecasts. However, we are aware that it will not be possible to carry out a detailed analysis of all the impacts of the koruna weakening until sufficient time has passed.

The banking sector experienced no major problems last year. However, the CNB identified numerous shortcomings in the credit union sector. In December, it revoked the credit union licence of Metropolitní spořitelní družstvo (MSD) due to serious shortcomings in this institution's business. MSD closed down as a result of this decision.



2013 was also an exceptional year for the CNB for reasons other than monetary policy. We started the year with the smallest workforce in our history (1,396 persons at the end of 2012). The reduced headcount and related lower wage expenditure was mainly a result of reorganisation measures based on streamlining steps taken in previous years. Our institution continued to slim down in 2013. In April we decided to convert three of our seven branches into regional offices. After completing the reorganisation, the CNB will have four core branches: two in Bohemia (Prague and Hradec Králové) and two in Moravia (Brno and Ostrava), along with three centrally managed regional offices in České Budějovice, Plzeň and Ústí nad Labem. The time was ripe for making changes in our branch network. Our analysis of the activities and needs of the CNB as a whole indicated that some branches had long been operating with lower utilisation of premises and operations than in the past as a result of technological and logistical changes in cash processing. The branch network, built in the 1990s, was also ageing due to greater use of non-cash payments and electronic banking. The reorganisation of the branch network, which will continue after 2013, will further reduce the number of job positions at the CNB. Operating expenses will fall by tens of millions of koruna a year. Nonetheless, services for our clients in the regions will be maintained at least at their current level. The changes will also allow us to hire more staff in the areas of consumer protection in the financial market and supervision of the financial market. The CNB teamed up with city councils to find new jobs for its former employees in the regions and provided advice to the staff laid off.

In 2013 we celebrated the twentieth anniversary of the establishment of the Czech National Bank and twenty years of successful existence of the Czech koruna in various ways. The CNB organised a touring interactive exhibition called *Twenty Years of Protecting the Czech Koruna* to celebrate this anniversary. Between November 2012 and June 2013 the exhibition visited Ostrava, Brno, Ústí nad Labem, Hradec Králové, Plzeň, České Budějovice and Prague. At its core was a set of interactive games enabling visitors to try out in a fun and original way the principles of managing money circulation, maintaining inflation at the 2% target and supervising financial market institutions. The aims of the exhibition were to stimulate interest in economic education, especially among the younger generation, to raise general awareness about Czech money and its protective features and to inform the public about the central bank's role in the economy.

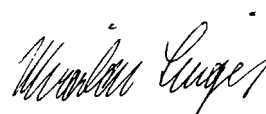
In February we created a website devoted to the history of central banking in the Czech Lands to celebrate the twentieth anniversary of the CNB. We used the anniversary to look further back into the history of our institution – right back to the establishment of Czechoslovakia – and put all the important information into a broader historical context. We illustrated major milestones in the central bank's history with unique photographs from our archives, many of them published for the first time ever.

The twentieth anniversary of the CNB and the independent Czech currency was also commemorated with a conference organised by the Czech National Bank on 7 February. We also issued a commemorative silver coin to mark the event. This coin was unusual in that it was the first to be dedicated to the Czech koruna, the first to depict the central bank's headquarters and the first to be picked by the public in an internet poll.

On 8 June, for the first time in three years and the fifth time in the CNB's twenty-year history, we organised an Open Day. As usual, this event generated great interest among the public, with almost 6,000 people visiting the central bank.

It is also worth mentioning that we organised a collection among our staff to support areas hit by the June floods. We raised more than CZK 690,000. The money was donated to the towns of Mělník and Ústí nad Labem and to the non-profit organisation People in Need.

**Miroslav Singer**  
Governor





The koruna has been a means of payment since 1892, when Emperor Franz Josef's currency reform replaced the Austrian currency with the koruna currency and the florin and the kreuzer with the koruna and the heller. Czechoslovakia was the only successor state of the Austrian-Hungarian monarchy to stay with this name, and only the Czech Republic uses it today. Many new names for the Czechoslovak currency unit were suggested at the start of the 1920s, but the koruna saw them all off. The motif on the reverse side of the 1-koruna coin, which has become the symbol of the Czech currency, resulted from a competition for a new 1-koruna coin organised by the State Bank of Czechoslovakia. The winner among the many designs submitted was a simple yet impressive motif of a royal crown.

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# BANK BOARD

# BANK BOARD

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## **The Bank Board as of 31 December 2013**

Pavel Řežábek, Eva Zamrazilová, Lubomír Lízal,  
Vladimír Tomšík, Miroslav Singer, Mojmír Hampl, Kamil Janáček

The Bank Board is the supreme governing body of the Czech National Bank. It has seven members: the Governor, two Vice-Governors and four other members. Bank Board members are appointed and recalled by the President of the Czech Republic. They are appointed for a term of six years. No one may hold the position of Bank Board member more than twice.

Membership of the Bank Board is incompatible with the position of member of a legislative body, member of the Government and membership of the governing, supervisory or inspection bodies of other banks or commercial undertakings, and the performance of any independent gainful occupation, except for scientific, literary, journalistic, artistic and pedagogical activities and except for management of own assets. Membership of the Bank Board is incompatible with any activity which might cause any conflict of interest between the performance of this activity and membership of the Bank Board.

The Bank Board sets monetary and macroprudential policy and the instruments thereof, decides on fundamental monetary and macroprudential policy measures and lays down principles for CNB transactions. It decides on key measures relating to financial stability, financial market supervision and cash and non-cash money circulation. It sets the CNB's overall development strategy and approves plans of activities for individual areas of work of the bank and rules for the CNB's involvement in the activities of the EU, the European System of Central Banks (ESCB) and the European Systemic Risk Board (ESRB) and its cooperation with international financial institutions. It decides on the bank's organisational structure and the powers and responsibilities of the organisational units at its headquarters and branches. It also approves the CNB's budget and financial management principles.

The Governor, or, in his absence, a Vice-Governor nominated by him, chairs the meetings of the Bank Board. The Bank Board acts by a simple majority of the votes cast.



Like the 1-koruna coin, the 2-koruna piece was designed by the first lady of Czech medal-making, the sculptor Jarmila Truhlíková-Spěváková. The reverse side features a Great Moravian button-jewel commemorating this important period of Czech history. In order to help blind and partially sighted people to better recognise the individual denominations, those starting with a 1 have a milled edge, those starting with a 5 have a plain edge and those starting with a 2 are multi-sided. The 2-koruna coin has 11 edges, which are rounded off so that the coins do not get stuck in coin-operated machines.

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# THE CNB IN 2013



## MONETARY POLICY AND STATISTICS

### I MONETARY POLICY AND ECONOMIC DEVELOPMENTS

The CNB's primary monetary policy objective as laid down in the Act on the CNB is to maintain price stability. Since January 1998, the CNB has been achieving this under an inflation targeting regime in which it tries to keep inflation close to a declared target. Since 2010, the CNB's inflation target in terms of the consumer price index has been set at 2% with a tolerance band of  $\pm 1$  percentage point.

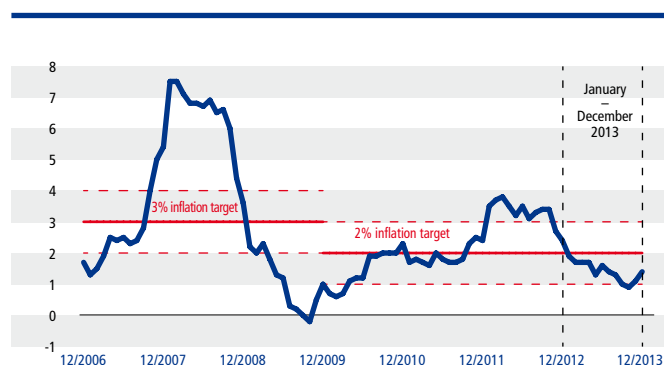
The Czech economy entered 2013 in a difficult situation. The previous year the economy had contracted, unemployment had gone up and household income and consumption and corporate profits and investment had all gone down. The outlooks for inflation adjusted for the first-round effects of tax changes had fallen below the target. The CNB had responded to these unfavourable developments by making full use of its main monetary policy instrument during 2012, i.e. by gradually lowering interest rates to technical zero (0.05%). On top of this, it had pledged in autumn 2012 to keep interest rates at this level over a longer horizon until inflation pressures increased significantly. It had also announced in autumn 2012 that it was ready to use additional instruments should further monetary policy easing become necessary. At the same time, it had communicated that for the Czech Republic, which is a small open economy with a long-term liquidity surplus in its banking sector, the exchange rate was the most appropriate additional instrument.

The mere announcement that the CNB was prepared to use the exchange rate to ease monetary policy caused the Czech koruna to weaken in late 2012/early 2013 and then stabilise. This slowed the disinflationary tendencies and helped the economy overcome the protracted recession. However, it gradually became clear during 2013 that the recession and the labour market downturn were fading only very slowly and their anti-inflationary effects, coupled with falling prices of commodities and energy, were leading to a further decrease in inflation.

At the start of last year, inflation fell slightly below the CNB's 2% target but remained close to it as a result of an increase in indirect taxes (in particular both VAT rates). Core inflation (adjusted inflation excluding fuels) stayed negative. Data on domestic economic activity indicated a continuing contraction of the Czech economy in late 2012 and early 2013, but the

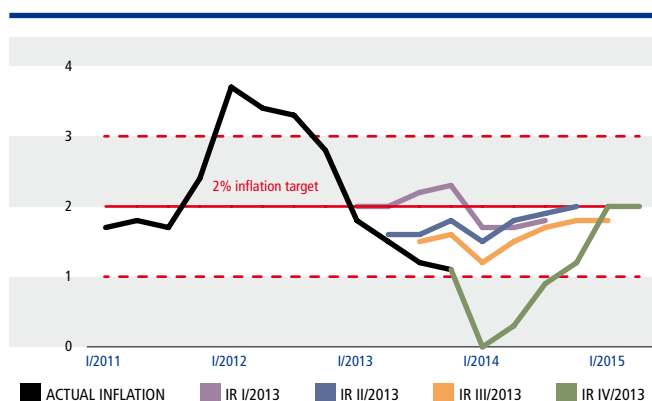
Fulfilment of the inflation target

(in %)



Inflation forecasts

(in %)

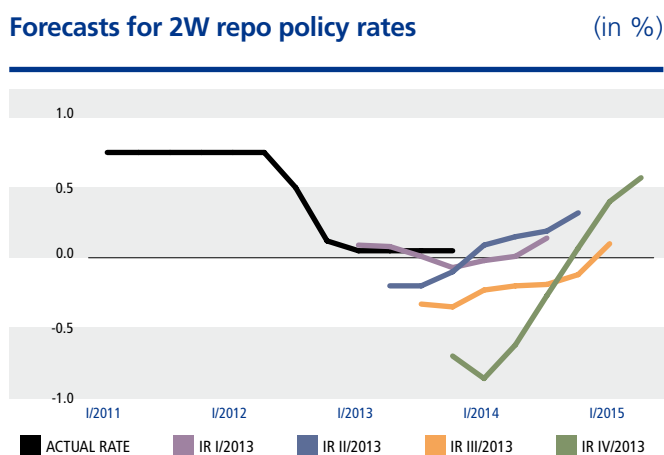


outlooks expected the economy to stabilise and gradually return to growth thanks to the onset of a recovery abroad. The forecast published at the start of the year predicted that inflation would be close to the target in both 2013 and 2014 and that leaving monetary policy interest rates at technical zero until the end of 2014 would be sufficient to achieve this outcome.

In the spring forecast (Inflation Report II/2013), however, a continued decrease in headline and monetary-policy relevant inflation coupled with a deepening economic recession led to a deterioration of the outlooks. The forecast pointed to a need for hypothetically negative monetary policy interest rates for the first time in Czech history. At the same time, the exchange rate of the koruna weakened, reflecting the unfavourable evolution of the Czech economy and also CNB communication indicating that the central bank was still ready to use foreign exchange interventions if further monetary policy easing was needed. The weaker koruna thus partly offset the fact that interest rates could not be lowered into negative figures.

In the summer forecast (Inflation Report III/2013), the outlook for inflation and economic growth in 2013 was reduced further. Together with a lower outlook for foreign interest rates, this led to an increased need for a hypothetical decrease in domestic policy rates to significantly negative levels. There was therefore an increased risk that without a further easing of monetary policy the Czech economy would fall into deflation, with all the adverse effects that entails. In response to this forecast and the impossibility of lowering interest rates to negative levels, the CNB Bank Board announced that the probability of commencing foreign exchange interventions to further ease monetary policy had increased further. The Bank Board voted on the use of interventions for the first time at its meeting in early August and again in September.

These considerations gained a strong new impetus in the autumn. As a result of a continuing decline in inflation in the Czech Republic and the euro area, a falling outlook for administered prices, an all-time low in wage growth in the business sector and record-high unemployment, the CNB's autumn forecast (Inflation Report IV/2013) emphasised the need to ease monetary policy. The hypothetical reduction of policy interest rates into negative territory had reached almost one percentage point. An alternative scenario assuming the use of the exchange rate as an additional monetary policy instrument was therefore drawn up in addition to the baseline scenario of the forecast. According to this scenario, a weakening of the exchange rate to levels close to CZK 27 to the euro would deliver the necessary monetary policy easing, reduce the risk of deflation, accelerate the return of inflation towards the target and support a recovery in economic activity



## 2. THE CNB IN 2013

in 2014. According to the CNB's analyses, by contrast, monetary policy inaction would lead to appreciation of the koruna. Corporations and households would further postpone consumption and investment, and so the incipient recovery would slow or completely halt. There would be a risk of deflation, i.e. a sustained fall in the price level, with the Czech economy getting into a vicious circle known as a deflationary/recessionary spiral.

Decisive action was needed to prevent this risk from materialising. At its November meeting, the Bank Board therefore decided – on the basis of the autumn forecast and the accompanying analyses – to start using the exchange rate of the koruna as an additional instrument for easing the monetary conditions. It publicly declared that the CNB would intervene in the foreign exchange market to weaken the koruna so as to maintain the exchange rate of the koruna close to CZK 27 to the euro. It made clear that it was resolved to intervene in such volumes and for such duration as needed to achieve the desired exchange rate level with the aim of smoothly fulfilling its inflation target in the future.

The koruna weakened sharply to almost CZK 27 to the euro immediately after the decision to commence interventions and thereby further ease monetary policy was announced. The CNB was actually present in the foreign exchange market only in the first few days following the Bank Board's decision, as the exchange rate soon weakened beyond CZK 27 to the euro and stabilised at a slightly weaker level without any further central bank intervention. This is in line with the fact that the commitment was formulated as one-sided. This means that the CNB has undertaken to prevent excessive appreciation of the koruna below CZK 27 against the euro by intervening in the foreign exchange market, i.e. by selling koruna and buying foreign currency. On the weaker side of the CZK 27 level, the CNB is allowing the koruna to float according to supply and demand on the foreign exchange market. Immediately after commencing the interventions, the CNB started communicating intensively with the financial community and the general public about the reasons for, and benefits of, its action. CNB representatives gave speeches and presentations in the media and elsewhere and published articles and other texts in various periodicals and on the CNB website.

### The exchange rate of the koruna against the euro



The exchange rate weakening will boost the price competitiveness of Czech exporters while supporting demand for goods of domestic origin on the Czech market. Households and corporations will see that it does not pay to wait for prices to fall further, and a proportion of households (especially medium- and high-income ones) and firms will start consuming and investing more. Czech firms will enjoy rising sales, extend their employees' working hours and subsequently also hire new workers and pay higher wages. Higher household income and consumption along with higher corporate profits and investment will mean higher tax revenues

for public budgets. The main benefit to the public is greater job security or a greater chance of finding work. These favourable effects of the exchange rate weakening will emerge during 2014, when the Czech economy will grow more than one percentage point faster thanks to the monetary policy easing than it would have done without this intervention. In other words, the Czech economy will produce roughly CZK 40 billion more in goods and services in real terms owing to the koruna weakening (together with 2015 the benefit is even larger, at CZK 65 billion) and about 35,000 more jobs will be available on the labour market than if the CNB had not intervened. At the same time, the low-inflation environment will be maintained, as the inflation rate in 2014 will probably be the second lowest in ten years despite the weakening of the koruna.

The immediate effect of the weaker exchange rate was already visible in inflation and GDP growth in late 2013 and early 2014. In line with the CNB's expectations, inflation decreased to very low, albeit positive, figures in January 2014. According to the forecast, it should pick up pace gradually and return to the 2% target at the close of the year. The danger of deflation has thus been averted. The weakening of the koruna also had a positive impact on GDP growth in late 2013, with households and probably also some firms accelerating their consumption and investment expenditure. According to a Bank Board communication issued in early February, the regime of using the exchange rate as a monetary policy instrument will remain in place at least until the start of 2015.

More detailed information on economic developments and monetary policy implementation can be found in the quarterly Inflation Reports available on the CNB website (*Monetary policy > Inflation reports*).

At the end of 2013, the CNB in cooperation with the Ministry of Finance prepared for the Government the regular *Assessment of the Fulfilment of the Maastricht Convergence Criteria and the Degree of Economic Alignment of the Czech Republic with the Euro Area*. This document, which is available on the CNB website, resulted in a recommendation for the government not to set a target date for adopting the euro yet and thus not to attempt to enter the ERM II during 2014. This recommendation was based on a whole range of factors. In the context of fiscal and other macroeconomic problems in the euro area, significant institutional changes are being made to its functioning. These changes are fundamentally changing the conditions and commitments arising from the Czech Republic's potential membership of the monetary union. As regards the preparedness of the Czech Republic itself to adopt the euro, it is necessary in particular to increase the flexibility of the labour market, to remove some persisting administrative barriers to entrepreneurship and, after economic activity recovers, to complete the process of reducing general government deficits towards the medium-term objective together with ensuring the long-term sustainability of public budgets.

## I STATISTICS

CNB statisticians continued to play the role of providing economists with a high-quality database for analytical activities and of providing the public with information. They also regularly sent statistical information to European and international institutions.

The methodology area was dominated by preparatory work on the implementation of new international statistical standards, in particular the European System of National Accounts 2010 (ESA 2010) and the sixth edition of the IMF's Balance of Payments Manual (BPM6). To this end, the ECB completed three amendments of its regulations on monetary and financial statistics, specifically those concerning the consolidated balance sheet of the monetary financial

institutions sector, statistics on interest rates applied by monetary financial institutions, and statistics on the assets and liabilities of investment funds. The requirements of the new standards were incorporated into implementing decrees, which are now more strongly underpinned by an amendment to the Act on the CNB. The changes pertained to Decree No. 346/2013 Coll., stipulating the submitting of statements by banks and foreign bank branches to the Czech National Bank, and Decree No. 314/2013 Coll., stipulating the submitting of statements to the Czech National Bank by entities that belong to the financial institutions sector. In addition, a new ECB regulation on payments statistics entered into force in 2013. A proposal for reporting based on the requirements of this regulation was prepared and will be incorporated into the national legislation in 2014 and will thus implement the relevant data collection from payment service providers in the Czech Republic. The new legislation creates a framework for new standards to be implemented in EU Member States in a coordinated manner in the second half of 2014.

Given the interconnectedness of CNB and Czech Statistical Office (CZSO) statistics, the two institutions cooperate closely in the methodological area. Similar arrangements are in place for methodological work at the European level with regard to cooperation between the two main European producers of statistics – the European Statistical System and the European System of Central Banks. This is also reflected in the institutional framework. A new European Statistical Forum was created in which the two systems are represented equally at the highest statistical level. For the CNB and the CZSO, this represents confirmation of their very good level of cooperation, which has been formally enshrined in a bilateral agreement for many years now.

A new trend at EU level stemming from the financial crisis is the integration of the collection and use of information between statistics, financial market supervision and financial stability. Although financial market supervision in the Czech Republic was integrated into the CNB eight years ago, the new European arrangements require a number of changes at the CNB, especially as regards information flows and data sending formats.

The workload on respondents is taken into account on an ongoing basis in the compilation of statistics. Collection of source data from respondents is oriented increasingly towards primary data, which can be used to compile various aggregates without putting additional demands on respondents, as well as towards administrative data sources. Use of data from the Central Accounting System (Treasury) thus increased in 2013. These data were used, among other things, in the ECB quality report on government finance statistics (GFS), which covered the Czech Republic and other non-euro area countries for the first time in 2013. The aim is to strengthen the responsibility of national central banks for monitoring and actively enhancing the quality of national GFS data.

The integration of the collection of source data for statistics, financial stability and financial market supervision at the European and national level is increasing the data quality requirements. For this reason, the CNB has started work on specifying a new data collection system that will cover these requirements effectively.

## FINANCIAL STABILITY

Maintaining financial stability and seeing to the sound operation of the financial system in the Czech Republic are among the CNB's primary objectives. The CNB defines financial stability as a situation where the financial system operates with no serious failures or undesirable impacts on the present and future development of the economy as a whole, while showing a high degree of resilience to shocks.

An important event in 2013 was a strengthening of the CNB's financial stability and macroprudential policy mandate in an amendment to the Act on the CNB. The Act authorises the CNB to create forward-looking macroprudential policy. This includes identifying and monitoring the risks faced by the financial system. By preventing or mitigating these risks, the CNB contributes to the resilience of the financial system and the maintenance of financial stability. The definition of the macroprudential authority's mandate conforms to the requirements of the European Systemic Risk Board (ESRB) in this area.

The scope of the CNB's macroprudential policy mandate will be substantially extended in the years ahead by the new CRD IV/CRR regulatory rules for the credit institution sector adopted at the EU level in mid-2013. The CNB subsequently informed credit institutions about the approach it will apply to capital buffers under the new rules after their implementation into Czech law.

The main tool used to communicate with the public in the financial stability area is the Financial Stability Report. The CNB publishes this report on its website (*Financial stability > Financial stability reports*) and also provides information about its content at a press conference given by the CNB Governor and at a special public seminar. In accordance with the law, it submits the report to the Chamber of Deputies (the lower house of the Czech Parliament).

The Financial Stability Report above all aims to identify new risks arising from domestic economic developments and the external environment. Another key objective is to assess the ability of the domestic financial system to withstand the impacts of adverse economic shocks using stress tests of banks, insurance companies and pension funds. As in the past, the 2012/2013 Financial Stability Report, published in June 2013, assessed the resilience of the Czech financial sector as being high; a decline in economic activity and a related potential increase in credit risk were identified as the main risk scenario. As in the previous year, the report included a section summarising the risks to financial stability and containing macroprudential policy recommendations.

Analyses of risks to financial stability and proposals for macroprudential policies are discussed internally in the CNB at regular meetings on financial stability issues. At the European level, the Governor and one other CNB Bank Board member actively participate in the regular meetings of the General Board of the ESRB. CNB experts are involved in the Advisory Technical Committee (ATC) and its working groups. The CNB is also represented in the Regional Consultative Group of the Financial Stability Board established by the G20.





# FINANCIAL MARKET SUPERVISION

By law, the CNB is the supervisor of the financial market in the Czech Republic. To the extent stipulated in legal rules, the CNB supervises entities operating on the financial market, lays down rules to safeguard the stability of the financial system and systematically regulates, supervises and, where appropriate, issues penalties for non-compliance with these rules. The CNB is part of the European System of Financial Supervision and works in cooperation with the European Systemic Risk Board and the European Supervisory Authorities. It provides detailed information about financial market supervision in its annual Financial Market Supervision Report available on the CNB website (*Supervision, regulation > Aggregate information on the financial sector > Financial market supervision reports*).

## II FINANCIAL MARKET REGULATION

New regulatory initiatives relating to the financial market are usually linked with changes to European law. In 2013, the CNB sought to constructively influence the legislative process ongoing in the EU in the financial market area and contributed to changes in the regulatory framework in the Czech Republic. In particular, it worked in partnership with the Ministry of Finance in preparing draft legislation in the financial market area and other laws regulating the business of financial institutions and other entities subject to regulation and supervision. It also prepared a number of decrees and explanatory and methodological opinions interpreting the application of regulatory requirements pertaining to financial market participants.

The adoption of the Act on Management Companies and Investment Funds, which transposes the directive on alternative investment fund managers into Czech law and generally revises the regulation of collective investment, represents a major legislative change. An amendment to the Act on the CNB (the part on financial market supervision), which, among other things, redefines the CNB's tasks in the macroprudential policy area, constitutes a substantial change in the conduct of supervision. The new Act on Bureau-de-change Activity, containing new regulatory and supervisory requirements relating to the provision of bureau-de-change services (for example regarding exchange rate lists), represents a fundamental change for the sector.

## II EUROPEAN REGULATION

Intensive work on new European financial market regulations continued in 2013 at the level of the European Commission, the Council and the European Parliament. The CNB prepared relevant opinions on an ongoing basis and its representatives actively promoted the CNB's positions in committees and working groups.

The CNB was involved particularly closely in the discussions on the proposed directive and regulation on capital requirements (CRD IV, CRR), where the formal adoption process was finalised in June 2013 by voting in the European Parliament and approval in the Council. The CNB repeatedly expressed its reservations about the proposals regarding crisis management, reporting in the liquidity area, limitation of the powers of host supervisory authorities and additional requirements for the processing of technical standards.

The CNB also paid attention to the discussions on a proposal for a directive on recovery and resolution of credit institutions and investment firms (CMD), where its comments mainly



concerned the proposed transfer of powers from national supervisory authorities to the EBA and home supervisory authorities, intragroup financial support and prioritisation of the group interest, sharing of resolution funding costs, mandatory guarantees for loans received in connection with resolution at the group level and mandatory involvement of deposit guarantee funds in resolution funding.

The regulation on the Single Supervisory Mechanism (SSM) was approved in October 2013. The regulation confers specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions. This represented the first step towards the establishment of a banking union of euro area member states open to other EU Member States. The ECB will assume the tasks and supervisory powers conferred on it in November 2014 after an in-depth assessment of the financial situation of important banks in participating member countries has been carried out and the preparations for the conduct of prudential supervision at the ECB have been completed.

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

## II INTERNATIONAL COOPERATION

The increasing number of legislative proposals issued by the European Commission significantly expanded the workload of the European supervisory authorities – the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Systemic Risk Board (ESRB). As a result of the debt and banking crisis in some euro area countries, work continued on institutional and structural changes in the supervision of the EU banking sector, including the commencement of preparations for potential bank resolution.

CNB representatives were actively involved in the work of the EBA, ESMA and EIOPA at board of supervisors, standing committee and working group level. CNB experts prepared numerous analyses and opinions on documents submitted for oral discussions as well as on documents circulated by the secretariats of European institutions for approval in written procedures. The CNB was also involved in the activities of working groups of the Joint Committee of European Supervisory Authorities and the activities of the ESRB, and its representatives were also active in ECB structures within the Financial Stability Committee (FSC) and the Payment and Settlement Systems Committee (PSSC).

Key activities in 2013 also included participation in discussions and cooperation with relevant coordinators within the ECOFIN Council and its structures (the Economic and Financial Committee, the Financial Services Committee and the Council's working groups). Turning to other international institutions and associations, the CNB was involved, among other things, in the OECD Committee on Financial Markets, the Basel Committee on Banking Supervision, the International Organisation of Pension Supervisors (IOPS) and the International Organization of Securities Commissions (IOSCO).

### II LICENSING, APPROVAL AND AUTHORISATION ACTIVITIES IN THE FINANCIAL MARKET AREA

As the financial market supervisory authority, the CNB issues authorisations (licences) to the majority of entities providing services on the financial market. In this context, it also issues other permissions or approvals, for example approvals of securities prospectuses and approvals of the publication of takeover bids. In these cases, the CNB acts as an administrative authority.

No new banking licence was granted in 2013. The number of domestic banks subject to CNB supervision was thus unchanged at 23. Changes were recorded in the number of foreign bank branches and credit unions. Metropolitní spořitelní družstvo closed down as a result of a CNB decision to revoke its credit union licence.

A total of 33 domestic insurance companies (excluding the Czech Insurers' Bureau), one reinsurance company and, to a limited extent, 18 branches of foreign insurance companies were subject to supervision by the CNB as of the end of 2013.

In the collective investment area, the CNB's licensing activity was affected by the fact that the Collective Investment Act was replaced by the Act on Management Companies and Investment Funds. This change led, among other things, to the establishment of some new categories of entities.

In the sector of payment service providers and e-money issuers the CNB granted one licence for the pursuit of business of a payment institution and revoked one licence (at the entity's own request) in 2013.

In the area of securities issues and regulated markets, securities of five issuers were newly admitted to trading on a regulated market and securities of six issuers were excluded in 2013. Regularly published reports (annual, semi-annual and mid-term reports) were subject to formal and content inspections during the course of the year. Compliance with the duties of issuers of listed securities and related persons was supervised at the same time.

Statistics on administrative proceedings conducted in 2013	No. of administrative proceedings continuing from 2012	No. of administrative proceedings opened in 2013	No. of administrative proceedings closed
Credit institutions	11	46	44
Insurance sector	12	70	73
Pension management companies and funds	9	39	43
Accredited entities	12	5	17
Management companies and investment funds	22	113	127
Investment services providers	57	699	751
Payment institutions	1	3	2
Electronic money institutions	1	1	1
Processors of domestic banknotes and coins	0	1	1
Securities issues and regulated markets	1	44	41

## II FINANCIAL MARKET SUPERVISION

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

In the area of banking supervision, which comprises supervision of banks, building societies, credit unions and, to a limited extent, also of foreign bank branches, the CNB – given the persisting problems in the global economy – concentrated primarily on credit portfolio quality, provisioning, capital adequacy, liquidity and overall performance. Extraordinary monitoring of the current situation of building societies also continued in the wake of changes to the terms and conditions for building savings schemes. The CNB performed its regular half-yearly stress-testing of banks' loan portfolios, which assessed banks' resilience to adverse economic developments.

Owing to frequent shortcomings identified in the credit union sector, supervision is focused mainly on credit portfolio categorisation, sufficient provisioning, financing of groups of connected persons, compliance with regulatory limits and the origin of credit unions' capital. In December 2013, the CNB revoked the credit union licence of Metropolitní spořitelní družstvo (MSD) due to serious shortcomings in this institution's business that were harming the interests of its depositors and significantly endangering its safety and soundness.

Off-site surveillance of insurance companies is based on regularly assessing the financial condition of insurance companies and their compliance with prudential rules. Economic and insurance technical indicators are assessed on the basis of regularly submitted reports. Changes in the financial condition of insurance companies are detected 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 the CNB to identify potential weaknesses in its finances. In 2013, the supervisors continued to assess premium sufficiency in motor third party liability insurance. They also focused on the solvency position of some insurance companies and monitored their activity in an environment of low interest rates. Another round of stress tests of selected insurance companies took place. It confirmed that the sector as a whole has sufficient capital and is resilient to significant changes in risk factors.

In the area of pension management companies and funds managed by them, supervision concentrated mainly on their financial performance, compliance with the rules of professional care and compliance with regulatory limits. The attention of professional care supervisors in the area of retirement savings and supplementary pension savings focused on issues relating to the expiration of supplementary pension insurance following participants' applications for the payment of benefits.

In the investment firms sector, the CNB continuously assessed compliance with information and disclosure duties. It inspected compliance with exposure limits and checked capital adequacy calculations and guarantee fund contribution calculations.

### II ENFORCEMENT

In 2013, activity in the enforcement area consisted mainly in investigating petitions for the opening of administrative proceedings, making decisions on the opening of administrative proceedings or the deferral of cases, and conducting first-instance administrative proceedings, within which fines and remedial measures were imposed, licences revoked and registrations cancelled. In addition to conducting administrative proceedings with supervised entities, the CNB conducts administrative proceedings with 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. Final decisions in the capital market area are published on the CNB website (*Supervision > Conduct of supervision > Final administrative decisions*). Sanctions imposed on insurance intermediaries are entered in the Register of Insurance Intermediaries.

Statistics on administrative penalty proceedings conducted in 2013	No. of administrative penalty proceedings opened	No. of administrative penalty proceedings closed	Total fines imposed (in CZK thousands)
Supervision of credit institutions	7	6	-
Capital market supervision	30	32	10,760
Insurance supervision	44	37	11,440
Violation of forex regulations	28	30	761
Consumer protection	1	3	600
Payment system	6	5	400

### II CENTRAL CREDIT REGISTER

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

In 2013, the CCR's activity concentrated mainly on giving users and the CNB access to data from the system of international data exchange across the credit registers of EU countries. The outputs now contain credit data on selected clients from Germany, Austria, France, Italy, Spain, Portugal, Romania and – since July 2013 – also Belgium. In 2013, the National Bank of Slovakia also started to prepare to join the international data exchange system, and the CNB will be its main partner in the preparatory and test phase. Use of the CCR remains high. It is constantly used in banks' lending processes to examine the creditworthiness of potential clients and monitor existing clients.

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

## CONSUMER PROTECTION

The Consumer Protection Department (at [spotrebitel@cnb.cz](mailto:spotrebitel@cnb.cz)) receives and investigates consumers' complaints in accordance with its legal powers. A total of 1,482 complaints were received in 2013. The CNB received 522 complaints in the insurance segment, relating to inadequate provision of information on products and rejection of insurance claims and to the presentation of insurance products as savings with an option to withdraw the deposited premiums after two years. A total of 468 complaints pertained to credit institutions. These complaints related to the costs of products (complaints about unjustified deduction of charges for services provided and unauthorised settlement of transactions) and to failure by providers to proceed with professional care when negotiating consumer credit agreements and sufficiently assess the financial situation of applicants. As in previous periods, the capital market segment recorded a low number of complaints (56). These mostly related to shortcomings arising from the management of entrusted funds and insufficient provision of information about the riskiness of products offered. The remainder consisted of general enquiries regarding consumer protection or requests for information. The CNB dealt with most of the complaints by issuing written explanations, since the information that consumers had complained about was available in the product contract documentation or on the providers' websites. Where relevant, the CNB supplemented this information with reference to legislation. Where the investigation revealed that consumers had not read all the product documentation properly, the CNB assessed such complaints as unwarranted. The CNB deals with complaints about possible breaches of the consumer protection regulations by opening communication with the supervised entity with a view to remedying the identified shortcomings on a voluntary basis. The CNB may also apply coercive measures by opening administrative proceedings and imposing penalties.

# CURRENCY AND PAYMENTS

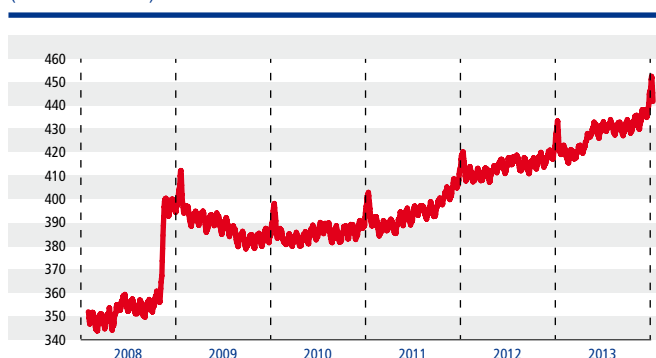
## CURRENCY IN CIRCULATION

By law, the CNB has the exclusive right to put banknotes and coins, including commemorative coins, into circulation and to manage the circulation of currency. Cash circulation, together with the rights and duties of the CNB, banks, legal entities and natural persons, is regulated by Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins.

The value of currency in circulation was CZK 441.8 billion on 31 December 2013, up by CZK 19.1 billion on a year earlier.

### Currency in circulation – 1 Jan. 2008 to 31 Dec. 2013

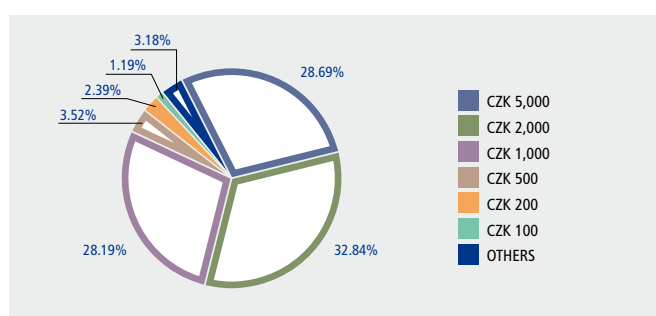
(CZK billions)



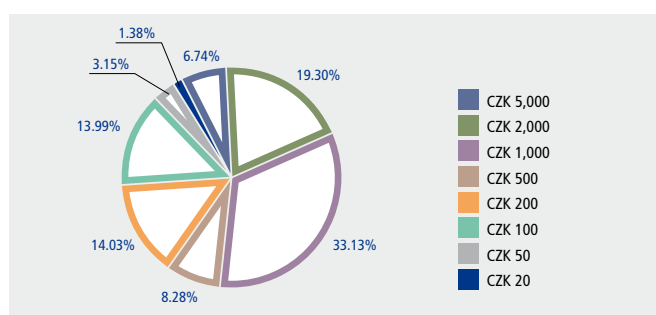
### Number of banknotes and coins in circulation as of 31 December 2012 and 31 December 2013

Denomination	2012 CZK millions		2013 millions of pieces	
CZK 5,000	123,858.1	126,758.8	24.8	25.4
CZK 2,000	133,290.6	145,092.1	66.6	72.5
CZK 1,000	124,939.0	124,544.7	124.9	124.5
CZK 500	11,233.3	15,571.2	22.5	31.1
CZK 200	11,087.0	10,550.2	55.4	52.8
CZK 100	5,133.7	5,260.1	51.3	52.6
CZK 50	591.6	588.2	11.8	11.8
CZK 20	104.1	103.9	5.2	5.2
<b>Banknotes, total</b>	<b>410,237.3</b>	<b>428,468.6</b>	<b>362.6</b>	<b>375.9</b>
CZK 50	3,935.3	4,295.5	78.7	85.9
CZK 20	3,043.6	3,198.2	152.2	159.9
CZK 10	1,786.8	1,852.4	178.7	185.2
CZK 5	1,046.9	1,080.4	209.4	216.1
CZK 2	741.7	770.3	370.9	385.2
CZK 1	453.7	471.7	453.7	471.6
CZK 0.50	183.1	183.0	366.2	366.0
<b>Coins in circulation, total</b>	<b>11,191.2</b>	<b>11,851.4</b>	<b>1,809.7</b>	<b>1,869.9</b>
Precious metal coins	1,280.4	1,526.7	2.0	2.2
<b>Total</b>	<b>422,708.8</b>	<b>441,846.7</b>	<b>2,174.4</b>	<b>2,248.0</b>

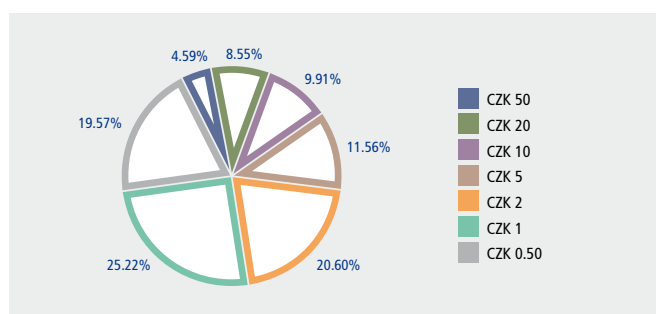
### Structure of currency in circulation (in CZK)



### Structure of banknotes in circulation (in pieces)



### Structure of coins in circulation (in pieces)



In all, 118.7 million banknotes, 54.1 million coins, 105,800 commemorative silver coins and 36,100 gold coins were produced in 2013. These banknotes and coins, including those intended for collectors, cost the CNB a total of CZK 415 million to produce.

Cash turnover at the CNB's branches amounted to CZK 1,392.0 billion in 2013, down by 0.5% year on year. The CNB's cash offices received 708.0 million banknotes and 400.7 million coins from circulation and issued 721.1 million banknotes and 461.2 million coins.



## 2. THE CNB IN 2013



The CNB's branches processed 720 million banknotes and 395.6 million coins (compared to 754.9 million banknotes and 433.7 million coins in 2012). The CNB removed 8.9% of the total number of processed banknotes as unfit for further circulation.

In 2013, the CNB put into circulation five CZK 200 commemorative silver coins, one CZK 500 silver coin, two CZK 5,000 gold coins and one CZK 10,000 gold coin. CZK 5,000 gold coins continued to be issued in the third year of the Bridges in the Czech Republic cycle. The coins depicted the wooden bridge in Lenora and the railway bridge in Žampach. A special gold coin was struck to mark the 1,150th anniversary of the arrival of the missionaries Constantine and Methodius.





## I NON-CASH PAYMENTS

The CNB keeps the accounts of the state and operates systems for transferring interbank payments and settling short-term securities transactions. Non-cash payment transactions are executed through the Czech Express Real-Time Interbank Gross Settlement System (CERTIS), the Short-Term Bond System (SKD) and the Automated Banking Operations (ABO) System.

An amendment to the Act on Budgetary Rules effective from 1 January 2013 introduced a duty for the CNB to verify fund reservations in the budgetary system maintained by the Ministry of Finance for all payments made by organisational units of the state from the state budget. The number of entities whose accounts must be maintained with the CNB was also extended significantly. New CNB clients with accounts for the receipt of subsidies from the state budget include state organisations, the Railway Transport Route Administration, self-governing territorial divisions and voluntary municipal organisations, Regional Councils of cohesion regions, public research institutions and public universities, as well as other legal entities with the approval of the Ministry of Finance. State funds and subsidised organisations established by state organisational units are also obliged to transfer their accounts to the CNB. The implementation of the amendment mainly involved modifying contractual documentation for existing clients, entering into contractual relationships with new clients, subordinating the accounts under the Treasury, verifying fund reservations and adapting the ABO system.



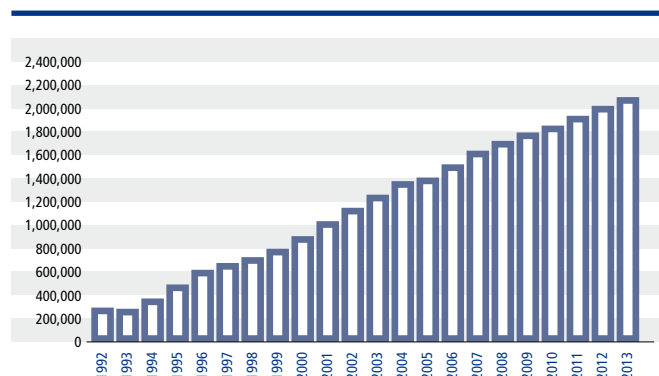
## II CERTIS – INTERBANK PAYMENT SYSTEM

The CERTIS system processes interbank payments in the Czech Republic. Banks, credit unions and foreign bank branches are participants in this system. As of 1 December 2013, CERTIS comprised 46 direct participants (for which accounts are maintained in the system) and six third parties (for example, card payment clearing houses and securities clearing and settlement institutions).

CERTIS processed 528 million transactions in 2013 (up by 3.5% year on year) with a total value of CZK 186,737 billion (up by 32.8%). The system processed a daily average of 2.1 million transactions. The average daily value of the transactions was CZK 741 billion.

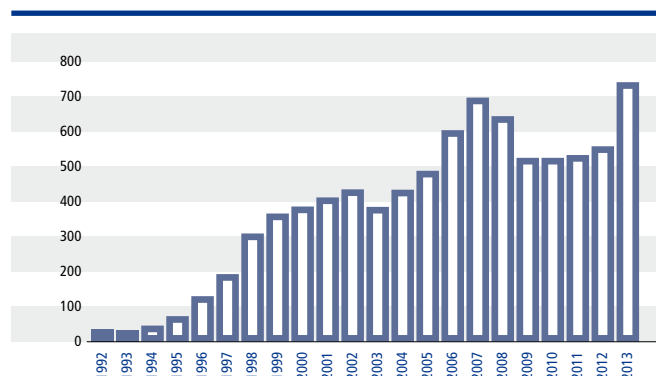
## 2. THE CNB IN 2013

Average daily number of transactions



Average daily turnovers

(in CZK billions)



### II SKD – SHORT-TERM SECURITIES SETTLEMENT SYSTEM

The short-term securities settlement system operated by the CNB is a separate register of securities and a securities settlement system. Since 2011, certificates issued by accredited providers of certification services have been used for electronic signatures.

A new version of the Rules of the SKD System, revised in conformity with the new Civil Code and the amended Act on Withholding Tax, was released in 2013.

As of 31 December 2013, a total of 124 owner accounts – belonging to 86 clients (securities owners) – were registered in SKD. The system records bonds issued by the CNB and government bonds issued by the Ministry of Finance.

The securities recorded in SKD are used, among other things, as collateral for the intraday credit which the CNB extends to banks for smooth accounting purposes within CERTIS. They are also used for the CNB's repo operations and by the Ministry of Finance for daily liquidity management of the Single Treasury Account.

In all, 47 transactions a day were processed in SKD on average in 2013. The average daily value of these transactions was CZK 145 billion.

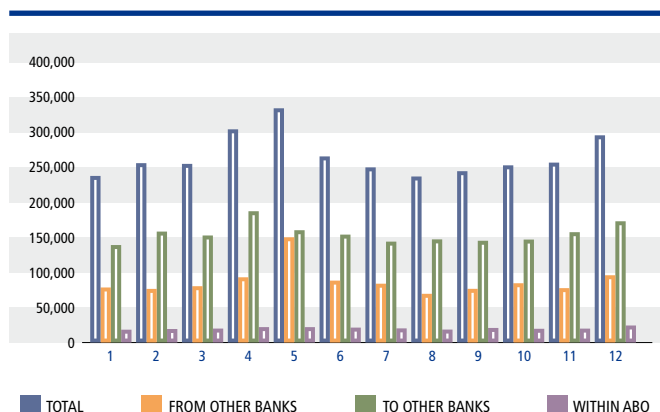
### II ABO – THE CNB'S ACCOUNTING AND PAYMENT SYSTEM

The CNB keeps the accounts of its clients and the internal accounts of the central bank in the ABO system. As of the end of 2013, the system had 27,780 accounts, 14,141 of which came under the Single Treasury Account, on which state budget revenues and expenditures and other financial operations of the state are realised.

Most clients use the ABO-K internet banking system to manage their accounts. At the end of 2013, a total of 4,466 clients (legal entities) were using it for making payments and 8,770 users were registered in the system. As a result of an amendment of the Act on Budgetary Rules, the number of clients and users was several times higher than a year earlier.

An average of 164,000 transfer orders and 88,000 incoming payments are processed every day. Clients submit 99.4% of these orders through ABO-K and only 0.6% in writing. Compared to 2012, the total amount of transactions increased by 2.3%.

### ABO – average daily number of transactions in 2013



## FINANCIAL MARKET OPERATIONS

The CNB implements monetary policy by means of a system of monetary policy instruments. The main monetary policy instruments include interest rate operations (repo operations and automatic facilities), foreign exchange interventions and reserve requirements. Interest rate operations play a pivotal role in steering short-term interest rates on the interbank market. The CNB Bank Board sets three interest rates: the two-week repo rate, the discount rate and the Lombard rate. The main monetary policy rate is the two-week repo rate. The discount and Lombard rates provide the floor and ceiling respectively for short-term interest rates on the money market. The CNB's key rates saw no changes during 2013. The discount and repo rates remained unchanged at 0.05% and the Lombard rate at 0.25%.

In an environment of technically zero interest rates where the necessary monetary policy easing could not be achieved by lowering rates, the Bank Board decided in November 2013 to use the exchange rate as an additional instrument for easing the monetary conditions. In order to fulfil the exchange rate commitment to keep the koruna's exchange rate close to CZK 27 to the euro, the CNB made foreign currency purchases in the foreign exchange market totalling CZK 201.735 billion. Excess koruna liquidity in the financial market thus increased by this amount. The entire amount of new excess liquidity provided is absorbed from the market through interest rate operations.

### The koruna-euro exchange rate in 2013



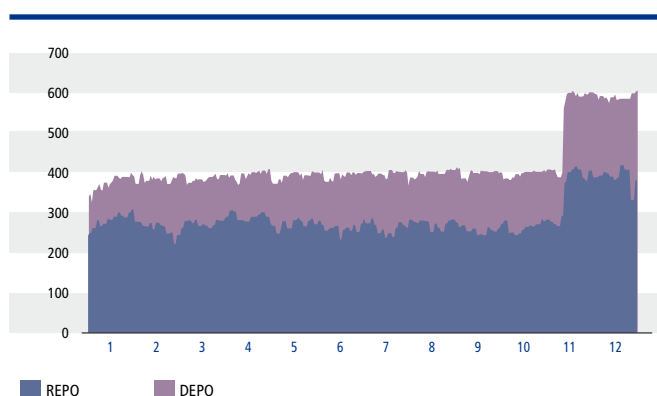
## 2. THE CNB IN 2013

The CNB influences the liquidity of the banking sector through interest rate operations so as to maintain an optimum liquidity level for compliance with the reserve requirement. This ensures that short-term interest rates are stable at the desired level. The main instrument for managing short-term interest rates is the repo, announced three times a week with a maturity of 14 days. Repos are used for absorbing excess liquidity from the banking sector. The liquidity absorbed is remunerated at the two-week repo rate at most.

The CNB's instruments also include two "automatic" facilities – the marginal lending facility and the deposit facility. Under the lending facility, the CNB lends overnight funds to banks in the form of a repo operation at the Lombard rate. The deposit facility gives banks the option of making overnight deposits with the CNB at the discount rate. The deposit facility was used a great deal during 2013 to align the levels of the discount rate and the repo rate. Recourse to the lending facility was rare.

The total average amount of excess liquidity absorbed was CZK 391 billion before the launch of the foreign exchange interventions and CZK 591 billion after the interventions. Of this, 32% was absorbed through the deposit facility and 68% through repo operations.

### Excess liquidity in 2013 (sterilisation in CZK billions)



The CNB also has liquidity-providing instruments (two-week liquidity providing repos and foreign exchange swaps) in its monetary policy toolkit. These were launched in October 2008 as a result of the outbreak of the financial crisis and are important for the stability of the domestic financial market. Although they were not used actively by banks in 2013, the CNB considers it appropriate to keep them available indefinitely.

## INTERNATIONAL RESERVES MANAGEMENT

The CNB's international reserves are its foreign assets in convertible currencies. They are used mainly to support the CNB's independent monetary policy-making and as a source of foreign exchange liquidity for CNB clients. The size and structure of the reserves are published regularly in the *Financial markets* section of the CNB website. At the end of 2013, the international reserves totalled CZK 1,118 billion in koruna terms, equivalent to EUR 40.8 billion or USD 56.2 billion.

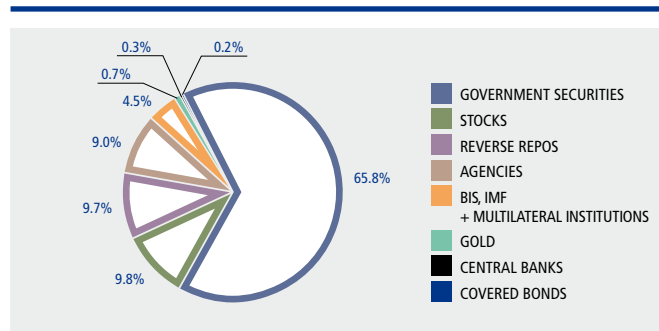
### Currency structure of international reserves assets as of 31 December 2013 (portfolio currency)

EURO	27,382 million
US DOLLAR	9,631 million
CANADIAN DOLLAR	3,079 million
AUSTRALIAN DOLLAR	2,267 million
SWEDISH KRONA	9,315 million
JAPANESE YEN	167,619 million
BRITISH POUND	640 million
SDR	1,228 million
GOLD	10.9t

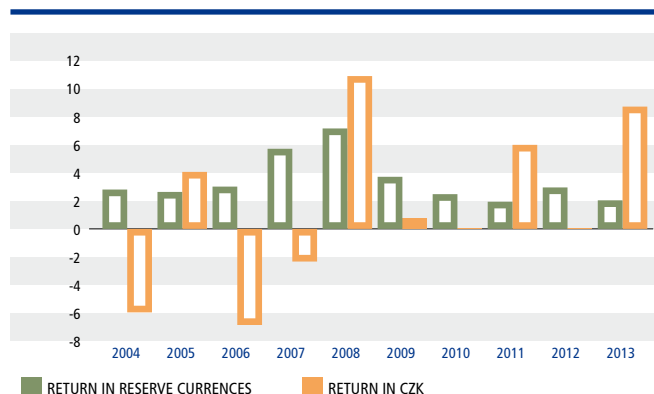
Note: The data in the table are not adjusted for liabilities; part of the USD assets are diversified into JPY and GBP through currency forwards.

The CNB invests the international reserves in accordance with the principles of its reserve management policy and subject to investment opportunities and the situation on the relevant markets. The largest part of the reserve portfolio is invested in debt securities issued by selected governments of advanced countries, selected government-guaranteed bonds and bonds issued by top-rated multilateral institutions. Other instruments used for international reserves management include repos, reverse repos, deposits, specific covered bonds, shares, futures, and interest rate, currency and equity swaps. All derivative transactions are collateralised. In 2013, funds from the gold deposit were converted into allocated gold.

### Investment allocation as of 31 December 2013



### Comparison of the total return on international reserves in 2013 with previous periods (in %)



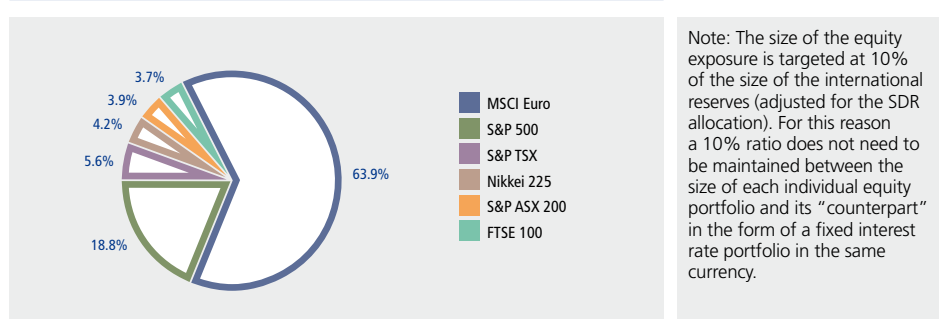
The international reserves recorded a year-on-year rise in koruna terms due mainly to foreign exchange interventions (+CZK 200 billion), profit (+CZK 27.4 billion) and valuation changes (+CZK 46.6 billion). By contrast, external flows fostered a decrease in the reserves (-CZK 10.9 billion).

## 2. THE CNB IN 2013

The overwhelming majority of the international reserves are actively managed. The individual portfolios recorded the following returns in 2013: euro 2.44%, US dollar 1.90%, Canadian dollar 2.01%, Swedish krona 0.20% and Australian dollar 1.56%. The weighted average of the return on the portfolios excluding valuation changes was 2.04%.

The equity portfolios are managed by BlackRock and State Street Global Advisors and are invested on the following markets using the relevant benchmark indices: European (MSCI Euro), US (S&P 500), UK (FTSE 100) and Japanese (Nikkei 225). A partial investment shift from the MSCI Euro to the Canadian (S&P TSX) and Australian (S&P ASX 200) stock indices was made in 2013. This helped achieve more robust diversification.

### Structure of the equity portfolio as of 31 December 2013



The CNB provided one credit tranche totalling EUR 3.3 million in response to an IMF call in 2013 under a bilateral loan agreement signed in March 2010. Two of the tranches drawn in 2010 were partially repaid ahead of schedule (a payment of EUR 17.6 million was made). As of the end of 2013, the total size of the credit line drawn under this loan agreement represented around 15.5% of the total credit line of EUR 1.03 billion. Negotiations with the IMF regarding a second bilateral loan agreement of up to EU 1.5 billion were completed in 2013. The Czech Republic covers the loans provided to the IMF with a state guarantee of up to EUR 2.53 billion.

## THE CNB AS THE BANK OF THE STATE

The Czech National Bank provides banking services, i.e. maintains accounts and provides payment services, for the state and the public sector under the Act on the Czech National Bank and the Act on Budgetary Rules.

A major amendment to the Act on Budgetary Rules entered into force on 1 January 2013. Among other things, this amendment changed the scope and concept of the Treasury and thus the composition of CNB clients. In addition to state organisational units, i.e. primarily government ministries, the Labour Office of the Czech Republic and the Czech Social Security Administration, the CNB's clients now include municipalities, for example. The nature and number of the accounts maintained for public universities and public research institutions have also changed. State-subsidised organisations are gradually transferring all their accounts to the CNB as well. The law gives them a time limit of five years to do so. All the accounts of these clients are subordinated either to the koruna-denominated Single Treasury Account or to a new

euro-denominated Single Treasury Account. On the other hand, the CNB ceased to maintain accounts for territorially established subsidised organisations and terminated the contracts for accounts other than those subordinated to the Single Treasury Account. The number of accounts was also affected by the reorganisation of the Financial Administration and the Customs Administration of the Czech Republic. As of 31 December 2013, the CNB maintained 14,000 accounts under the Act on Budgetary Rules or other laws, i.e. 12,000 fewer than a year earlier (21,000 accounts were terminated, while 9,000 accounts were opened, of which 7,000 were accounts of municipalities). A total of 170,000 transactions take place on the Treasury accounts on average per day.

The CNB is also involved in the Integrated Treasury Information System (the fund reservation system for the budget expenditure of state organisational units), specifically in the process of verification of fund reservation before the execution of payment orders. This means in practice that in the event of a payment (expenditure) from the state budget account, the relevant state organisational unit reserves in the Treasury system the corresponding amount from the budget assigned to it for the given fiscal year, and only later sends the payment order to the CNB for execution. Thanks to the fact that the payment system and the Treasury system are interconnected, the CNB verifies whether funds have been reserved for the said payment in the Treasury system and only later accepts the payment order for execution.

## II SUPPORT FOR TREASURY LIQUIDITY MANAGEMENT

The CNB is responsible for the daily consolidation of individual Treasury accounts on the koruna-denominated and euro-denominated Single Treasury Accounts and works closely with the Ministry of Finance to manage liquidity on this account. This daily cooperation consists primarily in managing the liquidity of the koruna-denominated Single Treasury Account, in particular the balances on state budget revenue and expenditure accounts, state financial assets accounts (e.g. yields on government bond issues), revenue and customs offices' accounts, state funds accounts and so on. Consolidation of all these funds on a single account enables the authorities to manage Treasury liquidity effectively and to finance the state budget balance. Every morning, CNB and Ministry of Finance staff compile a daily estimate of Single Treasury Account revenues and expenditures. During the day, this estimate is compared with the actual flows of funds on accounts subordinated to the Single Treasury Account. This enables us to respond flexibly to short-term fluctuations in state budget revenues and expenditures. If revenues are higher than expenditures, the free liquidity is invested on the money market. Conversely, if expenditures are higher than revenues, the Ministry of Finance raises funds by selling T-bills on the money market. This results in efficient use of any free Treasury liquidity and guarantees coverage of all the state's current expenditures. Thanks to systemic liquidity management throughout the business day, the balance on the Single Treasury Account is maintained at just a few millions even though transactions worth billions of korunas are settled every day.

## II SUPPORT FOR STATE DEBT FINANCING

In the area of state debt management, the CNB organises and carries out primary sales of both short-term and long-term government bonds and administers such bonds for the Ministry of Finance. In 2013, the CNB organised 20 auctions of T-bills, with maturities of 3, 6, 9 and 12 months and sales totalling almost CZK 154 billion, and 40 auctions of government bonds totalling CZK 153 billion.



## 2. THE CNB IN 2013

As the administrator of government bond issues, the CNB made coupon payments to government bond holders for 20 issues and a payment of principal on one maturing issue in 2013. It also organised coupon payments and payments of principal, including redemption prior to maturity, for issues of government saving bonds.

### ECONOMIC RESEARCH

Economic research at the CNB creates an analytical and knowledge base for monetary policy-making, financial market supervision and maintaining financial stability, and furthers the development of the central bank's human capital. Economic research helps to develop the CNB's position within the ESCB and vis-à-vis the domestic and international academic community. Details on research activities can be found in the *Economic research* section of the CNB website.

In 2013, the central bank published 17 internationally reviewed articles in the CNB Working Paper Series and the CNB Research and Policy Notes Series and two issues of the Economic Research Bulletin. Prestigious journals such as the *Journal of Money, Credit and Banking* and the *Journal of International Money and Finance* published 10 research papers by CNB economists. Experts from foreign central banks, multilateral organisations and major universities collaborate with CNB economists on research projects. The relevance and quality of research outputs were assessed and internationally compared in the report *CNB Economic Research in 2013*.

Research project coordinators assist in the monetary policy-making process by preparing opinions on economic situation reports and the minutes and transcripts of monetary policy meetings. Topics raised during monetary policy discussions are taken into account when setting research priorities. Research project outputs are regularly used in CNB documents.

In 2013 the CNB held its ninth Research Open Day, at which the results of CNB economic research were presented to a broader professional audience. The Economic Research Department Award for the best research paper is regularly presented at this event. In 2013 the CNB was actively involved in the ESCB Macro-prudential Research Network (MaRs), which focuses on incorporating financial stability models and indicators into the decision-making processes of central banks. It was also involved in the Competitiveness Research Network (CompNet), the objective of which is to develop a consistent analytical framework for assessing the competitiveness of individual European countries. It also contributed to the activities of the renewed ESCB Wage Dynamic Network (WDN), within which a survey of firms will be conducted regarding the impacts of the 2008/2009 crisis on employment, wages and price-setting.





The Research Advisory Committee is an advisory body to the CNB Bank Board in the area of research. The Committee's main role is to draw up recommendations for the Bank Board's decisions on research projects. The members of the Committee include foreign experts. In 2013, the President of the Committee was CNB Governor Miroslav Singer and its Chairman was CNB Board Member Kamil Janáček.

## EUROPEAN AND INTERNATIONAL RELATIONS

### II EUROPEAN CENTRAL BANK, EUROPEAN SYSTEM OF CENTRAL BANKS AND EUROPEAN SYSTEMIC RISK BOARD

Four times a year, the CNB Governor and Vice-Governor attend meetings of the General Council of the European Central Bank (ECB), where the governors of all the NCBs of the EU countries are represented. Documents concerning macroeconomic, monetary and financial developments around the world and in the EU, fiscal developments and the limits of fiscal consolidation in EU countries, external imbalances and the functioning of countries in ERM II were discussed in 2013. Monetary policy measures of non-euro area central banks were also debated. CNB representatives were involved in the work of the 13 committees of the European System of Central Banks (ESCB) and numerous sub-committees and working groups. The CNB processed 149 documents in the written consultations of the ECB General Council on European legislation, national legislation and ECB documents. In 18 cases the CNB responded in the form of a Governor's letter to the President of the ECB. It commented, for example, on the draft ECB Convergence Report on Latvia, on numerous EU legislative proposals (the directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, the regulation on information accompanying transfers of funds, the regulation on the Single Resolution Mechanism and the EU regulation on indices used as benchmarks in financial instruments and financial contracts) and on the ECB's draft reply to EBA consultations.

As a result of a revision of the ECB's capital key connected with Croatia's accession to the EU, the CNB increased its share in the subscribed capital of the ECB and paid up the relevant part. As of 31 December 2013, the CNB's paid-up capital amounted to EUR 5,901,929.17.

The European Systemic Risk Board (ESRB) dealt with systemic risks in the EU financial market and the development of a macroprudential policy framework. In June it published a recommendation on intermediate objectives and instruments of macroprudential policy. During the year it also assessed the implementation of the recommendation on lending in foreign currency; the implementation of the recommendation in the Czech Republic was assessed as fully compliant. The CNB fulfilled the reporting duty arising from the recommendations on the macroprudential mandate of national authorities and on US dollar-denominated funding of credit institutions. Work also continued on preparing the planned revision of the ESRB regulation, although the legislation has not been amended yet due to the creation of the banking union.

### II RELATIONS WITH EU COUNCIL, EU COMMITTEE

The CNB has no direct representation in the EU Council, except in some of its advisory bodies, such as the Economic and Financial Committee (EFC). Therefore, it works with the relevant government departments and contributes to the coordination of European issues through

## 2. THE CNB IN 2013

the EU Committee at the government level, the level of deputy ministers and the working level. The CNB actively commented on topics of relevance, especially in the areas of economic and monetary union and the financial markets. The key issue was the continuing work on the banking union project, especially on legislative proposals relating to the Single Supervisory Mechanism, the deposit guarantee scheme, the legal framework for the recovery and resolution of credit institutions and investment firms, and the Single Resolution Mechanism for banks.

### II INTERNATIONAL MONETARY FUND

The Czech Republic completed the ratification of the IMF governance reform in February 2013. However, the reform has yet to gain the necessary 85% majority of member countries and still lacks the approval of the USA. In April the CNB supported the IMF's intention to improve financial intermediation and supervision by organising a joint international conference entitled *Financing Future Growth: The Evolving Role of Banking Systems in CESEE*, where speeches were given by a range of domestic and foreign experts.



An IMF Article IV mission to the Czech Republic took place in May. It reported that the fundamentals of the Czech economy were sound. The economy was in the midst of a prolonged recession due to the euro area slump and weak domestic demand. Short-term macroeconomic policies should focus on supporting the economy. Boosting potential growth in the medium term would require additional structural reforms. Monetary policy should remain accommodative; unconventional measures, foreign exchange interventions in particular, should be used if deflationary pressures intensify. In the framework of regional supervision, the IMF and the CNB co-organised a final meeting concerning a report analysing trade links between Germany, the Czech Republic, Hungary, Poland and Slovakia in Prague on 14 June 2013.

As part of international efforts to enhance the IMF's resources, the CNB provided a second bilateral loan of EUR 1.5 billion (the agreement entered into force on 12 August 2013; both loans are covered by a state guarantee). On 6 March 2013, the Czech government approved the transfer to low-income countries of the Czech Republic's SDR 7.37 million share in the extraordinary profits from a limited sale of gold. The CNB Governor notified the IMF of this fact on 12 March 2013.

## II CNB ACTIVITIES IN OTHER INTERNATIONAL ORGANISATIONS

The CNB Governor attended the regular meetings of central bank governors of the member countries of the Bank for International Settlements (BIS). The CNB was also represented at the regular meeting of vice-governors and at selected meetings of the Central Bank Governance Group and the Basel Consultative Group (BCG), which is part of the Basel Committee on Banking Supervision. The CNB also regularly participates in the meetings of a number of OECD working bodies, particularly the Economic Policy Committee and the Committee on Financial Markets. In 2013, the CNB was involved in the preparation of the Economic Survey of the Czech Republic and hosted a structural and political OECD mission in this regard. CNB representatives also attended the annual meeting of the European Bank for Reconstruction and Development (EBRD).



## I FOREIGN TECHNICAL ASSISTANCE

The CNB organised 37 events in 2013 to provide technical assistance to its foreign partners. Eight seminars were attended by 129 experts from 34 central banks and supervisory authorities, and 22 consultations took place for 129 participants from 12 central banks, mainly from Albania, Armenia, China, Indonesia, Kazakhstan, Montenegro, the Philippines, Russia, Serbia, Thailand and Ukraine. The CNB also provided expert assistance in the form of consultations and lectures abroad. Within the ESCB, it continued to implement a project to prepare Serbia's central bank for ESCB entry in the area of monetary policy, monetary operations and financial stability. Together with the Deutsche Bundesbank the CNB was involved in a European Commission project for the central bank of Serbia in the field of human resource management. In 2013 the CNB organised 11 ESCB training events for a total of 134 participants (118 of whom were non-Czechs). Conversely, 52 CNB employees took part in ESCB events abroad. Moreover, CNB experts act as lecturers at these events.



” The typical depiction of the Czech lion on the 5-koruna coin is the work of sculptor Jiří Hrcuba, one of the leading Czech medal-makers over the last fifty years. The denomination “5” on the reverse side is complemented by a view of Charles Bridge in Prague, which, along with the Czech lion, is the most depicted motif on Czech coins. The 5-koruna coin is the highest denomination of the trio of coins made from nickel-plated steel.



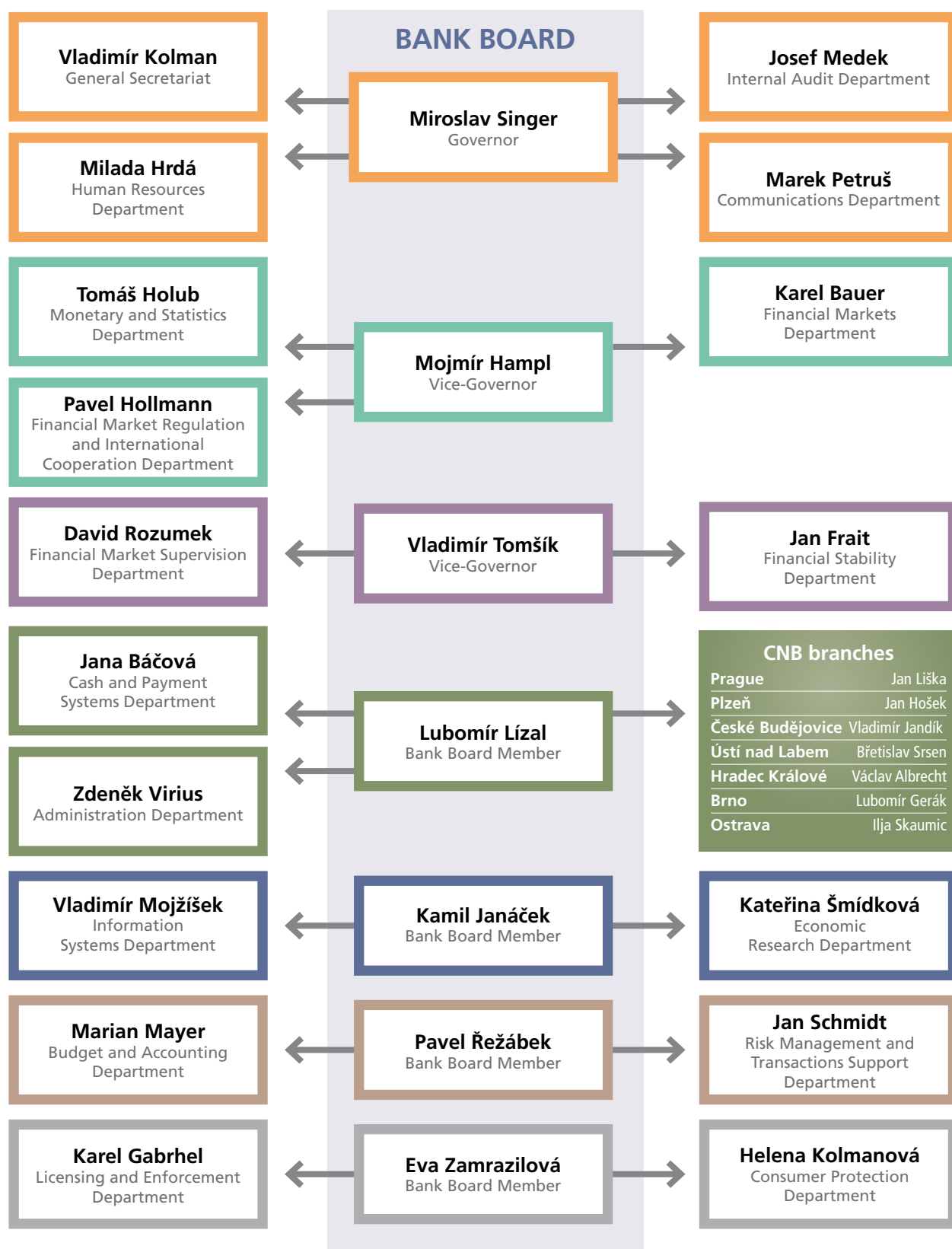
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# MANAGEMENT AND ORGANISATION

# MANAGEMENT AND ORGANISATION

## ORGANISATIONAL CHART AS OF 31 DECEMBER 2013



The CNB's organisational structure consists of a headquarters in Prague and seven regional branches in Prague, České Budějovice, Plzeň, Ústí nad Labem, Hradec Králové, Brno and Ostrava.

The CNB has a two-tier management system. Fundamental decisions relating to the fulfilment of the CNB's primary objective, namely to maintain price stability, and other tasks corresponding to the CNB's responsibilities are taken by the Bank Board. Responsibility for implementing the Bank Board's decisions and the day-to-day running of the bank is delegated to the executive directors of departments and branches.

## II BANK BOARD

The Bank Board is the supreme governing body of the CNB and takes decisions as a collective body by a simple majority of the votes cast. In the event of a tie, the chairperson has the casting vote. The members of the Bank Board, in addition to collectively managing and deciding, oversee the activities performed by the CNB's organisational units according to a scheme defined by the Bank Board (see the organisational chart of the CNB).

## II EXECUTIVE DIRECTORS OF DEPARTMENTS AND BRANCHES

These senior officers of the CNB carry out the decisions taken by the Bank Board and are responsible – subject to the CNB's development strategy and plans for the individual areas of competence of the CNB – for the performance of the activities of the units they manage as defined in the Organisational Statute.

The executive directors set targets and tasks for the staff under them and perform the employer's rights and duties under labour law in respect of those employees. Their powers and responsibilities relate not only to direct management activities, but also to methodological management activities in their competence, cooperation with other organisational units of the bank and with external partners in the Czech Republic and abroad, and to the submission of proposed solutions to issues of fundamental significance to the Bank Board.

## II HEADQUARTERS

The organisational units of CNB headquarters are departments (subdivided into divisions). In their areas of competence defined in the CNB Organisational Statute, they are responsible for the implementation of the bank's main and ancillary activities and for methodological management within the headquarters and in respect of branches. Coordination and advisory bodies – committees, commissions and project teams – are used to perform activities and implement Bank Board decisions that cover the areas of competence of more than one organisational unit and that depend on close and efficient cooperation between them.

The competences of the CNB and its organisational units were extended and amended in 2013 on the basis of certain new legal regulations.

A major amendment to the Act on the CNB implemented by Act No. 227/2013 Coll. (relating, for example, to the setting of macroprudential policy and safeguarding of financial stability



### 3. MANAGEMENT AND ORGANISATION

including communication with the ESRB, specification of the group of entities supervised by the CNB, oversight of payment and settlement system operators, a revision of the CNB's reporting and statistics competences and incorporation of the CNB's ownership right to international reserves) was implemented in 2013. Minor organisational changes were made to CNB supervision of compliance with Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins. The CNB's responsibilities were affected by provisions of Act No. 240/2013 Coll., on Management Companies and Investment Funds, Act No. 277/2013 Coll., on Bureau-de-change Activity, Act No. 255/2012 Coll., the Inspection Code, and Act No. 89/2012 Coll., the Civil Code. The Bank Board approved an overall strategy for the CNB's main and ancillary activities in 2013–2014.

The Bank Board approved a project to systematically reorganise the CNB's branch network by reducing the number of branches from seven to two in Bohemia (Prague and Hradec Králové) and two in Moravia (Brno and Ostrava) and integrating activities currently performed by branches into CNB headquarters. To implement this project, the CNB established a project team headed by the bank board member overseeing the activities of branches and composed of experts from the CNB's organisational units affected by the proposed systemic change. In the second half of 2013, supervision of consumer protection on the financial market, which until then had been performed partly by the CNB's branches, was gradually integrated into the Consumer Protection Department, registration of insurance intermediaries was transferred from the Plzeň branch to the Licensing and Enforcement Department, financial market supervision – partly carried out by the Prague, Ústí nad Labem, Plzeň and České Budějovice branches – was transferred to the Financial Market Supervision Department, and activities in the area of managing money reserves, making payments and maintaining accounts were transferred from the Ústí nad Labem branch to the Cash and Payment Systems Department (a newly created Operational Services Division in Ústí nad Labem).



#### II BRANCHES

The CNB's branches represent the bank in their regions of jurisdiction and are contact points for the CNB's relations with state and local authorities and legal and natural persons that have registered offices or residence addresses in the relevant region when dealing with the CNB under the relevant legal rules. This does not affect the right of the said entities to deal with the CNB's headquarters in Prague.



The main tasks of the CNB's branches include managing money reserves (with the exception of the branches in České Budějovice and Ústí nad Labem), maintaining accounts of the state budget and other CNB clients falling within their fields of competence, and making payments for them. To a specified extent they also perform supervision and foreign exchange inspections of financial market entities.

In the second half of 2013, the activities of the CNB's branches were already affected by systemic organisational changes relating to the gradual transfer of activities from branches to CNB headquarters.

## HUMAN RESOURCES

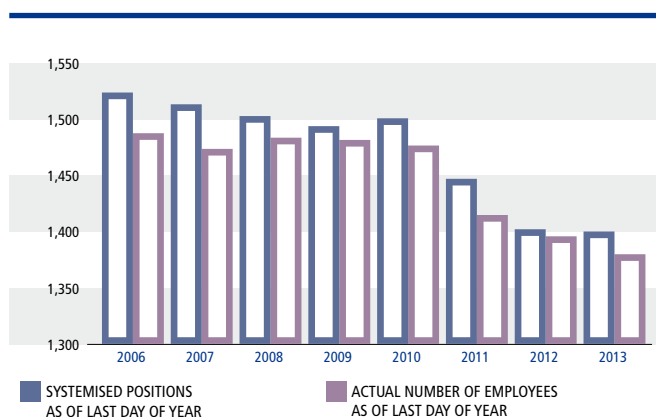
The CNB's reputation in the Czech Republic and abroad is shaped to a large extent by the expertise of its staff. For this reason, the CNB systematically seeks high-quality employees, supports them in developing their skills and qualifications, and creates motivating and effective working conditions for them.

### II NUMBER OF POSITIONS AND EMPLOYEES

In mid-2013, the CNB launched a project to reorganise its branch network. This will result in the central bank running more efficiently, but it necessitates substantial changes in the number and structure of job positions within the CNB. Some of these changes were made in 2013 and will be reflected in the number of positions and the volume of wage costs in subsequent years. The number of positions as of 31 December 2013 was 1,400.3. This is the lowest figure since the CNB was established in 1993 even though the bank's statutory duties have expanded over time, for example to include supervision of the entire financial market.

As of 31 December 2013, the CNB had 1,380 employees, down by 16 from the end of 2012. A total of 58 new employees were taken on during 2013. In all, 91 persons terminated their employment (34 of which due to organisational changes), 18 persons retired and 16 persons saw their fixed-term contracts expire. The total staff turnover rate was 6.5%. As of 31 December 2013, the average length of employment at the CNB was 14.2 years, slightly higher than in previous years (13.6 years as of 31 December 2012).

#### Number of employees and number of positions



### 3. MANAGEMENT AND ORGANISATION

#### II RECRUITMENT AND SELECTION

The CNB systematically seeks high-skilled employees. To fill vacancies, it uses internal and external selection procedures, within which it headhunts experienced experts as well as recruiting promising candidates whose potential it then develops. In 2013, the number of positions filled by internal and external candidates was roughly balanced. To attract potential suitable external candidates, the CNB posts advertisements on its website, directly contacts people who have registered an interest in working for the CNB and also advertises via a commercial job portal.

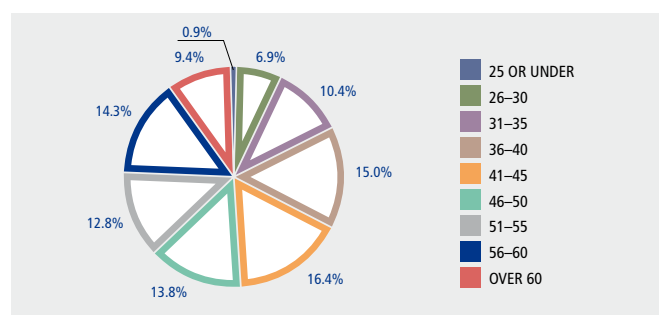
#### II EDUCATION, AGE AND GENDER STRUCTURE

The CNB seeks constantly to ensure that the age, gender and skills structure of its staff is balanced. This is reflected in an equal opportunities policy for all job applicants and employees.

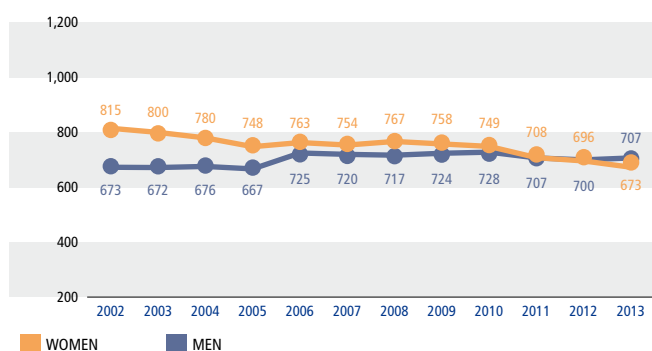
In 2013, university graduates made up 54.9% of the total CNB workforce, while employees with higher vocational training or secondary school education ending with a school leaving exam (including vocational training ending with a school leaving exam) accounted for 35.2% and employees with vocational training without a school leaving exam or with basic education recorded a 9.9% share.

The age structure of CNB employees does not change very much from year to year. All age groups are evenly represented. This ensures that working teams have optimal composition and minimises risks stemming from generational turnover. The average age of the CNB's workforce was 45.6 years in 2013, i.e. about three months higher than in 2012. As in previous years, the representation of men and women was roughly equal.

Age structure of employees as of 31 December 2013



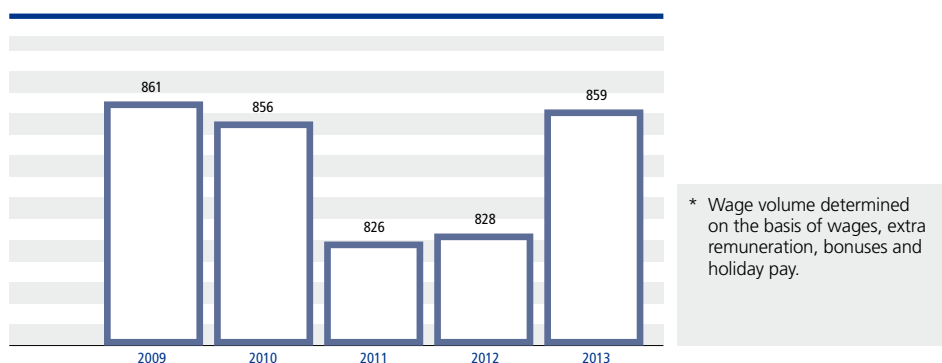
Representation of men and women



## II INCENTIVE SYSTEM

Together with staff performance assessments, the wage system is the basis for enhancing the quality and performance of employees. The system motivates managers, i.e. the salary administrators of their departments and divisions, to continuously streamline all activities and ensure optimal use of human resources. Regular feedback provided by managers within work teams is an integral part of staff motivation. Performance is assessed on an ongoing basis within individual teams and then at the end of each year.

**Total gross nominal wages\* 2009–2013** (in CZK millions)



Personnel expenses, which comprise wage costs, including temporary sick leave payments, obligatory insurance contributions and other social expenses (pension insurance, health care and food allowances), training expenses and employee benefits, amounted to CZK 1,243 million in 2013, up by 3.7% on a year earlier. This increase was mainly a result of a higher amount of wages paid, which the bank committed itself to during collective bargaining with the trade union organisation.

### The salaries of Bank Board members were as follows

	Gross salary in CZK <sup>1</sup>	Net salary in CZK <sup>2</sup>
Miroslav Singer	4,793,080	3,469,476
Mojmír Hampl	3,837,927	2,780,333
Vladimír Tomšík	3,856,860	2,742,345
Lubomír Lízal	3,234,930	2,318,463
Kamil Janáček	3,225,111	2,286,539
Pavel Řežábek	3,219,155	2,307,081
Eva Zamrazilová	3,235,194	2,358,865

1 The gross salary comprises the basic wage, holiday pay, performance-related bonuses and bonuses for working on non-working days.

2 The net salary is the gross salary net of state health insurance contributions, social security contributions, state employment policy contributions, income tax and solidarity tax and tax discounts for the taxpayer and tax discounts for dependent children for those Bank Board members who applied for the discount.

### 3. MANAGEMENT AND ORGANISATION

#### II PROFESSIONAL DEVELOPMENT

Education is a key part of human resource management. This encompasses internal training organised within the CNB, training provided by domestic external organisations (including university studies), language training and training provided in other countries. Spending on employee training totalled CZK 24 million in 2013.

In addition to courses familiarising them with the central bank's main functions, new employees also take an e-learning induction course. As for new legislation, the cycle of presentations on the new Civil Code and the Act on Business Corporations continued in 2013. Specialised courses aimed at enhancing skills in individual CNB business areas (particularly for supervisory departments), featuring lecturers from major audit firms (Ernst&Young, KPMG), are traditionally a significant part of training. Work-life balance presentations given by leading experts were incorporated into the basic manager programme. Training was also organised for branch staff maintaining accounts and making payments for CNB clients.

The CNB also supports training provided in other countries, where sharing of information and knowledge with colleagues from partner central banks plays an important role. Staff can also attend training events organised by the International Monetary Fund, the Joint Vienna Institute and the Financial Stability Institute. Important training events included seminars and workshops in the fields of financial stability, economic modelling and the financial markets. Seminars organised by the authorities supervising the individual sectors of the EU financial market (EBA, ESMA and EIOPA) were also widely used.



The CNB's involvement in education within the ESCB continued not only in the form of attendance at training events, but also through seminars organised at the CNB for employees of other EU central banks. A total of 11 seminars for 134 central bank experts were held at the CNB. This ranks the CNB among the active member states in holding such seminars.

In 2013, the CNB in partnership with the Deutsche Bundesbank completed the EU-funded Twinning-Light project *Capacity Development of Human Resources in the National Bank of Serbia*. The project outputs included an analysis of the current state of human resources management and final recommendations on staff training and personnel matters.

Language training at the CNB took various forms, in particular regular language training, intensive language courses and e-learning. The main goal was to enhance knowledge of specialised terminology and communication skills.



”



The 5-florin banknote, known colloquially as the “fiver”, was worth 10 koruna when converted into the koruna currency in 1892, so for more than a century now the newer 10-koruna banknotes and coins have also been called fivers. The sculptor Ladislav Kozák was a master at depicting architecture on coins. The reverse side of the 10-koruna coin is dominated by the Cathedral of Saints Peter and Paul in Brno. The 10-koruna coin is made from copper-plated steel.



# 4



## PUBLIC RELATIONS

# PUBLIC RELATIONS

## COMMUNICATION

Communication with the public in 2013 focused on the twentieth anniversary of the establishment of the Czech currency and the CNB, which came into existence upon the division of the former State Bank of Czechoslovakia on 1 January 1993. Although the independent Czech currency – the Czech koruna – existed *de jure* as from 1 January 1993, it started to circulate *de facto* only after the currency separation on 8 February 1993. The central topic of communication in the area of fulfilment of the CNB's primary statutory objectives was the possible use of the exchange rate as an additional instrument for easing monetary policy in order to avert the threat of deflation in an unprecedented situation where interest rates were at zero and could not be lowered further. Following the Bank Board's decision to weaken the exchange rate and keep it close to CZK 27 to the euro if necessary, which set off a wave of mostly critical reaction in the Czech Republic, the CNB's communication focused chiefly on explaining the benefits of the exchange rate weakening for the economy, the reasons for setting the inflation target at 2% and the adverse effects on the public of price instability in the form of a persistent decline in prices (deflation). The members of the Bank Board published a number of articles and granted a number of interviews on these topics in printed and electronic media. On its website, the CNB created a separate section called *The weakening of the koruna*, where readers can find all the past presentations, speeches and articles of CNB representatives as well as sets of information on this topic. The CNB prepared some other changes in its communication for 2014. For example, it unveiled a new website section called *cnBlog*, through which it will contribute to the ongoing public debate about the Bank Board's decision to weaken the koruna and about other topics relating to the CNB's statutory responsibilities.

The CNB's key financial education project last year was an interactive exhibition marking the twentieth anniversary of the CNB and the Czech currency, targeted mainly at higher-grade primary school pupils. The aim of the exhibition was to show how the CNB has been looking after the soundness and stability of the Czech currency for the last twenty years. The exhibition consisted of five interactive games presenting the central bank's main activities and its role in the economy in an entertaining way. The touring exhibition included stops in Ústí nad Labem, Hradec Králové, Plzeň, České Budějovice and Prague. Overall, almost 15,000 people visited it and 514 school teams from all over the Czech Republic played the interactive games. The regional stops attracted great attention from national and local media, which published more than 240 items about it. The games from the exhibition are still accessible at [www.chranimekorunu.cz](http://www.chranimekorunu.cz).

The anniversary activities were rounded off in June by the CNB Open Day, subtitled *Here we have been protecting the Czech koruna for twenty years*. Visitors had access to usually inaccessible areas at the CNB's headquarters. The three tour circuits took them to a gold bar worth CZK 11 million at







the time, to the meeting room where the Bank Board decides on monetary policy, and to the office of the CNB Governor. Those who wanted to learn more about the history of money could visit the permanent exhibition *People and Money*. The third circuit led to the Congress Centre, where people debated with Bank Board members, played at being central bankers at the fun interactive exhibition *Twenty Years of Protecting the Czech Koruna*, saw examples of banknote and coin production and asked CNB experts questions on consumer protection. Governor Miroslav Singer announced the school team that had scored the most points in the interactive exhibition games. This team won a unique trip to see the production of Czech coins in Jablonec nad Nisou. Each visitor was invited to contribute to the SOS Floods 2013 collection organised in partnership with People in Need. A record 6,000 people visited the CNB Open Day.

The anniversary was also marked by a commemorative CZK 200 silver coin. For the first time ever, the design of the coin was decided by the public in a vote on the CNB website. For the professional public, the CNB organised a conference and a colloquium featuring leading academics and central bankers as speakers.



The CNB's main communication tool is its website, which recorded 2.9 million unique hits in 2013. In the CNB's twentieth anniversary year, the website was expanded to include a history of central banking in the Czech lands. In this section readers can find unique photographs from the central bank's archive and learn how the main activities of the central bank and the whole banking sector have evolved against the background of history since the establishment of Czechoslovakia. This section of the website has had more than 10,500 unique visitors since its official launch in February.

## 4. PUBLIC RELATIONS

The CNB is one of the most open and transparent central banks in the global context. Within Europe, it ranks among the most intensive users of modern communication tools and technologies, such as social media and mobile apps. The CNB regularly publishes articles, videos, photographs and other information about its activities using the microblogging and social networking service Twitter, for which it received a final nomination as one of the best Twitter accounts in the public sector in the 2013 Tweet of the Year poll. The CNB also actively communicates using other social media, such as Facebook and YouTube and more recently also the LinkedIn professional network. It also offered the public additional options for using its mobile app Czech Money. This app, which came second in the 2013 competition *Zlatý středník* (Golden Semicolon), enables users to view Czech banknotes and coins and their protective elements in detail on mobile devices. It can currently be used with devices which have the iOS or Android operating systems. An extended version of the app with an up-to-date exchange rate list is available to users of tablets with Windows 8.

The CNB's day-to-day communication also involves a dialogue with the public in responding to queries and complaints in the form of phone calls, e-mails and letters. In 2013 the CNB dealt with a record number of these submissions – 6,055. Overall, it received 1,993 phone queries, 4,862 electronic submissions and 788 written submissions (phone queries were up by almost 600 and electronic submissions by almost 900 on a year earlier). The broad public debate that followed the commencement of use of the exchange rate as an instrument for easing monetary policy generated increased interest in the central bank's opinions.

## EXHIBITION

The CNB Exhibition, located in a former strong-room, celebrated its 12th birthday in 2013. More than 180,000 registered visitors, mostly school pupils and students, have visited the permanent exhibition *People and Money* since it opened. The exhibition has been designed as a guide through the history of monetary relations and monetary developments. Modern audiovisual technology and 65 showcases provide a unique set of information about the history of money and monetary policy in the Czech Republic for experts and the general public alike. The CNB Exhibition is used not only for reservation-based "standard tours" throughout the year, but also for one-off tours for groups and schools. Its unique character also makes it an interesting venue for meetings with official domestic and foreign visitors and for shooting various TV programmes. The exhibition is open Tuesday to Friday. Tours are organised at 9.00 a.m., 11.00 a.m. and 1.30 p.m. each day, and also at 4.00 p.m. on Thursday. More information is available in the *People and Money* section of the CNB website.

## SPECIAL LIBRARY

The CNB's special library provides information to CNB employees and to the wider economic community. To this end, it offers lending, advisory, reference and bibliographic information and research services (searches for information from all available information sources). Its highly specialised collection and access to numerous electronic sources allow users to obtain information in the fields of banking and economics in general, law and computer technology and to some extent in other areas as well. The library maintains and provides access to more than 73,000 publications and 700 periodicals, a large number of research reports and annual reports, and other publications (bank documents, brochures, etc.). The electronic catalogue is being systematically built up as part of the T Series library information system and is integrated

into the Single Information Gateway operated by the National Library of the Czech Republic. Electronic records are regularly sent to the Union Catalogue of the Czech Republic. Internet access via both a wired connection and a secure wireless network is available to library users. The library is open Monday to Thursday from 9 a.m. to 5 p.m. and Friday from 9 a.m. to 3 p.m. All information about the library, including the electronic catalogue and contacts, is available in the *CNB special library* section of the CNB website. The library can also be contacted by e-mail at [lib@cnb.cz](mailto:lib@cnb.cz).

## ARCHIVE

The CNB Archive cares for the archive documents produced by the CNB and its legal predecessors. At the end of 2013, it contained 60 archive collections offering a unique view of the political, economic, social and cultural history of the Czech lands and Central Europe. The CNB Archive's research room is open all year round subject to prior consultation. Anyone interested in obtaining information from, or studying in, the CNB Archive should visit the CNB website (*About the CNB > Archive of the CNB*) or email [archiv@cnb.cz](mailto:archiv@cnb.cz).

By lending documents, the CNB Archive was again involved in several important exhibition projects in 2013, most notably the *Money* exhibition from an exhibition cycle of the same name organised by the National Museum in Prague. Other exhibitions included *Handbags and Love Letters* and *National Style – Culture and Politics*. The latter exhibitions demonstrated in unique fashion just how important the archive documents maintained by the CNB Archive are for the cultural history of the Czech lands.

## CONGRESS CENTRE

The CNB Congress Centre, located in the listed building of the former Commodity Exchange, is a venue for meetings between the CNB's top management and representatives of other central banks, financial market and trade union representatives, analysts and journalists. The CNB's specialised units hold conferences, lectures, presentations, seminars, ECB committee and working group meetings, quarterly insurance intermediaries' examinations and various training sessions there. Thanks to its flexible spaces and modern technology, the Congress Centre is also a popular venue for external partners (both domestic and foreign), who organise professional and social events there. The key events last year included ones directly related to the twentieth anniversary of the establishment of the CNB and the Czech currency (a gala concert of the Castle Guard Fanfare Orchestra, the presentation of the commemorative silver coin *20 years of the CNB*, the *20 Years of the CNB* conference) as well as the March colloquium *Financial Stability Policies in a Post-Crisis World* and the Open Day held in June. More information is available in the Congress Centre section of the CNB website.



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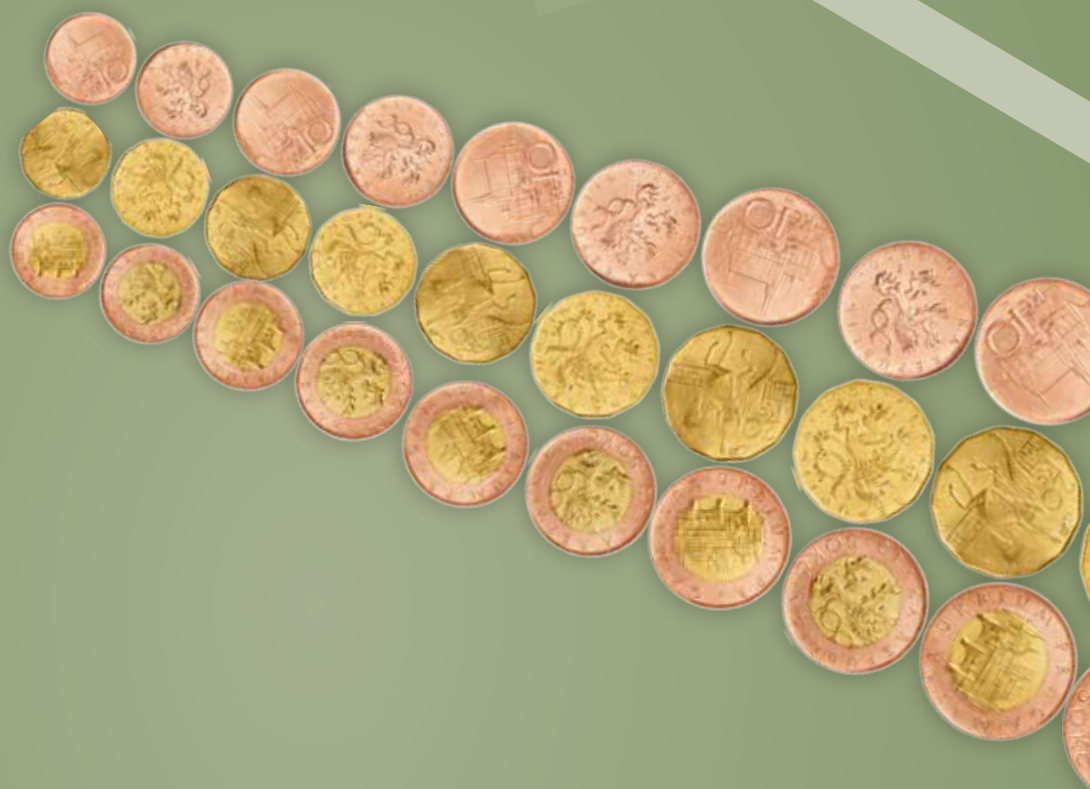
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The 20-koruna coin is the second multi-sided coin; it has 13 rounded edges. The figure of Wenceslas I, Duke of Bohemia, bearing a standard on his horse and the excerpt from the Saint Wenceslas Chorale on the reverse side were designed by yet another master of Czech medal-making, the sculptor Vladimír Oppl. The 20-koruna coin is made from brass-plated steel.





# 5



## FINANCIAL REPORT

# FINANCIAL REPORT

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(Translation of a report originally issued in Czech.)

## INDEPENDENT AUDITOR'S REPORT

To the Bank Board of Česká národní banka:

- I. We have audited the financial statements of Česká národní banka as at 31 December 2013 presented on the enclosed CD-ROM and our audit report dated 19 March 2014 stated the following:

"We have audited the accompanying financial statements of Česká národní banka, which comprise the balance sheet as at 31 December 2013, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of Česká národní banka see Note 1 to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing as amended by implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Česká národní banka as at 31 December 2013, and its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic."

A member firm of Ernst & Young Global Limited  
Ernst & Young Audit, s.r.o. with its registered office at Na Florenci 2116/15, 110 00 Prague 1 - Nove Mesto,  
has been incorporated in the Commercial Register administered by the Municipal Court in Prague,  
Section C, entry no. 88504, under Identification No. 26704153.



- II. We have also audited the consistency of the annual report with the financial statements described above. The management of Česká národní banka is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report in section 5 "Financial report" is consistent with that contained in the audited financial statements as at 31 December 2013. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

Ernst & Young Audit, s.r.o.  
License No. 401  
Represented by Partner

Magdalena Soucek  
Auditor, License No. 1291

19 March 2014  
Prague, Czech Republic

A member firm of Ernst & Young Global Limited.  
Ernst & Young Audit, s.r.o. with its registered office at Na Florenci 2116/15, 110 00 Prague 1 - Nove Mesto,  
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## 5. FINANCIAL REPORT

### Financial statements

ASSETS	31 December 2013 in CZK millions	31 December 2012 in CZK millions
<b>1. Gold</b>	<b>664</b>	<b>702</b>
<b>2. Receivables from the International Monetary Fund</b>	<b>57,950</b>	<b>55,335</b>
<b>3. Receivables from abroad, including securities</b>	<b>1,072,748</b>	<b>813,138</b>
3.1. Deposits at foreign banks and financial institutions	5,623	110,768
3.2. Securities	956,273	607,114
3.3. Other receivables from abroad	110,852	95,256
<b>4. Receivables from domestic banks</b>	<b>0</b>	<b>0</b>
<b>5. Fixed assets</b>	<b>3,962</b>	<b>4,182</b>
5.1. Tangible fixed assets	3,934	4,145
5.2. Intangible fixed assets	28	37
<b>6. Other assets</b>	<b>6,297</b>	<b>4,961</b>
6.1. Other financial assets	4,325	3,999
6.2. Other	1,972	962
<b>TOTAL ASSETS</b>	<b>1,141,621</b>	<b>878,318</b>

LIABILITIES AND EQUITY	31 December 2013 in CZK millions	31 December 2012 in CZK millions
<b>1. Notes and coins in circulation</b>	<b>441,847</b>	<b>422,707</b>
<b>2. Liabilities to the International Monetary Fund</b>	<b>43,782</b>	<b>42,697</b>
<b>3. Liabilities abroad</b>	<b>604</b>	<b>4,360</b>
3.1. Loans from foreign banks	0	3,726
3.2. Other liabilities abroad	604	634
<b>4. Liabilities to domestic banks</b>	<b>664,077</b>	<b>383,642</b>
4.1. Loans received	380,303	241,902
4.2. Bank monetary reserves	59,638	44,301
4.3. Other liabilities to banks	224,136	97,439
<b>5. Liabilities to the state and other public institutions</b>	<b>25,510</b>	<b>126,599</b>
<b>6. Provisions</b>	<b>228</b>	<b>219</b>
<b>7. Share capital</b>	<b>1,400</b>	<b>1,400</b>
<b>8. Funds</b>	<b>8,050</b>	<b>8,050</b>
<b>9. Revaluation reserve</b>	<b>2,382</b>	<b>8,048</b>
<b>10. Accumulated losses from previous periods</b>	<b>-123,565</b>	<b>-126,410</b>
<b>11. Net loss / profit for the period</b>	<b>73,116</b>	<b>2,846</b>
<b>12. Other liabilities</b>	<b>4,190</b>	<b>4,160</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,141,621</b>	<b>878,318</b>



OFF-BALANCE SHEET		31 December 2013 in CZK millions	31 December 2012 in CZK millions
<b>1.</b>	<b>Guarantees issued</b>	<b>158,074</b>	<b>158,085</b>
<b>2.</b>	<b>Issued loan commitments</b>	<b>65,004</b>	<b>21,960</b>
<b>3.</b>	<b>Receivables from spot, term and futures transactions</b>	<b>79,797</b>	<b>89,324</b>
<b>4.</b>	<b>Liabilities from spot, term and futures transactions</b>	<b>78,939</b>	<b>89,198</b>
<b>5.</b>	<b>Guarantees received</b>	<b>226,335</b>	<b>156,950</b>
<b>6.</b>	<b>Collateral received</b>	<b>127,317</b>	<b>108,177</b>

INCOME STATEMENT		31 December 2013 in CZK millions	31 December 2012 in CZK millions
<b>1.</b>	<b>Interest income and similar income</b>	<b>5,075</b>	<b>6,593</b>
1.1.	Interest from fixed income securities	4,819	6,172
1.2.	Other	256	421
<b>2.</b>	<b>Interest expense and similar expense</b>	<b>-310</b>	<b>-2,360</b>
<b>3.</b>	<b>Income from shares and other interests</b>	<b>2,562</b>	<b>2,628</b>
<b>4.</b>	<b>Fee and commission income</b>	<b>309</b>	<b>342</b>
<b>5.</b>	<b>Fee and commission expense</b>	<b>-88</b>	<b>-81</b>
<b>6.</b>	<b>Gains less losses from financial operations</b>	<b>67,179</b>	<b>-2,865</b>
6.1.	Net foreign exchange gains / losses and foreign exchange spread	47,373	-21,277
6.2.	Other	19,806	18,412
<b>7.</b>	<b>Other operating income</b>	<b>737</b>	<b>3,191</b>
7.1.	Income from money issue	464	618
7.2.	Other	273	2,573
<b>8.</b>	<b>Other operating expense</b>	<b>-495</b>	<b>-2,760</b>
8.1.	Expenses for production of notes and coins	-415	-388
8.2.	Other	-80	-2,372
<b>9.</b>	<b>Administration expense</b>	<b>-1,572</b>	<b>-1,528</b>
9.1.	Personnel expenses	-1,243	-1,199
9.1.1.	Wages and salaries	-875	-840
9.1.2.	Social and health security	-291	-280
9.1.3.	Training and employee benefits	-77	-79
9.2.	Other administration expenses	-329	-329
<b>10.</b>	<b>Depreciation and amortisation of fixed assets</b>	<b>-279</b>	<b>-314</b>
<b>11.</b>	<b>Reversal of provisions for receivables and guarantees, income from receivables already written off</b>	<b>460</b>	<b>5</b>
<b>12.</b>	<b>Write offs, additions and utilisation of provisions for receivables and guarantees</b>	<b>-462</b>	<b>-5</b>
<b>13.</b>	<b>Net loss / profit for the period</b>	<b>73,116</b>	<b>2,846</b>

The full version of the financial statements of the Czech National Bank as of 31 December 2013, including the notes thereto, is available on the CNB website (*About the CNB > Performance > Financial statements*) and on the attached CD-ROM.

## 5. FINANCIAL REPORT

The income and expense structure used in the following text provides information according to the purpose of the bank's expenditure, while the standard financial statements give an overview of income and expenses with regard to type.

### The CNB's income and expenses in 2013

(in CZK millions)

	Expenses	Income	Net	y-o-y change
Monetary area	30,383	105,103	74,720	70,456
monetary policy-making	241	1	-240	1,935
international reserves management	13,164	40,519	27,355	-197
valuation changes	16,432	63,058	46,626	68,595
client operations	262	1,235	973	123
other operations	284	290	6	0
Currency issuance and management	415	483	68	-181
Operations	1,890	218	-1,672	-5
<b>Total</b>	<b>32,688</b>	<b>105,804</b>	<b>73,116</b>	<b>70,270</b>

Note: Operations include all personnel expenses, depreciation and amortisation, purchased services, energy consumption, etc.

The CNB recorded a profit of CZK 73,116 million in 2013. In absolute terms, this is the highest figure it has posted in its entire independent existence. The current structure and amounts of the CNB's assets and liabilities mean that the final profit depends primarily on returns on international reserves and movements in exchange rates, which give rise to foreign exchange gains/losses. Compared to the previous year, the net returns on international reserves remained at the same level, while exchange rate gains increased substantially. The profit was also positively influenced by a decline in sterilisation costs, despite a year-on-year increase in sterilisation of excess liquidity in the banking sector. The decrease in sterilisation costs was linked with the easing of the monetary conditions. In previous years, the CNB had implemented this easing by means of interest rates, which gradually fell to "technical zero", where they remained for the whole of 2013.

Given the intensifying deflationary risks and practically zero interest rates, the CNB decided to implement further easing of the monetary conditions by using the exchange rate as an additional monetary policy instrument. Foreign exchange interventions commenced on 7 November 2013. The CNB purchased foreign currency in the foreign exchange market to the extent needed to achieve the required easing of the monetary conditions, i.e. a weakening of the exchange rate of the koruna against the euro to levels close to CZK 27. The CNB spent a total of CZK 202.5 billion on intervention purchases. These funds subsequently accumulated in the financial sector and increased its long-term systemic liquidity surplus. The excess liquidity was then absorbed back into the CNB through repo operations and deposit facilities. This led to a year-on-year increase in the "liabilities to domestic banks" item. On the asset side of the balance sheet, the intervention purchases of foreign currency increased the international reserves. The CNB's balance-sheet total rose by 30% year on year to CZK 1,142 billion.

Performance in the area of currency issuance and management (currency circulation) was influenced primarily by higher banknote purchases and lower sales of numismatic material. Given that the nominal structure of coins issued was unchanged, the main driver of the year-on-year decrease in sales of numismatic material was a decline in prices of precious metals on foreign markets, which the CNB reflected in the selling prices of numismatic material. A fall in demand for gold commemorative coins also had a significant effect.

The CNB's net operating expenses were virtually unchanged from 2012. The year-on-year increase in labour costs, following two years of decline, was covered by savings in other areas of the CNB's activities and was even below the 2010 level.

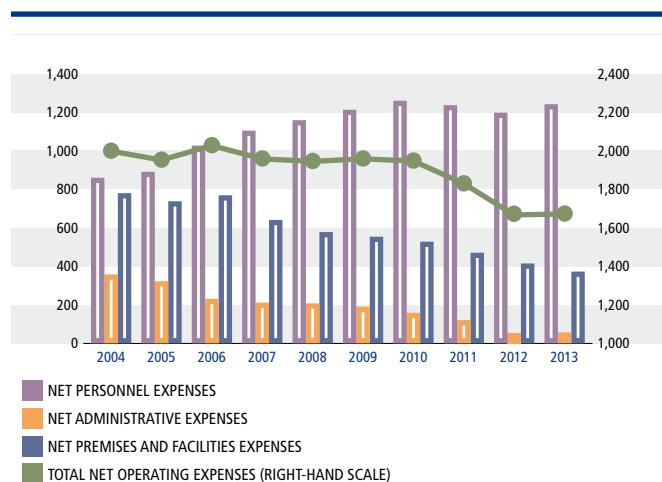
The CNB has long strived to increase its efficiency. In all its areas of activity it seeks ways to cut costs, subject to the need for timely and flawless performance of its designated tasks. Given the latest developments in currency processing and checking, the CNB is currently focusing on reorganising its branch network. The planned changes will result in a more efficient branch network with a lower head count and lower operating expenses.

In line with the budget and with financial management principles, the profit was used in full to reduce the CNB's accumulated losses. The CNB continues to assume that its future income will be used to cover its outstanding accumulated accounting losses. However, the CNB's future profit/loss will depend on domestic and foreign interest rates. Another factor is the increase in international reserves recorded in late 2013, which raises the sensitivity of the CNB's profit/loss to the koruna exchange rate in the long term. After accounting for the 2013 profit, the accumulated loss dropped to CZK 50.4 billion.

A more comprehensive analysis of the CNB's performance in 2013 is available on the CNB website (*About the CNB > Performance > Financial Reports*).

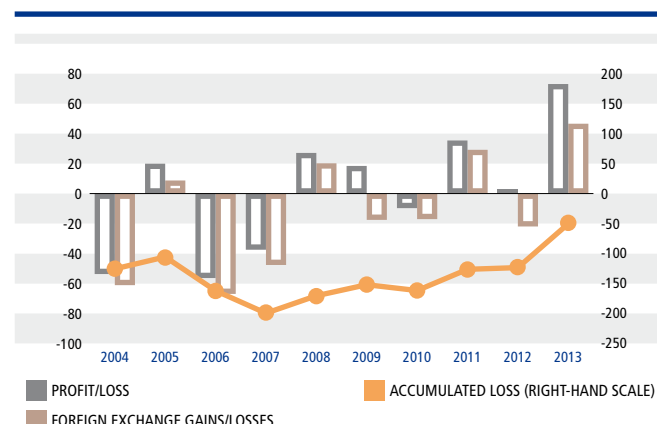
### The CNB's net operating expenses 2004–2013

(in CZK millions)



### The CNB's performance 2004–2013

(in CZK billions)



The 50-koruna coin is the first Czech bimetallic coin. It consists of two parts: a copper-plated ring and a brass-plated centre. In fact, it contains three metals, as steel is hidden inside the plating. The composition of Prague's best-known buildings was designed by the sculptor Ladislav Kozák, who designed similar compositions of Prague and other Czech cities on many coins and medals. The 50-koruna coin received the World Coins award for best circulating coin in 1993.

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**PROVISION OF  
INFORMATION  
UNDER ACT  
NO. 106/1999 COLL.,  
ON FREEDOM OF  
INFORMATION**



The CNB provides information pursuant to Act No. 106/1999 Coll., on Freedom of Information, as amended (hereinafter the "Act") by way of disclosure on the internet, primarily at [www.cnb.cz](http://www.cnb.cz), or to applicants on the basis of applications.

The CNB's procedure for complying with the duties ensuing from the Act, and in particular its procedure for accepting and dealing with applications for information in compliance therewith, is regulated by Czech National Bank Directive No. 55 of 26 August 2013, on the communication of the Czech National Bank.

### **A) INFORMATION PROVIDED IN 2013 ON THE BASIS OF APPLICATIONS:**

1. Number of applications for information in compliance with the Act: 60
2. Number of decisions refusing an application: 20
3. Number of appeals submitted against decisions: 9
4. Transcript of the relevant parts of each court judgement concerning the examination of the legality of an obliged entity's decision refusing an application for information and an overview of all expenses incurred by the obliged entity in connection with court proceedings on rights and obligations under this Act, including its own staff expenses and legal representation costs: 0
5. Number of exclusive licences granted, including justification of the need to grant exclusive licences: 0
6. Number of complaints submitted under Article 16a, reasons for their submission and a brief description of the manner in which they were dealt with: 1

A complaint about the CNB's action in dealing with the complainant's application for information on the provision of a specific preliminary measure issued by an obliged entity. The complaint contested the action of the obliged entity in dealing with the application, consisting in failure by the obliged entity to provide complete information and issue a decision partly refusing the application. The complaint was dealt with by writ of error *coram nobis* under the procedure laid down in Article 16a(5), and a decision partly refusing the application was issued.

7. Other information relating to application of the Act: 0

### **B) INFORMATION PROVIDED BY WAY OF PUBLIC DISCLOSURE:**

The CNB also publishes information in a manner allowing remote access pursuant to Article 3(2) of the Act and provides information pursuant to Article 5(1), (2) and (3) of the Act. The information is available on the CNB website [www.cnb.cz](http://www.cnb.cz) and on notice boards at CNB headquarters and branches, in locations accessible to the public. Other information on the activities and responsibilities of the CNB is also published on the state administration web portal.





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