



# CNB CZECH NATIONAL BANK



ANNUAL  
REPORT  
2015





**CNB** CZECH  
NATIONAL  
BANK

Annual  
Report  
2015

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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.**
- 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.

## ○ WHAT WE BUILD ON

### ○ 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.

### ○ 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.

### ○ 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

- In 2015 monetary policy operated in an environment of rapid growth of the domestic economy and continued improvement in the labour market situation. However, headline inflation remained well below the CNB's target, or below the lower boundary of the tolerance band around the target, owing to deflation abroad and a decline in world commodity prices. By contrast, core inflation, which mainly reflects domestic inflation pressures, increased above 1% as a result of the growing economy and accelerating wage growth.
- In line with the continuing use of the exchange rate as a monetary policy instrument, monetary policy interest rates remained at technical zero and the exchange rate of the koruna was above CZK 27 to the euro. The exchange rate was markedly weaker in the first half of the year, but in the summer it appreciated towards the level of the exchange rate commitment and the CNB started to intervene automatically to maintain the commitment by buying euro on the foreign exchange market.
- At its meeting in February 2015, the Bank Board decided that the exchange rate commitment would not be discontinued before the second half of 2016. It confirmed this statement at all the following meetings in 2015. Subsequently, in February 2016, the Bank Board further extended the commitment, stating that the CNB would not discontinue it before 2017.
- The Czech financial sector became more resilient to potential adverse shocks, but the cyclical risks to future financial stability saw a slight increase, as summed up in the eleventh *Financial Stability Report 2014/2015*, published in June 2015.
- The CNB therefore decided in December 2015 to set the countercyclical capital buffer rate above zero for the first time – specifically at 0.5% of exposures in the Czech Republic – in response to a more pronounced credit recovery. Credit institutions will have to apply this rate from 1 January 2017.
- A new Statistics and Data Support Department was established on 1 April 2015. It took over the statistical work of the Monetary and Statistics Department (which was renamed the Monetary Department) and work relating to data support for financial market supervision of the Financial Market Regulation and International Cooperation Department. The new department comprehensively covers all activities relating to the collection and processing of data that the CNB needs to carry on its core activities, including relevant legislation and administration of information systems.
- A Retail Distribution Supervision Department was established on 1 October 2015. Activities previously performed by the Financial Market Supervision Department relating to retail distributors of financial products were transferred to this new unit.
- The CNB's new activities ensuing from Act No. 374/2015 Coll., the Recovery and Resolution Act, and Act No. 375/2015 Coll., amending some laws in relation to the adoption of the Recovery and Resolution Act and in relation to changes to the deposit guarantee scheme, which took effect on 1 January 2016, were incorporated into the competences of the Bank Board, supervisory organisational units and the Resolution Department.
- 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 CNB and the Ministry of Finance recommended that the Czech government should not set a target date for adopting the euro and thus should not attempt to enter ERM II during 2016.



# GOVERNOR'S FOREWORD



2015 was one of the most successful years ever for the Czech economy. The recovery – which had begun in the previous year – became considerably stronger, with economic growth exceeding 4%. Besides easy monetary policy and a drop in prices of energy and other commodities, this very good result was due to drawdown of EU funds, which were channelled mainly into the construction industry via the public sector. The growth was broadly based across the economy and was stimulated by the behaviour of both corporations and households. The improved growth outlook led to a recovery in private investment, which became one of the main drivers of growth. Households also exhibited a level of optimism that had not been observed for a long time and a considerable willingness to spend. This resulted in constant high retail sales in all categories of consumer goods. Confidence in future developments was also indicated by record borrowing by households for house purchase, due among other things to exceptionally low interest rates. The economic growth went hand in hand with a labour market recovery, reflected in a fall in unemployment, creation of new jobs and accelerating growth in both nominal and real wages. For job seekers, the labour market situation had last been this favourable before the financial crisis.

Inflation, however, remained exceptionally low during 2015, fluctuating not only well below our inflation target, but also below the lower boundary of the tolerance band around the target. The low-inflation environment was largely due to external factors beyond the reach of the central bank, most notably low prices of oil, energy commodities and other commodities on world markets. By contrast, core inflation, which mainly reflects domestic inflation pressures, increased above 1% as a result of the growing economy and accelerating wage growth.

In line with the continuing use of the exchange rate as a monetary policy instrument, monetary policy interest rates remained at technical zero and the exchange rate of the koruna was above CZK 27 to the euro. The exchange rate was markedly weaker in the first half of the year, but in the summer it appreciated towards the level of the exchange rate commitment and the CNB intervened to maintain the commitment by buying euro on the foreign exchange market. At its meeting in February 2015, the Bank Board decided that the exchange rate commitment would not be discontinued before the second half of 2016. It confirmed this decision at all the following meetings in 2015. In February 2016, the Bank Board further extended the commitment, stating that the CNB would not discontinue it before 2017.

Although the Czech financial sector became more resilient to potential adverse shocks in 2015, the future cyclical risks to financial stability saw a slight increase. The CNB therefore decided in December 2015 to set the countercyclical capital buffer rate above zero for the first time – specifically at 0.5% of exposures in the Czech Republic – in response to a more pronounced credit recovery. Credit institutions will have to apply this rate from 1 January 2017.

The regularly updated *Assessment of the Fulfilment of the Maastricht Convergence Criteria and the Degree of Economic Alignment of the Czech Republic with the Euro Area* was published in December. In this document, the CNB and the Ministry of Finance recommended that the Czech Government should not set a target date for adopting the euro and should not attempt to enter ERM II in 2016.

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Turning to the central bank itself, unlike in previous years there was no change in the composition of the Bank Board nor any major restructuring in 2015. The organisational and personnel changes we did carry out were mostly evolutionary.

In early January, the CNB won the prestigious Central Banking Transparency Award for 2015. We received this award from Central Banking Publications for our openness and use of new communication tools. With its ground-breaking cnBlog, the CNB became the first central bank to start publishing blog articles by its representatives. At the end of 2015, the blog featured 75 contributions from 17 authors. We continued to organise regular regional discussions between Bank Board members and prominent representatives of firms. In addition, the CNB started to make more effective use of social media, especially Facebook and Twitter. These innovations were aimed at enhancing our communication procedures to get our decisions and economic analysis results across to the general and professional public directly and as soon as possible. All these measures reflected our long-running efforts to make the central bank as open as possible and our monetary policy as predictable as possible.

Our permanent exhibition *People and Money* welcomed visitor number 200,000 in late January. We are delighted by the constant interest shown by pupils and students in the history of the central bank and the Czech currency. We view our exhibition as one of the instruments through which the CNB helps promote the financial education of the general public.

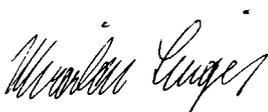
The former Monetary and Statistics Department was split on 1 April and a new Statistics and Data Support Department was created. Activities which had previously been divided between the Monetary and Statistics Department and the Financial Market Regulation and International Cooperation Department were integrated into this department. The organisational separation of the Statistics and Data Support Department was a reflection of the increasing importance and amount of data that is collected and processed for statistical and supervisory purposes.

A Retail Distribution Supervision Department was established on 1 October. Activities previously performed by the Financial Market Supervision Department were transferred to this new unit. The CNB's new activities ensuing from Act No. 374/2015 Coll., the Recovery and Resolution Act, and Act No. 375/2015 Coll., amending some laws in relation to the adoption of the Recovery and Resolution Act and in relation to changes to the deposit guarantee scheme, which took effect on 1 January 2016, were incorporated into the competences of the Bank Board, supervisory organisational units and the Resolution Department.

In mid-May, the CNB hosted an international conference of the European Association for Banking and Financial History. The conference, focusing on the history of inflation, was intended mainly for economic and financial historians. The speakers included leading world economists and former high-level representatives of central banks.

In 2015 we issued four CZK 200 commemorative silver coins, one CZK 500 silver coin and two CZK 5,000 gold coins. The two gold coins completed a five-year cycle depicting bridges in the Czech Republic, which will be followed by a five-year cycle focusing on Czech castles. In addition, July saw the issuance of a special CZK 10,000 gold coin dedicated to Jan Hus.

Miroslav Singer  
Governor





I

# THE BANK BOARD



# THE BANK BOARD



## **The Bank Board as of 31 December 2015**

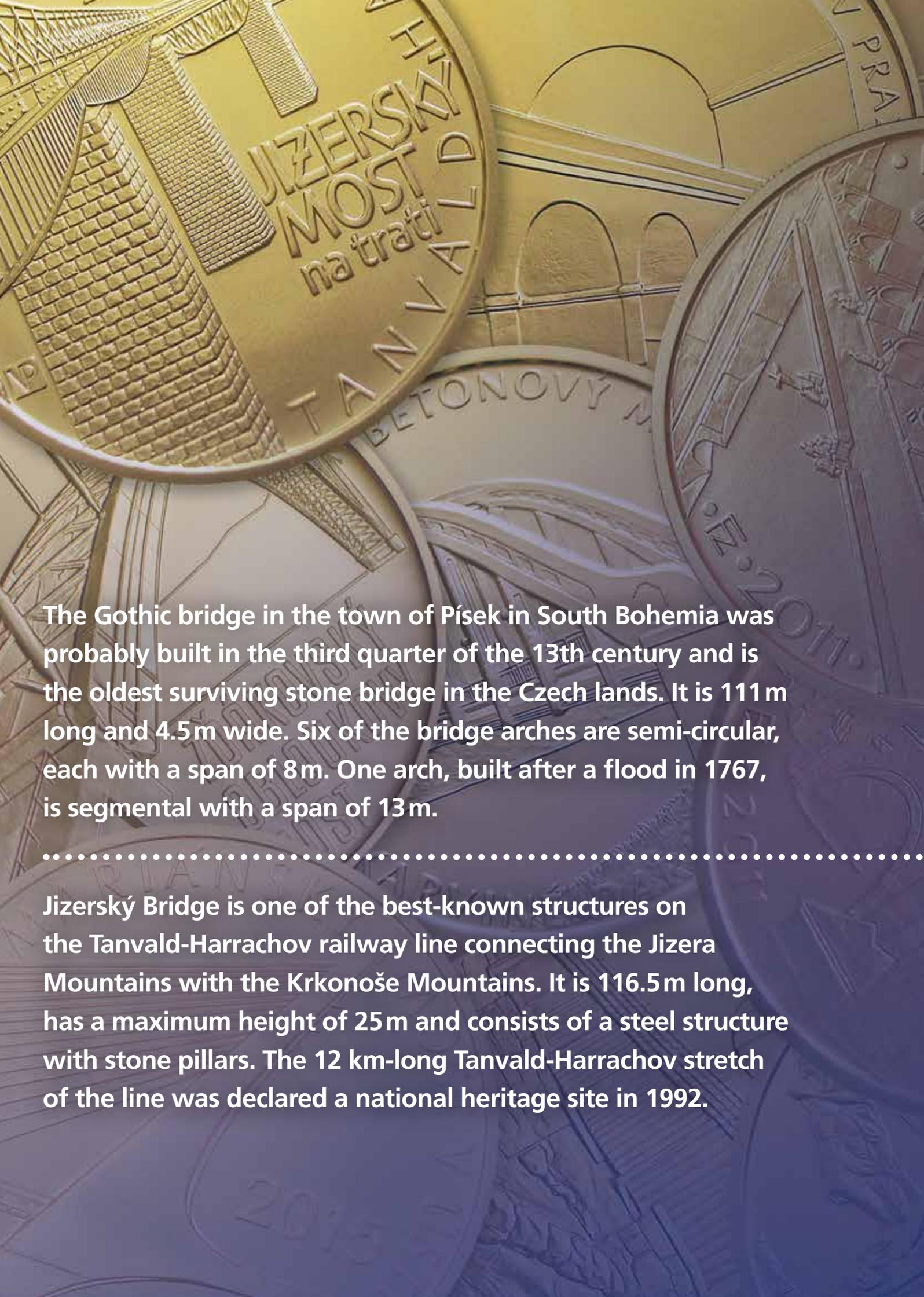
Pavel Řežábek, Lubomír Lízal, Kamil Janáček, Jiří Rusnok  
Mojmír Hampl, Miroslav Singer, Vladimír Tomšík

The Bank Board is the supreme governing body of the CNB. 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 in line with the CNB's primary objective, namely to maintain price stability, and in line with the task of maintaining financial stability, and sets the instruments for implementing those policies. It decides upon fundamental monetary and macroprudential policy measures and lays down principles for CNB transactions. It decides on key measures relating to financial market supervision, resolution on the financial market and cash and non-cash money circulation. It sets the CNB's overall development strategy 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. In the event of a tie, the chairperson has the casting vote.



The Gothic bridge in the town of Písek in South Bohemia was probably built in the third quarter of the 13th century and is the oldest surviving stone bridge in the Czech lands. It is 111 m long and 4.5 m wide. Six of the bridge arches are semi-circular, each with a span of 8 m. One arch, built after a flood in 1767, is segmental with a span of 13 m.

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Jizerský Bridge is one of the best-known structures on the Tanvald-Harrachov railway line connecting the Jizera Mountains with the Krkonoše Mountains. It is 116.5 m long, has a maximum height of 25 m and consists of a steel structure with stone pillars. The 12 km-long Tanvald-Harrachov stretch of the line was declared a national heritage site in 1992.

# II

## THE CNB IN 2015



# THE CNB IN 2015

## MONETARY POLICY AND STATISTICS

### MONETARY POLICY AND ECONOMIC DEVELOPMENTS

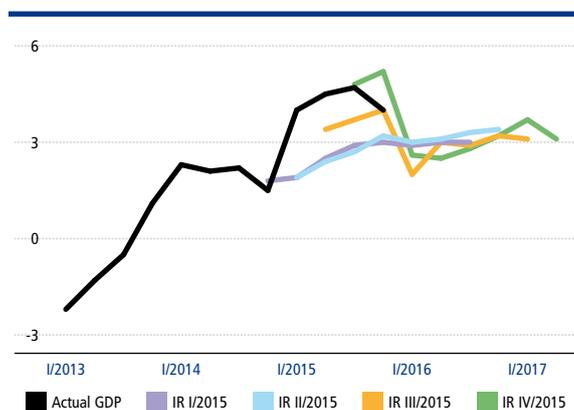
The primary monetary policy objective as laid down in the Act on the CNB is to maintain price stability. Since January 1998, this has been achieved under an inflation targeting regime in which the CNB tries to keep inflation close to a declared target. Since 2010, the CNB's inflation target in terms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

In 2015 monetary policy operated in an environment of rapid growth of the domestic economy and continued improvement in the labour market situation. However, headline inflation remained well below the CNB's target, or below the lower boundary of the tolerance band around the target, owing to deflation abroad and a decline in world commodity prices. By contrast, core inflation, which mainly reflects domestic inflation pressures, increased above 1% as a result of the growing economy and accelerating wage growth. In line with the continuing use of the exchange rate as a monetary policy instrument, monetary policy interest rates remained at technical zero (where they have been since November 2012) and the exchange rate of the koruna was above the exchange rate commitment of CZK 27 to the euro. The exchange rate was markedly weaker in the first half of the year, but in the summer it appreciated towards the commitment level and the CNB started to intervene automatically to maintain the commitment by buying euro on the foreign exchange market. At its meeting in February 2015, the Bank Board decided that the exchange rate commitment would not be discontinued before the second half of 2016. Subsequently, in February 2016, the Bank Board further extended the commitment, stating that the CNB would not discontinue it before 2017.

Czech economic growth accelerated sharply in early 2015 and economic activity increased by more than 4% in the year as a whole. All components of domestic demand, and in particular gross capital formation and household consumption, contributed to the annual growth in GDP. By contrast, the contribution of net exports was slightly negative, with real import growth outpacing real export growth. Economic growth continued to be supported by easy monetary conditions via the weakened koruna and by exceptionally low interest rates. Growth was also aided significantly by government investment, linked chiefly with the drawdown of EU funds from the previous programme period. Falling oil prices and rising external demand also acted in the same direction. The robust economic growth had a favourable impact on the labour market, fostering a continued increase in employment, a decline in unemployment and an acceleration of wage growth.

#### GDP forecasts

(in %)



#### Fulfilment of the inflation target

(in %)

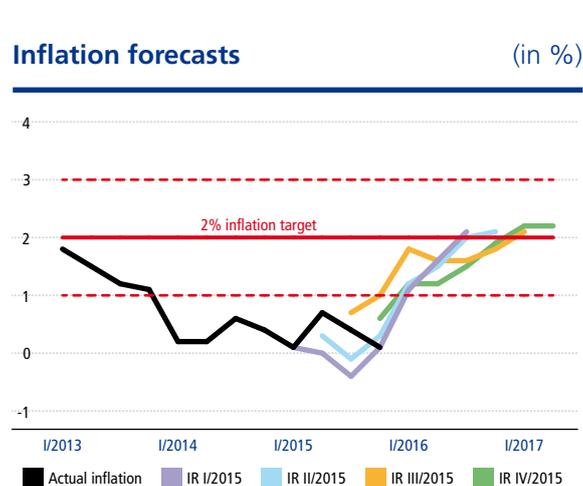


The GDP forecasts drawn up during 2015 predicted continued relatively rapid economic growth in the two years ahead. The observed faster-than-forecasted GDP growth and stronger labour market recovery led to significant upward revisions of the GDP growth forecasts in 2015. The forecasts expected growth to slow in 2016, mainly because of a drop in government investment financed from EU funds.

Throughout 2015, both headline and monetary policy-relevant inflation were well below the CNB's target, or below the lower boundary of the tolerance band around the target. A resurgence in annual inflation during Q2 was replaced in the rest of the year by a gradual decline in inflation back towards zero, i.e. to the levels observed at the start of the year. The average inflation rate in 2015 as a whole was thus 0.3%, the lowest level since 2003. This exceptionally low inflation rate was due mainly to a marked and deepening annual decline in fuel prices reflecting the drop in world oil prices and, in the second half of the year, also falling administered prices and a halt in food price inflation. On the other hand, core inflation (adjusted inflation excluding fuels) continued to edge up, reaching almost 1.5% at the end of the year, the highest level in seven years. This trend in core inflation primarily reflected mounting inflation pressures from the domestic economy due to robust economic growth, a continued improvement in the labour market situation and rising wage growth.

The inflation forecasts produced in the first half of 2015 indicated that the CNB's target would be hit in 2016 Q3, but the forecasts drawn up in the second half of the year postponed the timing of hitting the target to the start of 2017. This shift was due to lower observed inflation and a lower outlook for foreign producer prices and domestic administered prices as a result of falling world prices of oil.

The actual and expected inflation developments during 2015 signalled that significantly expansionary monetary conditions needed to be maintained and that sustainable fulfilment of the 2% target, which is a condition for a return to conventional monetary policy, would not occur until early 2017. The forecast published in Inflation Report I/2015 shifted the assumed duration of the use of the exchange rate as an additional monetary policy instrument to the end of 2016, and this assumption was maintained in the three following forecasts. At its meeting in February 2015, the Bank Board decided that the exchange rate commitment would not be discontinued before the second half of 2016. It confirmed this statement at all the following meetings in 2015, indicating from November that the likely timing of discontinuation of the exchange rate commitment would shift to around the end of 2016. Subsequently, in February 2016, the Bank Board further extended the commitment, stating that the CNB would not discontinue it before 2017. At its meetings, the Bank Board also discussed the possibility of introducing negative interest rates in light of the widening of the interest rate differential vis-à-vis the euro area and developments in domestic financial markets.



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





In early 2015, the Bank Board communicated that the drop in oil prices was a positive supply-side shock, to the first-round effects of which the CNB would not respond, and that it was therefore prepared to tolerate inflation moving temporarily close to, or even slightly below, zero. In reaction to this, the previously depreciating exchange rate saw an adjustment back to slightly stronger levels. During the summer, the unexpected exit of the Swiss central bank from its exchange rate commitment, quantitative easing by the ECB and the continued favourable evolution of the domestic economy generated appreciation pressures on the koruna towards the level of the exchange rate commitment. In the second half of the year, the CNB thus intervened automatically – in line with its declared strategy – to maintain the exchange rate commitment by buying euro on the foreign exchange market. These purchases totalled EUR 8.998 billion.

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 2015, 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 ERM II during 2016. This recommendation was based on a whole range of factors. Economic alignment across euro area economies is still low, some countries are facing continued deflation, and debt problems remain unresolved in a number of countries. All this is fostering slower growth in euro area countries than in the rest of the European Union. Major changes are being made to economic policy and the institutional framework in response to the euro area's problems. These changes are fundamentally changing the conditions and obligations arising from the Czech Republic's potential membership of the monetary union. The preparedness of the Czech Republic itself to adopt the euro has improved compared to previous years but still cannot be assessed as sufficient for adopting the single currency. The process of real economic convergence of the Czech Republic, including convergence of the price level towards the euro area average, remains unfinished. The scope for the stabilising function of public budgets remains limited and the issue of their long-term sustainability is still unresolved. In some respects, labour market flexibility also remains insufficient.

## ○ STATISTICS

CNB statistics and integrated financial market supervision data support underwent an organisational change in 2015. On 1 April 2015, activities and processes connected with methodological development and data collection, compilation and dissemination for the purposes of statistics and the information base for supervision at the CNB were centralised and a new Statistics and Data Support Department was established. Besides its core function, namely continuous provision of a database for the needs of monetary policy, financial stability and financial market supervision, the CNB's new statistical unit fulfilled additional requirements arising from national and international agreements in 2015. This included provision of data to the Czech Statistical Office (CZSO) and data reporting to the ECB, Eurostat and the European Supervisory Authorities. The development and operation of individual statistics was focused on eight main areas in 2015, namely monetary and financial statistics, micro data statistics, supervisory statistics, financial account statistics, balance of payments and international investment position statistics, government financial statistics, securities statistics and general economic statistics.

As regards monetary and financial statistics, the creation of compilation systems for insurance company statistics and payment institution statistics was launched. Insurance company statistics will be based on a single reporting framework covering the supervisory requirements under Solvency II and the additional statistical requirements of the ECB. Within the ESCB, the CNB was involved in the preparation of a new regulation that will create conditions for production of harmonised pension fund statistics. Preparations continued for the collection of individual data on credit and credit risk (AnaCredit) according to the requirements of the ECB and user departments at the CNB. The banking sector is also involved in the project through a joint working group of the CNB and the Czech Banking Association established in 2015.

The Central Credit Register (CCR) is now administered by the Micro Data Statistics Unit. The CCR has been serving banks and foreign bank branches operating in the Czech Republic for thirteen years, enabling them to share data needed to assess potential and existing clients. International data exchange and the development of new input formats for users from banks continued in 2015. In the future, data collection for CCR purposes will be subsumed into data collection for AnaCredit purposes. An overview of the main operational characteristics of the CCR is given in the Financial Market Supervision Report.

In the area of quarterly financial account statistics, work continued in cooperation with the CZSO on further improving compilation procedures following the switch to new data sources and the ESA 2010 methodology. A revision was made to the time series since 2008 Q1. In the area of government finance statistics, statistical data based on accounts subordinated to the Treasury are now being used in cooperation with the CZSO to further refine the calculation of the government deficit and government debt according to the Maastricht criteria. The CNB is also contributing to a detailed quantification of the impact of the reclassification of some financial institutions to the general government sector on government financial statistics indicators.

Turning to the newly defined area of supervisory statistics, collection of data for individual financial market sectors was performed both at the level of the EU single reporting frameworks and at the national level. Implementation of the single reporting frameworks for banks, credit unions and investment firms continued on the basis of a Commission regulation and the guidelines of the European Banking Authority (EBA). This mainly involved updates and additions to prudential and financial reporting requirements (COREP and FINREP) and new reporting requirements concerning liquidity (AMM) and funding plans. 2015 also saw intensive preparations by the CNB and insurance companies for the implementation of Solvency II reporting in accordance with the guidelines of the European Insurance and Occupational Pensions Authority (EIOPA). Despite the postponement of the effect of the amendment to the Insurance Act transposing the Solvency II directive, the information duty in question will be fulfilled to the extent and within the time limits specified in directly applicable EU legal acts. Following the implementation of directives and related EU legal acts on capital markets, work was also launched in 2015 on the harmonisation of reporting in

this area. As in other financial market sectors, part of the information duties – relating not only to transaction reporting, but also to other capital market activities – will be governed by directly applicable EU legal acts, leading to unification and harmonisation of the database.

As for external statistics, the detailed presentation of foreign direct investment data was extended in 2015. In addition to the directional principle, direct investment data are now presented according to the asset/liability principle in line with a new methodology. From the perspective of data users, time series continuity was maintained and the availability of detailed foreign direct investment data was broadened. In 2015, the CNB as the national coordinator, together with the CZSO and the Ministry of Finance, started work on meeting the conditions for joining the International Monetary Fund's SDDS Plus (Special Data Dissemination Standard) statistical initiative. This involved expanding the time series presentation of macroeconomic and financial indicators in the open SDMX-ML format, which is particularly suitable for computerised data processing.

From the point of view of technical support for the statistical framework, the development of the new SDAT data collection system, which will serve as a unified interface for submitting statistical and supervisory data to the CNB, continued in 2015. The supplier of the system was selected in a public tender and the implementation phase of the project was then started. The new system will go live in 2018, replacing the current MtS-ISL-SUD-SDNS system. As regards reporting duties, a module for accepting reporting duties of management companies and investment funds was added to the information duty collection system. In the area of submitting data to the European Supervisory Authorities, a system for sending information on insurance and reinsurance companies to the registers published on the EIOPA website was put into operation.

## ● 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 identifies, monitors and assesses risks jeopardising the stability of the financial system. By preventing or mitigating these risks, the CNB contributes by means of its powers to the resilience of the financial system and the maintenance of financial stability and thus creates macroprudential policy. It provides information about the conduct of this policy on its website (*Financial stability > Macroprudential policy*).

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 Governor and at a special seminar. In accordance with the law, it also 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.

Financial Stability Report 2014/2015, published in June 2015, stated that the sector's already high resilience to potential adverse shocks had strengthened. This was due mainly to an increase in capital adequacy, favourable liquidity developments and positive changes in risk management by financial institutions. The Czech financial sector's high resilience to adverse scenarios is also evidenced by stress test results. As regards potential sources of risks to financial stability in the future, a slight increase in cyclical risks was recorded due to a further fall in loan interest rates and interest margins, a recovery in demand for loans and an easing of credit standards or a decline in returns on high-quality assets to very low levels.

Financial Stability Report 2014/2015 also stressed that the macroeconomic environment – characterised by very low interest rates – was heightening the importance of macroprudential policy, as the combination of economic recovery in Europe and very easy monetary policies amid sufficient balance sheet liquidity of credit institutions was creating conditions for increased

risk-taking and underestimation of risks. As a spiral between property prices and housing loans may emerge in this environment, the CNB introduced a set of preventive recommendations for credit institutions providing loans secured by residential property. The recommendations define prudent procedures and standards for the provision of such loans. One specific example is a limit on the LTV ratio, i.e. the ratio of the loan amount to the value of the collateral. The recommendations are aimed at enhancing existing internal risk management systems and encouraging prudent behaviour by institutions.

The CNB's mandate also requires it to react to emerging risks to financial stability by implementing macroprudential tools. Back in 2014, the CNB introduced a requirement for all banks in the Czech Republic to create a capital conservation buffer (CCB) equal to 2.5% of their common equity and set a systemic risk buffer for the four systemically most important banks. In December 2015, because of a more pronounced credit recovery, the CNB set the CCB rate above zero for the first time. This means that credit institutions will have to create additional capital of 0.5% of exposures located in the Czech Republic as from 1 January 2017. The CNB also announced it would stand ready to increase the CCB rate further in the future should the acceleration of credit growth, easing of credit standards and growth in investor optimism continue.

Analyses of risks to financial stability and proposals for macroprudential policies are discussed internally at the Bank Board's regular meetings on financial stability issues. At the European level, the Governor and a Vice-Governor actively participate in the regular meetings of the General Board of the ESRB. CNB representatives are involved in the Advisory Technical Committee (ATC) and its working groups and in the Regional Consultative Group of the Financial Stability Board established by the G20. In international structures, the CNB was actively involved in discussing systemic risks connected with the framework for sovereign exposures in 2015. Within EU structures, a working group of the Economic and Financial Committee (EFC) was established on this issue in 2015. It is tasked with assessing the current regulatory treatment of sovereign exposures and proposing possible changes in 2016. The CNB is heavily involved in this work, as changes to the regulatory framework in this area may have a big impact on the functioning of the Czech financial sector. CNB experts are working closely with the Ministry of Finance, which has a representative in the working group.

## ● 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 for their business 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. The CNB provides detailed information about financial market supervision in its annual Financial Market Supervision Report – see the CNB website (*Supervision, regulation > Aggregate information on the financial sector > Financial market supervision reports*).

### ○ FINANCIAL MARKET REGULATION

The CNB sought to constructively influence the legislative process ongoing in the EU in the financial market area and contributed to the drafting of laws and government decrees relating to the financial market, mainly in partnership with the Ministry of Finance. It prepared draft decrees and issued a series of explanatory and methodological opinions interpreting the application of regulatory requirements pertaining to financial market participants.

The adoption of the Recovery and Resolution Act and related amendments represented a fundamental legislative change. The Act transposes the directive establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD). An amendment

to the Act on Banks also ushered in significant changes. In addition to changes related to the transposition of the BRRD, it transposes the deposit guarantee schemes directive (DGS2), which introduces, among other things, a new method for calculating contributions to the deposit insurance fund based on risk assessment of individual institutions. Substantial legislative changes also stem from a new Act on Discontinuation of Retirement Savings, which governs the process of discontinuation of the retirement savings system by the end of 2018, including the payment of funds to participants, and an amendment to the Capital Market Undertakings Act transposing the relevant EU directive. The CNB also worked with the Ministry of Finance on preparing legislation relating to the bill on the central register of accounts.

The legislative process connected with the adoption of an amendment to the Insurance Act transposing the Solvency II directive was postponed to 2016. For domestic insurance companies and CNB supervision, this means the current version of the Insurance Act based on Solvency I remains in effect.

## ○ EUROPEAN REGULATION

Intensive work on new European financial market regulations continued at the level of the European Commission, the Council and the European Parliament. As the number of EU legal acts issued as directly applicable regulations increases, the importance of the CNB being actively involved during the drafting of those legal acts also rises. The CNB prepared opinions on new regulatory proposals on an ongoing basis and its representatives actively promoted the CNB's positions in EU committees and working groups.

A revision of the insurance mediation directive (IMD 2/IDD), aimed in particular at strengthening the systemic features of consumer protection, achieving regulation that is consistent with the capital market rules and harmonising the approach to supervision and administrative penalties, was approved by the European Parliament in November 2015 and by the EU Council in December 2015.

A number of directly applicable regulations were adopted in 2015, most notably a regulation relating to the Solvency II directive, a regulation on European long-term investment funds (ELTIFs), which seeks to broaden the possibilities for financing long-term investment projects in the EU, and a regulation on reporting and transparency of securities financing transactions (SFTR).

A proposal for a regulation on indices used as benchmarks in financial instruments and financial contracts, which the CNB was actively involved in preparing, was completed at the triologue level in 2015. In the discussion of the draft regulation, the CNB commented on the Ministry of Finance's instructions for Council working group meetings, suggesting changes mainly with regard to the application of the proportionality principle and limiting the negative effects of the ex-territorial applicability of the regulation.

In the discussions of the draft regulation on money market funds, the CNB opposed broad-based application of all the detailed requirements of the regulation without taking into account the proportionality principle and the excessive scope of information duties to ESMA. The discussions of the proposed regulation will continue into 2016.

Within the European Supervisory Authorities, the CNB was actively involved in the preparation of numerous implementing measures for directives and regulations, including the Solvency II directive, CRD IV and CRR, MiFID II, the market abuse regulation, CSDR (concerning requirements applying to the activities of central securities depositories), EMIR, the transparency directive and the UCITS directive.

In the area of implementing measures for EU legal acts, it is worth emphasising the CNB's intensive activity in the preparation of an implementing measure for setting the minimum requirement on eligible liabilities (MREL) under the EU directive on the recovery and resolution of credit institutions and investment firms.

A total of 17 notifications of the issuance of guidelines by the European Supervisory Authorities were published on the CNB website. These notifications stated whether the CNB would be following the guidelines concerned. A complete and up-to-date list of the CNB's decrees, provisions of a general nature, official information and opinions relating to the financial market can be found on the CNB website (*Supervision, regulation > Legislation*).

## ○ INTERNATIONAL COOPERATION

As regards the development of the European financial supervisory system, preparations for the launch of the Single Supervisory Mechanism (SSM) as the first pillar of the banking union continued. An Intergovernmental Agreement (IGA) on the transfer and mutualisation of contributions under the Single Resolution Mechanism (SRM) entered into force, providing for the functioning of a Single Resolution Fund for all countries participating in the banking union as from 1 January 2016. A draft regulation was introduced, the aim of which is to establish a European Deposit Guarantee Scheme as a third pillar of the banking union in addition to the SSM and the SRM. The CNB's reservations about this draft mainly concerned inappropriate assumptions for its introduction, moral hazard and the legal basis of the draft based on the harmonisation of measures to safeguard the internal market.

In response to the opening of discussions about the Capital Markets Union by the Commission, the aim of which is to ensure deeper integration of capital markets to support economic growth and better access of small and medium-sized enterprises to capital markets, the CNB emphasised the need for a stable regulatory environment, a comprehensive cost-benefit assessment of any further regulation, and the maintenance of the intermediating role of the banking sector. It expressed reservations about the concept of qualifying securitisations and supported neither the provision of capital requirement relaxations for risks arising from holdings of infrastructure assets nor the extension of the powers of ESMA and other supranational institutions to the detriment of the powers of national supervisory authorities.

As in the previous year, the large number of legislative proposals issued by the European Commission had a significant impact on the workload of the European Supervisory Authorities – the EBA, ESMA and EIOPA – and the European Systemic Risk Board (ESRB) in 2015, especially in the preparation of regulatory and implementing technical standards. CNB representatives were actively involved in the work of the European Supervisory Authorities at board of supervisors, standing committee and working group level. CNB experts prepared numerous analyses and opinions and contributed actively to guidelines and recommendations.

The CNB'S key activities also included the preparation of opinions, proposals for modifications of mandates and comments on instructions within the ECOFIN Council and its structures and also participation in the plenary meeting of the Council of Europe's MONEYVAL Committee. The CNB was involved through its representatives in the activities of other international institutions and associations, including the OECD Committee on Financial Markets, the Basel Committee on Banking Supervision (BCBS), the International Organisation of Pension Supervisors (IOPS) and the International Organization of Securities Commissions (IOSCO).

In 2015, the CNB continued to work with partner national supervisory authorities in ten supervisory colleges for European banking groups and one group with a US headquarters, whose agenda newly included group recovery plans. Work was launched on preparing agreements on coordination and cooperation between the CNB and the ECB, which took over supervision of the relevant parent companies of banking groups with subsidiary banks in the Czech Republic. The CNB acts as consolidating supervisory authority in one case. It was also actively involved in the meetings of supervisory colleges for international insurance groups. In the capital market, the CNB continued to work in partnership with other supervisory authorities on the basis of IOSCO and ESMA multilateral memoranda of understanding.

## ○ 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.

A total of 23 domestic banks and 11 credit unions, of which three applied for a banking licence at the end of the year, were subject to CNB supervision as of 31 December 2015. A total of 23 foreign bank branches were also operating in the Czech Republic. No new licences were granted to credit institutions in 2015. As of the end of 2015 the CNB was also supervising 31 domestic insurance companies (excluding the Czech Insurers' Bureau), one reinsurance company and, to a limited extent, 23 branches of foreign insurance companies.

As of 31 December 2015, the CNB was supervising eight pension management companies (one less than in 2014 after a merger of two companies), which together were managing 55 transformed, retirement and participation funds.

In the management companies and investment funds sector, the CNB was supervising 28 management companies, 91 investment funds with legal personality (of which 29 were autonomous investment funds) and 195 mutual funds. At the end of 2015, the CNB registered 33 holders of investment firm licences. No new licences were granted and no licences expired in 2015.

At the end of 2015, the CNB was supervising 18 payment institutions and two electronic money institutions, four processors of domestic banknotes and coins, 163,224 insurance intermediaries, 7,464 investment intermediaries, 26,660 tied agents and many other less important types of financial entities.

### Statistics on administrative proceedings conducted in 2015

<i>Types of financial institutions</i>	<i>No. of administrative proceedings continuing from 2014</i>	<i>No. of administrative proceedings opened in 2015</i>	<i>No. of administrative proceedings closed in 2015</i>
Credit institutions	11	37	39
Insurance sector	9	63	65
Pension management companies and retirement funds	2	50	27
Accredited entities	0	0	0
Management companies and investment funds	39	95	107
Investment services providers	9	131	131
Payment institutions	4	2	4
Electronic money institutions	0	1	1
Processors of domestic banknotes and coins	0	0	0
Securities issues and regulated markets	6	47	31

*Note: Accredited entities are entities accredited to organise examinations of supplementary pension savings and retirement savings distributors.*

In the area of securities issues and regulated markets, securities of 21 issuers were newly admitted to trading on a regulated market in 2015 – bonds in five cases and shares in 16 cases (of which 15 were shares of collective investment undertakings, whose main motivation for listing shares on a regulated market is to retain the reduced 5% corporate income tax rate). By contrast, securities of two issuers were excluded (both cases involved bonds excluded owing to redemption). A total of 83 companies whose securities had been admitted to trading on a European regulated market were registered at the end of 2015.

The number of licensed regulated market operators (three), the number of multilateral trading facility operators (two) and the number of settlement systems with settlement finality (three) remained unchanged from the previous year. There is still one central depository.

## ○ 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 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 conduct of business rules.

In the area of banking supervision, which comprises supervision of banks, building societies, credit unions and, under a simplified regime, foreign bank branches, the CNB – given the persisting uncertainties in the European economy – concentrated primarily on the credit portfolio quality, capital adequacy, liquidity and overall performance of banks and their consolidated groups. It also closely monitored the continuing implementation of revised prudential rules associated with CRD IV and CRR. Banks submitted gradually supplemented and revised versions of their recovery plans to supervisors for assessment in compliance with the BRRD requirements.

The CNB, in cooperation with selected banks, continued to implement the joint bank credit and interest rate risk stress testing project. The tests confirmed the good resilience of banks, as their capital adequacy ratio stayed above the regulatory minimum by a sufficient margin even in the adverse scenario. In addition to these bottom-up tests, the CNB conducts half-yearly stress tests of the entire banking sector (top-down tests), the results of which are regularly published on the CNB website (*CNB > Financial stability > Stress testing*).

Despite its relatively small market share, the credit unions sector is subject to intensive CNB supervision. A substantial proportion of supervisory capacity is devoted to this sector in on-site examinations and off-site surveillance. CNB supervision was focused in particular on assessing the current situation and developments in individual credit unions and on resolving their problems, primarily with respect to the specific risks undertaken by individual institutions. Following an amendment of the Act on Credit Unions, supervisors are paying increased attention to measures taken by credit unions to implement that amendment.

Prudential supervision of insurance companies is based on regularly assessing their financial condition and compliance with prudential rules, as well as on the imposition of remedial measures. Economic and insurance technical indicators are assessed on the basis of regularly submitted reports. Insurance companies that belong to insurance groups are also subject to supplementary supervision of insurance companies in groups. The current financial and business situation and strategies of insurance companies are discussed in detail during information-gathering visits. In 2015, insurance companies and the CNB both stepped up their preparations for Solvency II. The CNB monitored and assessed the preparedness of insurance companies for the new regulatory requirements under all three pillars of Solvency II.

Another round of stress tests of selected insurance companies, conducted for the first time using the Solvency II methodology, confirmed that the insurance sector as a whole has sufficient capital and is resilient to significant changes in risk factors under the new Solvency II regime.

In the capital market area, the CNB supervises investment firms, investment intermediaries, markets in investment instruments, management companies and investment funds, pension management companies and other entities operating in the capital market. In the investment firms sector, the CNB continuously assessed compliance with information and disclosure duties. It inspected capital requirement calculations based on fixed overheads and the valuation of assets and off-balance-sheet items.

Supervision in the area of pension management companies and funds managed by them was concentrated mainly on assessment of their compliance with regulatory limits (particularly the ratio of equity to capital requirements), compliance with legal and statutory investment limits, their financial performance and compliance with the conduct of business rules.

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

### ○ RETAIL DISTRIBUTION SUPERVISION

A Retail Distribution Supervision Department (RDSD) was established on 1 October 2015 by separating off part of the Financial Market Supervision Department. The RDSD is responsible for supervising payment institutions, electronic money institutions, small-scale electronic money issuers and small-scale payment service providers (other than investment firms). It also supervises the activities of entities pursuant to Article 15(1) of the Act on Management Companies and Investment Funds and the activities of investment intermediaries and their tied agents, insurance intermediaries and bureaux-de-change. After its establishment, the RDSD seamlessly took over the work performed previously by the Financial Market Supervision Department in order to safeguard the continuity of supervision in this area and ensure its methodological and actual effectiveness. It performs its work via the CNB's headquarters in Prague and regional offices in Plzeň, České Budějovice, Ústí nad Labem, Hradec Králové, Brno and Ostrava.

The new department's main tasks consist in off-site surveillance and on-site inspections in the above-mentioned entities, focusing on compliance with prudential rules, conduct of business rules and anti-money laundering and combating the financing of terrorism rules. It also assesses the level of risk associated with supervised entities, performs checks of unlicensed service provision in supervised entities where such checks lie within the competence of the CNB, and inspects compliance with regulatory limits and the fulfilment of reporting duties. In the area of bureau-de-change activities, the RDSD is also authorised to assess bureau-de-change licence applications, revoke such licences and accept bureaux-de-change notifications of the location of business premises. It works in cooperation with the relevant CNB units in conducting statistical surveys and is authorised to publish its supervisory findings as generalised replies to enquiries or as official information. It is authorised to impose obligations in ex-officio proceedings in the form of on-site orders during on-site inspections.

### ○ ENFORCEMENT

In 2015, activity in the enforcement area consisted mainly in investigating petitions for the opening of administrative proceedings, making decisions on the opening of administrative proceedings or the deferral of cases, and conducting first-instance administrative proceedings, within which fines and remedial measures were imposed, licences revoked and registrations cancelled. In addition to conducting administrative proceedings 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

## Statistics on administrative penalty proceedings conducted in 2015

Area of imposition of penalty	No. of administrative penalty proceedings continuing from 2014	No. of administrative penalty proceedings opened in 2015	No. of administrative penalty proceedings closed in 2015	Total fines imposed (in CZK thousands)
Supervision of credit institutions	2	8	5	250
Capital market supervision	22	39	41	32,925
Supervision of insurance companies	14	192	186	6,515
Violation of the Act on Bureau-de-change Activity	5	30	31	2,900
Consumer protection	0	2	1	800
Payment system	5	13	15	2,240
Circulation of banknotes and coins	1	6	2	12
Act on the CNB	1	0	1	5
Financial market supervision, total	50	290	282	45,647

be imposed for the carrying on of unauthorised business. Final decisions in the CNB supervision area for which publication is prescribed by law are published on the CNB website (*Supervision, regulation > Conduct of supervision > Final administrative decisions*). Sanctions imposed on insurance intermediaries are entered in the Register of Insurance Intermediaries.

## ○ CONSUMER PROTECTION

In accordance with its legal powers, the Consumer Protection Department receives and investigates submissions from the public regarding consumer issues, including compliance with selected obligations under the Payment Systems Act and the Consumer Credit Act.

The CNB received 1,059 complaints in the consumer protection area in 2015. A total of 341 complaints – representing about 32% of all those received – concerned the insurance sector. Complaints relating to inadequate provision of pre-contract information and to insurance claims dominated in this category. Also frequent were complaints relating to the provision of inadequate or misleading information by employees of insurance companies or their tied agents, delays in the settlement of claims and rejections of insurance claims. There was also an increased number of complaints about the actions of insurance company representatives offering various types of supplementary insurance in the form of distance selling. As regards insurance intermediaries, the CNB dealt with complaints pertaining to the provision of insufficient pre-contract information and with consumers' suspicions that contracts had been concluded to generate commissions for intermediaries rather than to benefit clients.

In the area of credit institutions, a total of 417 consumer complaints pertaining to banking products were received. Most complaints concerned payments and payment cards. Consumers complained about failure to comply with limits for payment transactions, insufficient provision of information when depositing and cancelling cash via deposit ATMs, and the charging of fees for information to third parties without the consent of the client. The CNB also received complaints from foreigners who had been denied a current account by a bank as they had no contact address in the Czech Republic. As regards the provision of consumer credit, the CNB conducted an inspection of the provision of sufficient pre-contract information and the inclusion of all required fees in the APRC.

A total of 57 complaints were investigated in the capital market area in 2015. They concerned shortcomings in the provision of information about the riskiness and nature of products offered and pointed to possible unauthorised provision of investment services or the collection of funds from the public for the purpose of joint investment by a natural person. The CNB also recorded complaints about the termination of the provision of investment services through the electronic trading interface of an investment firm.

A total of 153 complaints concerning non-bank foreign exchange entities were received in 2015. This represents a moderate year-on-year decrease. Exchange rates remain a fundamental problem, as bureaux-de-change in the centre of Prague offer rates of between CZK 15 and 20 to the euro or charge exchange fees that significantly reduce the amount received by clients. Foreigners, and often locals as well, do not expect such a rate and ask for transactions to be cancelled after they have been concluded. Bureaux-de-change almost always refuse to do so once the customer has signed the pre-contract information.

A total of 53 complaints pertaining to non-bank consumer credit providers were received. However, these entities are subject to CNB supervision only if the credit has been provided via a credit card. A total of 38 complaints pertained to consumer protection in general.

Seven on-site examinations were conducted or commenced in 2015, five of which concerned insurance intermediaries, one a bank and one a bureau-de-change operator. As regards insurance, the most frequent shortcomings were detected in the area of informing customers about the nature of life insurance associated with investment in funds and in the area of replacing one policy with another.

## ● RESOLUTION PROCEDURES

At the end of 2015, the Recovery and Resolution Act transposed into Czech law the EU Directive establishing a framework for the recovery and resolution of credit institutions and investment firms. The CNB is the competent resolution authority under this Act.

Resolution procedures are based on two assumptions: that resolution-related costs should not be borne by the state but by private individuals, and that resolution should be in accordance with the public interest.

Under the above Act, the CNB is vested with the necessary resolution powers and tools. 2015 was a preparatory year in which a Resolution Department was established. The department deals with planning and operational matters, such as those relating to the establishment and financing of the Resolution Fund, as well as the preparation of bank resolutions per se.

As Czech banks are members of foreign banking groups, the planning (and also any resolution, of course) includes coordination with foreign resolution authorities. Until 2015, these were national authorities from the countries where the groups had their head offices. In 2016, thanks to the progress made in establishing the banking union, this role was taken over by the Single Resolution Board located in Brussels.

## ● CURRENCY AND PAYMENTS

### ● CURRENCY IN CIRCULATION

Under the Act on the CNB, 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, legal entities and natural persons, is regulated by Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins.

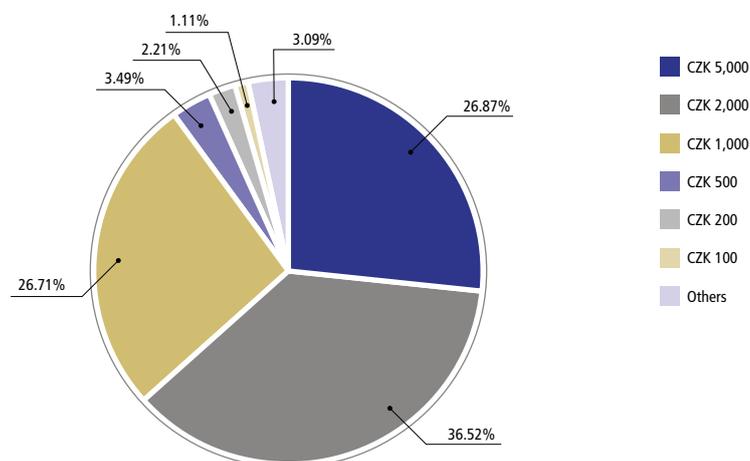
### Currency in circulation – 1 January 2011 to 31 December 2015 (in CZK billions)



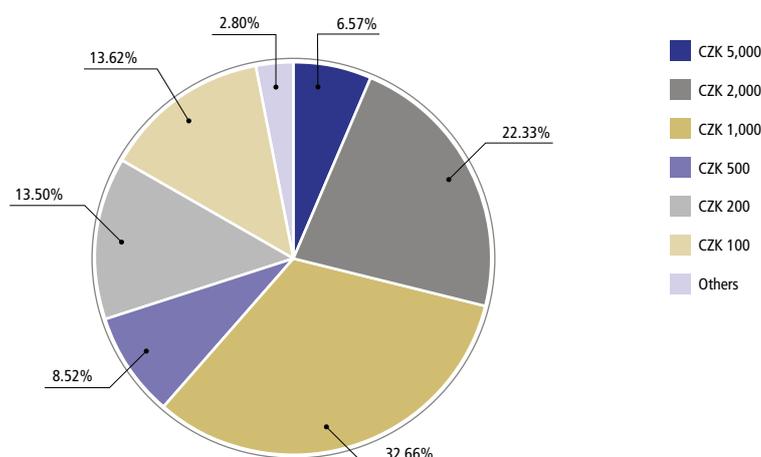
### Number of banknotes and coins in circulation as of 31 December 2014 and 31 December 2015

Denomination	2014		2015	
	(CZK millions)		millions of pieces	
CZK 5,000	130,432.1	137,079.0	26.1	27.4
CZK 2,000	161,622.1	186,321.8	80.8	93.2
CZK 1,000	129,596.6	136,249.6	129.6	136.2
CZK 500	16,738.3	17,779.1	33.5	35.6
CZK 200	10,919.8	11,262.6	54.6	56.3
CZK 100	5,491.7	5,681.9	54.9	56.8
CZK 50	585.2	583.3	11.7	11.7
<b>Banknotes, total</b>	<b>455,385.8</b>	<b>494,957.3</b>	<b>391.2</b>	<b>417.2</b>
CZK 50	4,687.1	5,192.6	93.7	103.9
CZK 20	3,362.4	3,513.7	168.1	175.7
CZK 10	1,941.0	2,025.6	194.1	202.6
CZK 5	1,131.5	1,189.9	226.3	238.0
CZK 2	808.6	851.1	404.3	425.5
CZK 1	494.1	519.2	494.1	519.2
<b>Coins, total</b>	<b>12,424.7</b>	<b>13,292.1</b>	<b>1,580.6</b>	<b>1,664.9</b>
<b>Precious metal coins</b>	<b>1,665.0</b>	<b>1,878.7</b>	<b>2.3</b>	<b>2.4</b>
<b>TOTAL</b>	<b>469,475.5</b>	<b>510,128.2</b>	<b>1,974.1</b>	<b>2,084.5</b>

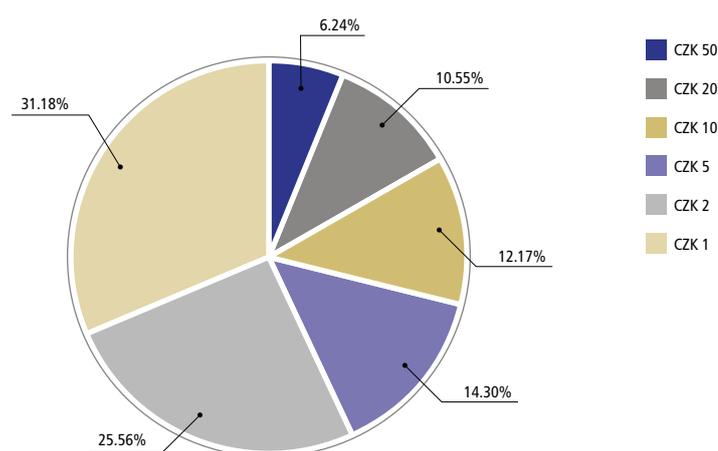
### Structure of currency in circulation as of 31 December 2015 (in CZK)



**Structure of banknotes in circulation as of 31 December 2015** (in pieces)



**Structure of coins in circulation as of 31 December 2015** (in pieces)



The value of currency in circulation was CZK 510.1 billion on 31 December 2015, up by CZK 40.6 billion on a year earlier.

In all, 92.4 million banknotes, 49.2 million coins, 70,000 commemorative silver coins and 26,300 gold coins were produced in 2015. These banknotes and coins cost the CNB a total of CZK 260.7 million to produce.

Cash turnover at the CNB's cash offices amounted to CZK 1,430.5 billion in 2015, up by 2.3% year on year. The CNB's cash offices received 728.2 million banknotes and 324.0 million coins from circulation and issued 752.2 million banknotes and 407.5 million coins.

The CNB's branches processed 777.4 million banknotes and 327.9 million coins in 2015.

In 2015, the CNB put into circulation four CZK 200 commemorative silver coins, one CZK 500 silver coin, two CZK 5,000 gold coins and one CZK 10,000 gold coin.



## ○ 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.

The CNB's clients are organisational units of the state, for which the CNB maintains a whole range of accounts. On state budget expenditure accounts and selected revenue accounts for payments debited to them, organisational units of the state reserve funds for planned expenditures in the Integrated Information System of the Treasury (IIST) operated by the Ministry of Finance. Organisational units of the state transmit payment orders together with information on the reservation of funds in the IIST to the CNB. The CNB verifies the reservation of funds in the IIST before executing the payment order.

Other clients include subsidised organisations established by state organisational units and state funds, which are gradually transferring with all their accounts to the CNB (in accordance with transitory provisions of Act No. 501/2012, amending Act No. 218/2000 Coll., on Budgetary Rules).

The entities whose accounts for the receipt of subsidies from the state budget are held at the CNB 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. The Czech National Bank offers a limited range of services to these clients as it is required to do under Article 33(8) of the Act on Budgetary Rules.

To manage their accounts, clients use the ABO-K internet banking system or the services of the CNB's branches in Brno, Hradec Králové, Ostrava and Prague or its regional offices in České Budějovice, Plzeň and Ústí nad Labem.

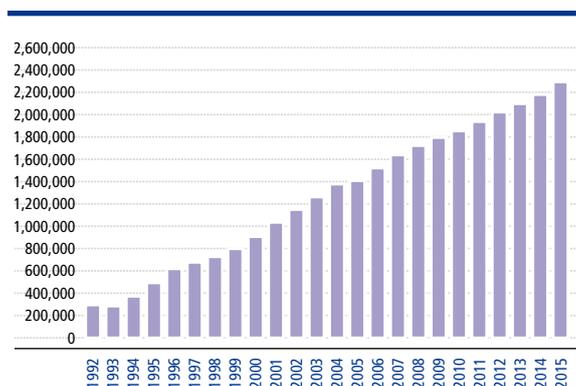
## ○ CERTIS – INTERBANK PAYMENT SYSTEM

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 2015, CERTIS comprised 45 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).

The following charts show the number of transactions processed and the amount of funds transferred in CERTIS since 1992.

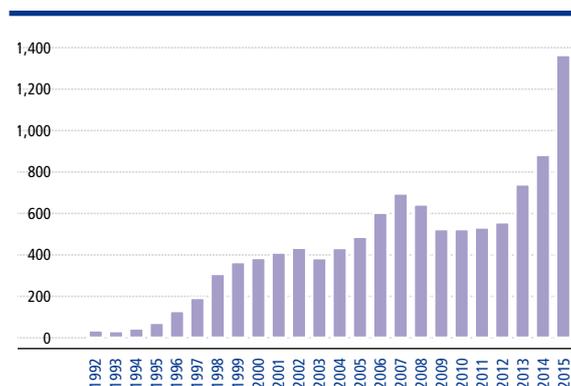
**Average daily number of transactions**

(in transaction units)



**Average daily turnovers**

(in CZK billions)



CERTIS processed 576 million transactions in 2015 (up by 4.9% year on year) with a total value of CZK 342,705 billion (up by 54%). The rise in the total value was due to an increased volume of sterilisation operations conducted by the CNB. The system processed a daily average of 2.3 million transactions. The average daily value of the transactions was CZK 1,365 billion.

#### ○ 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.

As of 31 December 2015, a total of 79 asset accounts – belonging to 49 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 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. On average, 31 transactions a day were processed in SKD in 2015. The average daily value of these transactions was CZK 118 billion.

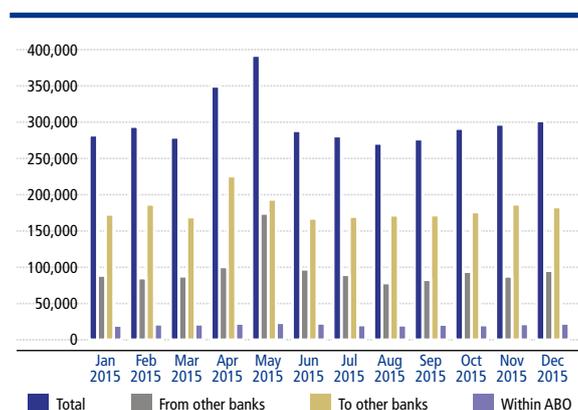
#### ○ ABO – THE CNB'S ACCOUNTING AND PAYMENT SYSTEM

The CNB keeps the accounts of its clients and the internal accounts of the central bank in the ABO system. At the end of 2015, the CNB maintained 21,176 accounts, of which 3,059 internal accounts, 3,416 employee accounts and 14,701 accounts of legal entities (14,224 of which were regulated Treasury accounts in the Czech currency and 140 were regulated Treasury accounts in the euro). Regulated Treasury accounts are subordinated to the Single Treasury Accounts, 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. In all, 10,762 users were registered in the system as of the end of 2015.

The following chart shows the average daily numbers of accounting transactions processed in 2015. The total number of transactions increased by 4.1% and the number of client orders rose by 4.9% compared to 2014.

#### ABO – average daily number of transactions in 2015



## ● FINANCIAL MARKET OPERATIONS

The CNB implements monetary policy by means of a system of instruments designed for that purpose. The main instruments used by the CNB include interest rate operations (repo operations and automatic facilities), foreign exchange market operations and reserve requirements. Interest rate operations play a pivotal role in steering short-term interest rates on the interbank market. The 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. Interest rates remained unchanged at technical zero in 2015, i.e. the discount rate and the repo rate stayed at 0.05% and the Lombard rate at 0.25%.

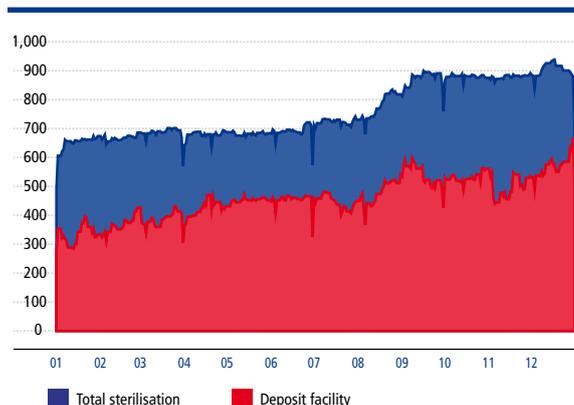
In 2015, the CNB continued to use the exchange rate as an additional instrument for easing monetary policy, with a commitment to intervene if needed to weaken the koruna against the euro so that the exchange rate of the koruna is kept close to CZK 27 to the euro. The foreign exchange interventions conducted in 2015 amounted to EUR 8.998 billion. The interventions took place mainly in the second half of the year and had a significant upward effect on the amount of koruna liquidity in this period.

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.

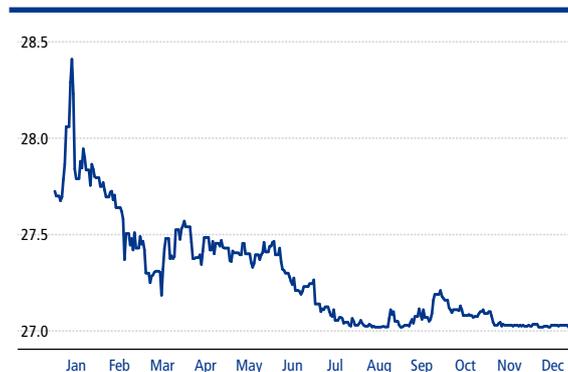
The CNB's monetary policy instruments also include two "automatic" facilities – the marginal lending facility and the deposit facility. Under the lending facility, the CNB lends overnight funds to banks in the form of a repo operation at the Lombard rate. The deposit facility gives banks the option of making overnight deposits with the CNB at the discount rate. The deposit facility was used a great deal during 2015, as the discount rate was equal to the repo rate. Recourse to the lending facility was rare.

The total average amount of excess liquidity absorbed was CZK 757 billion. Of this, 62% was absorbed through the deposit facility and 38% through repo operations. The CNB also executed collateral exchanges. These were technical operations in which the CNB usually exchanged a security settled in the Central Securities Depository for a security settled in the Short-term Bond System (SKD). The aim of these operations was not to affect the banking sector's excess liquidity, but to provide liquid securities to banks, for instance for obtaining intraday credit.

**Excess liquidity in 2015** (in CZK billions)



**The koruna-euro exchange rate in 2015**



The CNB also has liquidity-providing instruments (two-week liquidity-providing repos and foreign exchange swaps) in its 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 these instruments were not used actively by banks in 2015, the CNB considers it appropriate to keep them available indefinitely given the volatility in the financial markets.

## INTERNATIONAL RESERVES MANAGEMENT

The CNB manages its international reserves, which 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 2015, the international reserves totalled CZK 1,601 billion in koruna terms, equivalent to EUR 59.2 billion or USD 64.5 billion.

### Currency structure of international reserves assets as of 31 December 2015

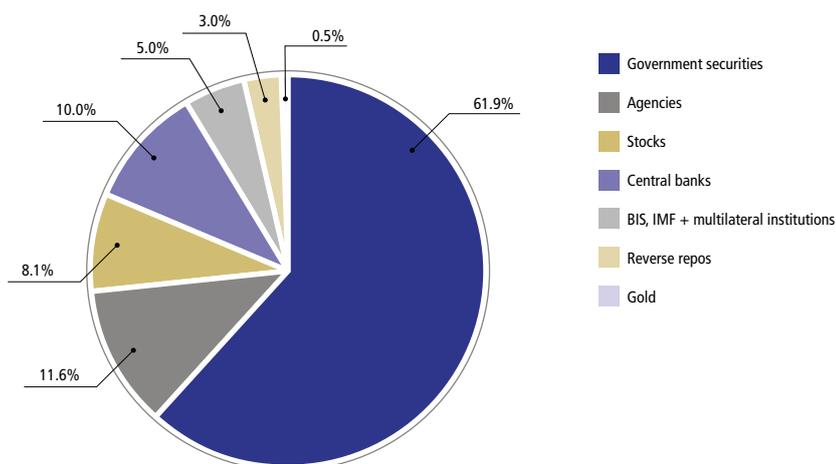
(portfolio currency)

Euro	35,222 million
US dollar	9,945 million
Canadian dollar	11,597 million
Australian dollar	6,278 million
Swedish krona	20,410 million
Japanese yen	307,842 million
British pound	647 million
SDR	1,096 million
Gold	10.0 t

*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.*

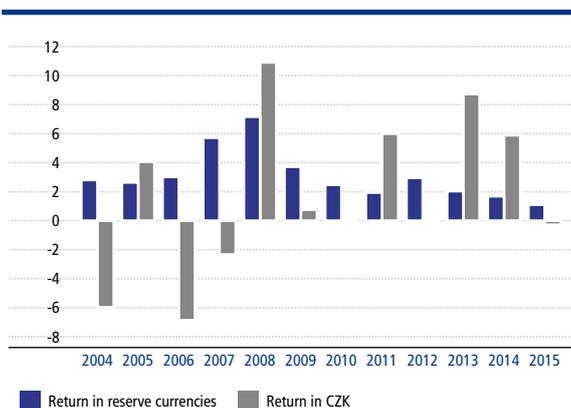
The CNB invests the international reserves in accordance with the principles of its reserve management policy and subject to investment opportunities and the situation on the relevant markets. The largest part of the reserve portfolio is invested in debt securities issued by selected governments of advanced countries, selected government-guaranteed bonds or bonds issued by top-rated multilateral institutions. Other instruments used for international reserves management include (in order of significance): shares, repos, specific covered bonds, deposits with central banks, futures, and interest rate, currency and equity swaps. All derivatives transactions are backed by financial collateral.

### Investment allocation as of 31 December 2015



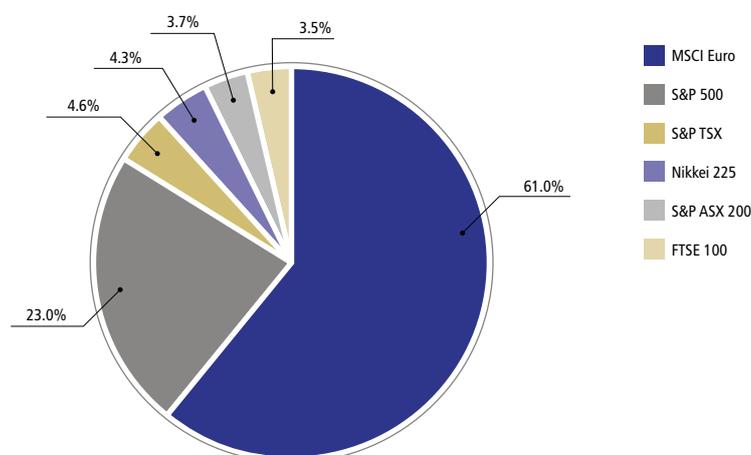
The international reserves recorded a year-on-year rise in koruna terms due to foreign exchange interventions (CZK +243.1 billion), external flows into the portfolio (CZK +121.1 billion) and portfolio returns (CZK +12.4 billion). External flows arise from transactions for CNB clients, which are specified by the Act on the CNB (the CNB's most important clients are Czech ministries and government organisations). By contrast, negative net exchange rate income (CZK -6.1 billion) fostered a decrease in the reserves. The euro flows into the international reserves portfolio were partially reallocated into US, Canadian and Australian dollars during 2015.

### Comparison of the total return on international reserves in 2015 with previous periods (in %)



The individual portfolios recorded the following returns in 2015: euro 1.25%, US dollar 0.25%, Canadian dollar 1.32%, Swedish krona 0.04% and Australian dollar 2.65%. The weighted average of the return on the portfolios in reserve currencies was 1.10%.

### Structure of the equity portfolio as of 31 December 2015



*Note: The size of the equity exposure is targeted at 10% of the size of the international reserves (adjusted for the SDR allocation). For this reason a 10% ratio does not need to be maintained between the size of each individual equity portfolio and its "counterpart" in the form of a fixed interest rate portfolio in the same currency.*

Most of the international reserves are managed in internal portfolios made up of fixed-interest money and capital market instruments. The equity portfolios managed by BlackRock and State Street Global Advisors account for around 10% of the reserves and are invested on the following markets using the relevant benchmark indices: European (MSCI Euro), US (S&P 500), UK (FTSE 100), Japanese (Nikkei 225), Canadian (S&P TSX) and Australian (S&P ASX 200).

Claims on the International Monetary Fund and gold are another part of the reserves. The financial position vis-à-vis the IMF, which amounted to SDR 1.10 billion at the end of 2015, changed only slightly during the year due to the early repayment of a bilateral loan totalling SDR 54.3 million. The size of the quota and allocation remained unchanged. As part of the gold was used for coin production in 2015, gold holdings amounted to 10 tonnes at the end of 2015.

## ○ THE CNB AS THE BANK OF THE STATE

The Czech National Bank provides banking services for the state and the public sector under the Act on the Czech National Bank and the Act on Budgetary Rules, i.e. it maintains accounts and provides payment services and services relating to liquidity management of the Single Treasury Accounts.

In 2015, the CNB continued to work with the Ministry of Finance in managing Treasury liquidity, safeguarding the smooth operation of the payment system and streamlining those processes. It was also involved during the year in preparing an amendment of the Act on Budgetary Rules, which is to be approved in 2016. As of 31 December 2015, the CNB maintained 14,400 accounts for the state and for the public sector. A total of 300,000 transactions took place on the Treasury accounts on average per day. Treasury clients now almost exclusively use internet banking. Only 0.3% of orders are in paper form.

The CNB is also involved in the Integrated Treasury Information System (the fund reservation system for the budget expenditure of state organisational units). 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 then sends the payment order to the CNB for execution. The order is accepted for execution only after the reservation has been verified.

## ○ SUPPORT FOR TREASURY LIQUIDITY MANAGEMENT

The CNB is responsible for the daily consolidation of individual accounts subordinated to the Treasury, as specified by the budgetary rules, under the koruna-denominated and euro-denominated Single Treasury Account (STA). The koruna-denominated STA includes, for example, state budget revenue and expenditure accounts, state financial assets and liabilities accounts, revenue and customs offices' accounts, state funds accounts and the National Fund accounts. The euro-denominated STA includes the funds of the National Fund, euro debt service funds and foreign funds of state organisational units. The CNB works very closely with the Ministry of Finance to manage daily liquidity on the STA. This primarily involves compiling a daily estimate of revenues and expenditures on accounts subordinated to the STA and monitoring the actual flows of funds during the day. The size of the Ministry of Finance's money market operations, especially short-term investment of STA liquidity, is set on the basis of this activity. If a shortage of STA liquidity arises (particularly in a situation of sudden adverse developments in financial markets), the Ministry of Finance can also use these operations to make loans. Thanks to strict liquidity management throughout the business day, the balance on the STA is maintained at just a few million even though transactions worth billions of korunas are settled every day.

The system of aggregation of Treasury funds under the STA increases the amount of available liquidity that can be used to finance a state budget deficit during the year. The long-term nature of these resources meanwhile allows for effective planning of government bond issues. This generates budgetary savings by reducing debt servicing costs and lowering the refinancing risk of the state.

## ○ SUPPORT FOR STATE DEBT FINANCING

In the area of state debt management, the CNB carries out primary sales of both short-term and long-term government bonds for the Ministry of Finance and acts as administrator of the issues. In 2015, the CNB organised 19 auctions of T-bills, mostly with maturities of 3, 9 and 12 months, with sales totalling almost CZK 100 billion. The CNB also executed 33 auctions of government bonds, with sales exceeding CZK 180 billion. As administrator, the CNB made coupon payments for 21 government bond issues and a payment of principal on one maturing issue. It also organised coupon payments and repayments of principal 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 also 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 2015, a total of 17 internationally reviewed articles were published in the CNB Working Paper Series and the CNB Research and Policy Notes. Two issues of the CNB Economic Research Bulletin also came out. Seventeen research papers were published in prestigious professional journals such as the *Journal of International Economics*, the *Journal of the European Economic Association* and *Economic Systems*. 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 2015*.

Research project coordinators are involved 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 2015 the CNB held its eleventh Research Open Day, at which the results of CNB economic research were presented to a broad professional audience. In addition to the regular award for the best research publication, the Kateřina Šmídková Award was presented for the first time at this conference. The keynote speech was given by Bank of Israel Governor Karnit Flug. In 2015, the CNB was involved in the ESCB Competitiveness Research Network, the Wage Dynamics Network and, as an observer, in the Household Finance and Consumption Network.

The Research Advisory Committee is an advisory body to the CNB Bank Board in the area of research. Its members include leading foreign experts. In 2015, the President of the Committee was CNB Governor Miroslav Singer and its Chairman was CNB Board Member Kamil Janáček.

## ● EUROPEAN AND INTERNATIONAL RELATIONS

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

Four times a year, the CNB Governor and Vice-Governor attend the meetings of the General Council of the European Central Bank (ECB), where the governors of all the central banks of the EU countries are represented. Documents on macroeconomic, fiscal, monetary and financial developments around the world, in the EU and in the euro area were discussed in 2015. The meetings also dealt with monitoring of compliance with the prohibition of monetary financing, the impacts of low oil prices and the implications of the refugee crisis for the EU economy, among other things. 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 74 documents in the written consultations of the ECB General Council on draft EU and Member State legislation and ECB documents. In eight cases the CNB responded in the form of a Governor's letter to the President of the ECB. It commented on ECB opinions on EU countries' draft legislation relating to ECB activities, including a draft Slovak law on the role of the National Bank of Slovakia in resolution on the financial market, a draft Polish law on the restructuring of household loans denominated in foreign currency, a draft German law on resolution in the banking sector and a draft German law on building societies, and a draft Czech law on recovery and resolution in the financial market, a draft amendment to the law on the circulation of banknotes and coins, a draft law on the central register of bank accounts and a draft law on consumer credit.

The CNB Governor and a Vice-Governor also attended the regular meetings of the General Board of the European Systemic Risk Board (ESRB), which dealt with systemic risks in the EU financial market and the development of a macroprudential policy framework. In 2015 the ESRB adopted recommendations on countercyclical capital buffer rates for exposures to third countries and on voluntary reciprocity for macroprudential policy measures of other EU states. In June and December 2015 the CNB fulfilled the reporting duty arising from the ESRB's recommendations on funding of credit institutions and on intermediate objectives and instruments of macroprudential policy.

#### ○ RELATIONS WITH EU COUNCIL, EU COMMITTEE

Although 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), it actively participates in coordinating the Czech Republic's positions for negotiations through the EU Committee at both the government level and the working level. The CNB was actively involved in the preparation of the Czech Republic's positions relating to its area of competence. The main issues in this regard were proposals for a closer Economic and Monetary Union (EMU) based on the Five Presidents' Report and related EC documents (the proposals relevant to the CNB included one for the progressive establishment of unified representation of the euro area in the IMF) and the continuation of the banking union project, in particular the EC's proposal to create a European Deposit Insurance Scheme (EDIS). The CNB also focused on the bridge financing of the Single Resolution Fund (SRF) and the debate about further progress of work on the development of a permanent backstop to the SRF and the related reduction of risks in EU Member States' banking sectors, including the question of the approach to sovereign exposures. Other topics included measures to prevent terrorist financing, the establishment of a capital markets union and enhanced cooperation in the area of the financial transaction tax.

#### ○ INTERNATIONAL MONETARY FUND

The CNB Governor, who represents the Czech Republic on the Board of Governors of the International Monetary Fund (IMF), attended the spring meeting of the IMF in Washington. At the annual IMF meeting in Lima, the Czech delegation was led by CNB Vice-Governor Vladimír Tomšík on behalf of the Governor.

The main topics discussed at the IMF with the direct or indirect involvement of the CNB were a revision of the special drawing rights (SDR) valuation method, a reform of IMF quotas and governance and the parameters of the new IMF credit framework. Based on a decision taken by the IMF Executive Board in November 2015, the Chinese renminbi will be added to the SDR basket on 1 October 2016 with the joint support of the EU, including the Czech Republic. In 2015 the Executive Board also discussed alternative ways of resolving the still unfinished 2010 IMF quota and governance reform caused by the ongoing ratification process in the USA. This situation changed at the end of the year, when the USA expressed its willingness to ratify the reform if certain conditions were met. The reform was ratified on 26 January 2016. The Czech Republic, like the other EU Member States, supported swift completion of the ratification. In the ongoing debate about the new IMF credit framework, CNB representatives advocated an emphasis on prevention of moral hazard and strict adherence to the terms and conditions for providing IMF funds.

The CNB promoted its priorities not only in IMF forums, but also in the EU bodies dealing with IMF issues in which it is represented (the EU Council's Economic and Financial Committee and its subcommittee on IMF-related issues). Another important topic discussed there was a proposal for a Council decision laying down measures in view of progressively establishing unified representation of the euro area in the IMF, which was submitted to the European Commission in October 2015. The CNB – and subsequently also the Czech government at the CNB's recommendation – expressed reservations about the proposal in light of the obligations arising from the current constituency agreement.

An IMF Article IV mission to the Czech Republic took place in May. From the CNB's perspective, the key issues were the discussion about monetary policy (including the use of the exchange rate as a monetary policy instrument), the inflation outlook, the situation of the banking sector and the assessment of the risks faced by Czech banks. In its report, the IMF concluded that the current level of the exchange rate was in line with macroeconomic fundamentals and there was little reason to expect large moves in the exchange rate after the exit from the exchange rate commitment. According to the IMF, the pre-existence of a consistent monetary policy framework and the CNB's continued transparent communication strategy – appropriately emphasising the priority of the inflation objective and the temporary role of the exchange rate floor as an instrument to achieve it – should facilitate a smooth exit.

In 2015 the CNB continued to be involved as a creditor in IMF assistance provided under the financial transactions plan to its member countries experiencing balance of payments difficulties. In addition, the CNB and the IMF have signed bilateral loan agreements. The total net nominal size of the credit line was SDR 11.6 million at the end of 2015.

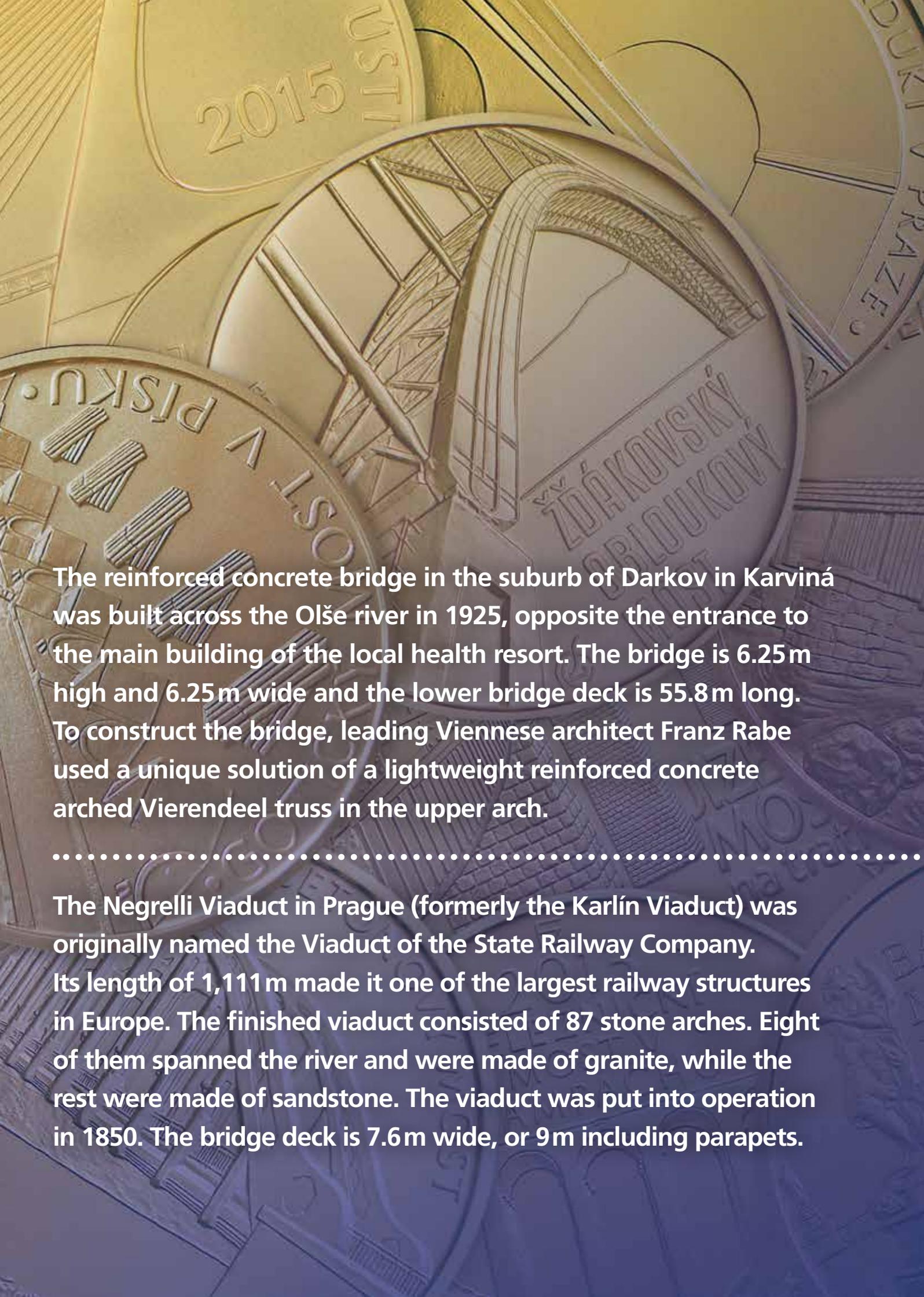
### ○ CNB ACTIVITIES IN OTHER INTERNATIONAL ORGANISATIONS

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 meetings of vice-governors and at selected meetings of the Central Bank Governance Group and the Basel Consultative Group, which is part of the Basel Committee on Banking Supervision. A meeting of the BIS working group on monetary policy in Central and Eastern Europe was held at the CNB. The CNB also regularly attended the meetings of a number of OECD working bodies, particularly the Economic Policy Committee and the Committee on Financial Markets. Furthermore, the CNB contributed to the preparation of the OECD Economic Survey to be published in June 2016. A CNB representative also attended the annual meeting of the European Bank for Reconstruction and Development (EBRD) in Tbilisi on 14–15 May 2015.

### ○ FOREIGN TECHNICAL ASSISTANCE

The CNB organised 15 events in 2015 to provide technical assistance to its foreign partners. Seven seminars were attended by 125 experts from 31 central banks, and seven consultations took place for 26 participants from six central banks and supervisory authorities, mainly from Montenegro, Kenya, Serbia and Ukraine. The CNB also provided expert assistance in the form of consultations and lectures abroad. The main partner central bank in the area of technical assistance in 2015 was the National Bank of Kazakhstan. CNB experts also provided technical assistance in Ukraine, Kazakhstan and Zimbabwe in partnership with the IMF as part of its missions.





The reinforced concrete bridge in the suburb of Darkov in Karviná was built across the Olše river in 1925, opposite the entrance to the main building of the local health resort. The bridge is 6.25 m high and 6.25 m wide and the lower bridge deck is 55.8 m long. To construct the bridge, leading Viennese architect Franz Rabe used a unique solution of a lightweight reinforced concrete arched Vierendeel truss in the upper arch.

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The Negrelli Viaduct in Prague (formerly the Karlín Viaduct) was originally named the Viaduct of the State Railway Company. Its length of 1,111 m made it one of the largest railway structures in Europe. The finished viaduct consisted of 87 stone arches. Eight of them spanned the river and were made of granite, while the rest were made of sandstone. The viaduct was put into operation in 1850. The bridge deck is 7.6 m wide, or 9 m including parapets.

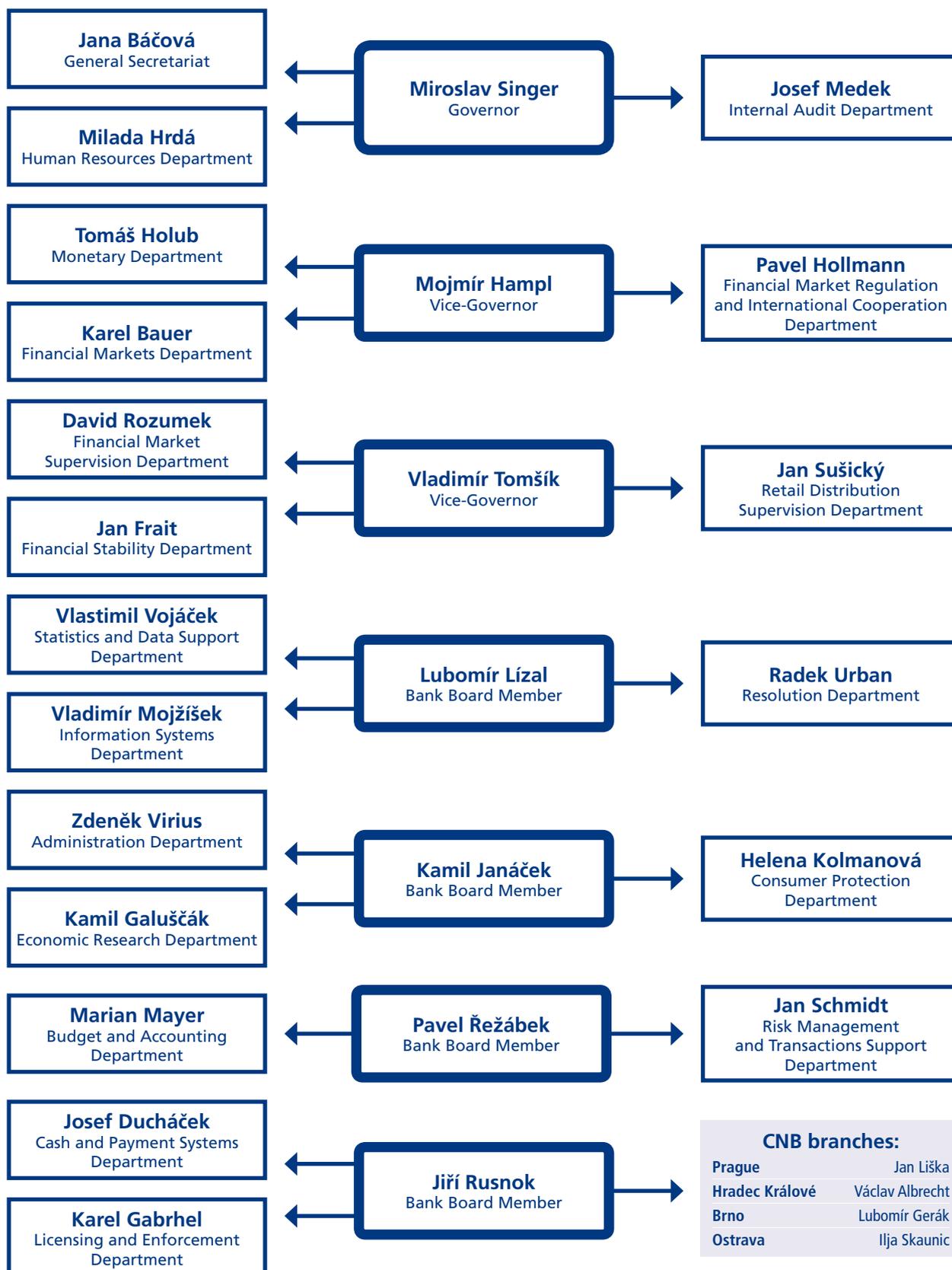
# III

# MANAGEMENT AND ORGANISATION



# MANAGEMENT AND ORGANISATION

## ORGANISATIONAL CHART AS OF 31 DECEMBER 2015



The CNB's organisational structure consists of a headquarters in Prague and four branches in Prague, Hradec Králové, Brno and Ostrava. In addition, the CNB is represented in České Budějovice, Plzeň and Ústí nad Labem by regional offices of its headquarters, where selected units of the Cash and Payment Systems Department, the Licensing and Enforcement Department and the Retail Distribution Supervision Department are located (see the CNB website: *About the CNB > CNB offices in the Czech Republic*).

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.

### ○ BANK BOARD

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 as of 31 December 2015).



### ○ 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.

### ○ 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 implement Bank Board decisions and perform activities that cover the areas of competence of more than one organisational unit and that depend on close and efficient cooperation between them.

At the decision of the Bank Board, the CNB established two new departments at its headquarters in 2015. The Statistics and Data Support Department came into existence on 1 April 2015. It took over the statistical work of the Monetary and Statistics Department (which was renamed the Monetary Department) and work relating to data support for financial market supervision from the Financial Market Regulation and International Cooperation Department. The new department thus comprehensively covers all activities relating to the central collection and processing of the data that the CNB needs to carry on its core activities, including relevant legislation and administration of information systems. A Retail Distribution Supervision Department was established on 1 October 2015. Supervisory activities previously performed by the Financial Market Supervision Department – relating in particular to electronic money institutions, small-scale electronic money issuers, small-scale payment service providers, insurance and investment intermediaries and bureaux de change – were transferred to this new unit.

The competences of the CNB and its organisational units were extended and amended in 2015 on the basis of new legal regulations and Bank Board decisions on the implementation of organisational changes. The most important of these was the implementation of the CNB's new activities ensuing from Act No. 374/2015 Coll., the Recovery and Resolution Act, and Act No. 375/2015 Coll., amending some acts in relation to the adoption of the Recovery and Resolution Act and in relation to changes to the deposit guarantee scheme. These laws took effect on 1 January 2016. To get ready to carry out the new tasks, it was necessary to broaden the Bank Board's competences to include crucial decision-making in the area of resolution, to give the relevant CNB organisational units additional competences and to set boundaries and rules for cooperation in resolution-related activities. It was also necessary to define the role of CNB organisational units in setting contributions to the Deposit Insurance Fund of the Financial Market Guarantee System.

### ○ BRANCHES

The CNB's branches are divided into divisions. They 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, maintaining accounts under the Act on Budgetary Rules and the accounts of other CNB clients falling within their fields of competence, and making payments for their clients.

At the end of 2015 the Bank Board decided to transfer supervision of compliance with the Act on the Circulation of Banknotes and Coins, previously performed by the Brno branch, to the Cash and Payment Systems Department.

## ● HUMAN RESOURCES

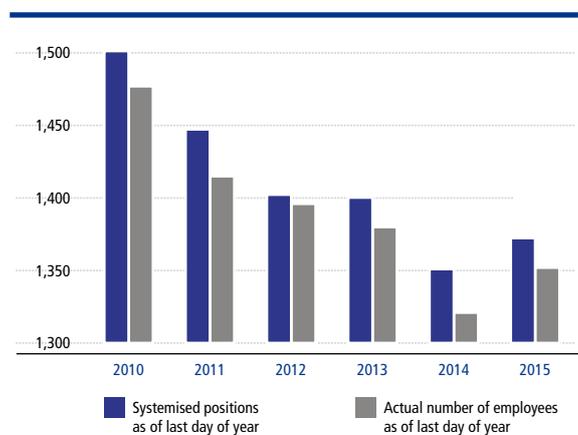
Throughout its history, the CNB has paid extraordinary attention to improving, developing and stabilising its work potential. Human resource management at the CNB is therefore focused on expanding this potential and on making use of it in accordance with the CNB's objectives and strategy. A no less important objective in the area of human resources management is to serve the staffing and skills needs stemming from the bank's long-term tasks and mission. Emphasis is placed on developing the traditional values of CNB employees, in particular credibility and a high level of expertise.

## ○ NUMBER OF POSITIONS AND EMPLOYEES

The CNB continued to strengthen its financial market supervisory capacity in 2015. The number of systemised positions at the CNB thus increased slightly in 2015, reaching 1,372.4 as of 31 December 2015.

As of 31 December 2015, the CNB had 1,352 employees, 31 more than at the end of 2014. A total of 123 new employees were taken on during 2015. In all, 81 persons terminated their employment at the CNB. The total staff turnover rate in 2015 was 6.1%, comparable with that recorded in years when no major organisational changes were made. As of 31 December 2015, the average length of employment was 13.6 years, a slight drop compared with 2014 (14.1 years).

### Number of employees and number of positions



## ○ RECRUITMENT AND SELECTION

The CNB opened approximately the same number of external selection procedures last year as in 2014. Unlike in the previous period, though, several identical positions were filled with candidates from one selection procedure, resulting in a significant year-on-year increase in the number of new recruits. This trend reflects the increased attention paid to expanding financial market supervisory activities. Besides numerous expert positions in this area, however, the CNB also filled senior management positions from both internal human resources and the open labour market in 2015. The constant demand for new staff is leading to continuous adjustment of the CNB's recruitment strategy, whose foundations were laid in previous years primarily in connection with the reorganisation of the branch network.

## ○ EDUCATION, AGE AND GENDER STRUCTURE

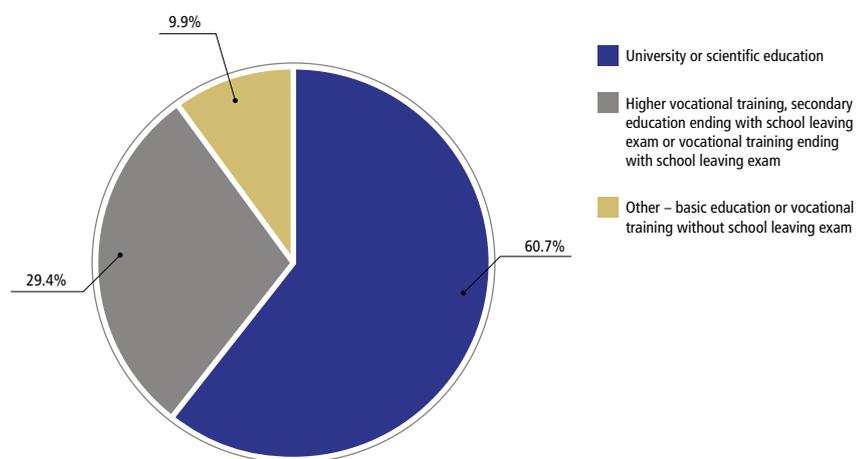
The CNB has long had a balanced age, gender and skills structure. This supports its equal opportunities policy for all job applicants and employees.

The education structure of employees remained unchanged. In 2015, university graduates made up 61% 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 29% and employees with vocational training without a school leaving exam or with basic education recorded a 10% share. This skills distribution, dominated by highly educated employees, reflects the expertise required of CNB staff.

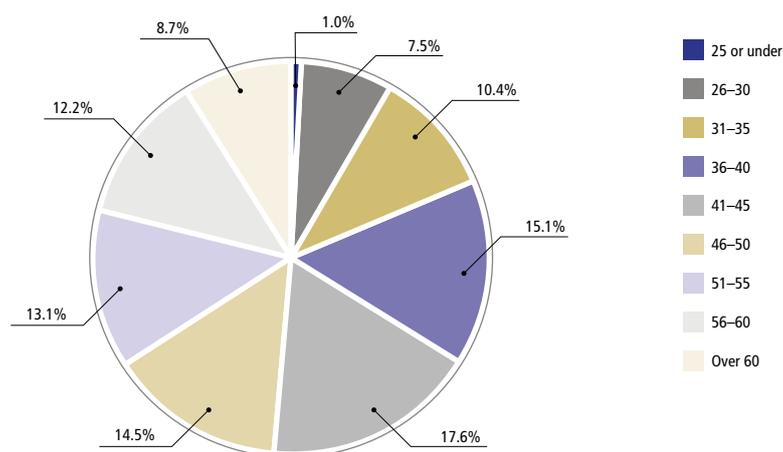
As in previous years, the age structure of CNB employees did not show any major year-on-year change. All age groups are evenly represented. Employees aged 41–45 account for the largest share (17.6%). The diverse age composition of working teams ensures that those teams function properly and smoothly absorb changes reflecting the staff life cycle. The average age of CNB employees increased by around one month to 45.1 years in 2015 compared to 2014.

As in previous years, the shares of men and women in the CNB workforce remained balanced in 2015.

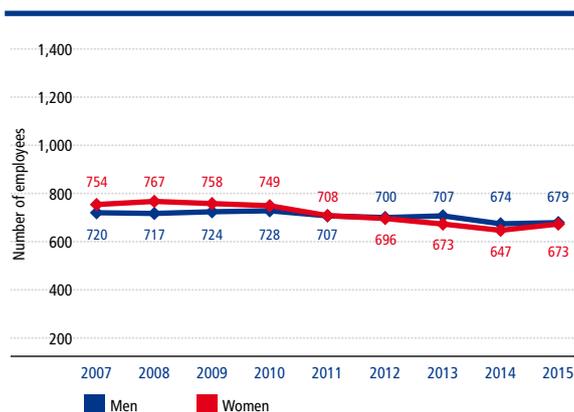
### Employee structure by highest level of education attained as of 31 December 2015



### Age structure of employees as of 31 December 2015



## Numbers of men and women employed at the CNB



### ○ INCENTIVE SYSTEM

The CNB's comprehensive remuneration system and performance appraisal system are the key tools for motivating its staff.

The CNB's wage system is a strategic tool for long-term motivation of employees. It significantly helps the CNB to attract high-quality job applicants on the one hand and enables it to motivate, stabilise and develop its existing staff on the other. The current wage system at the CNB enhances the CNB's competitiveness in the labour market at sustainable personnel expense levels.

The staff performance appraisal system fulfils a number of important roles. It enables the CNB to appraise employees' performance in the previous period and to identify their main development needs. Performance appraisal naturally adds value by supporting staff motivation and identifying talent in the existing workforce.

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 1,318 million in 2015, up by about 1.2% on a year earlier.

### In 2015, 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	5,144,371	3,724,199
Mojmír Hampl	4,114,012	2,980,794
Vladimír Tomšík	4,117,792	2,929,474
Lubomír Lízal	3,467,107	2,484,845
Kamil Janáček	3,452,534	2,449,490
Pavel Řežábek	3,451,237	2,473,394
Jiří Rusnok	3,455,446	2,501,688

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

<sup>2)</sup> 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.

## ○ PROFESSIONAL DEVELOPMENT

The CNB regards the professional development of employees as a human resource management priority. It makes sure that staff take part in various training events based on development needs. Employees can deepen and expand their knowledge and skills through internal training organised at the CNB and training provided by domestic external organisations, and also by attending seminars abroad. Spending on professional development training totalled CZK 25.48 million in 2015.

Internal training events place an emphasis on training up new employees. This takes the form of seminars and an e-learning induction course. Specialised courses aimed at enhancing skills in specific CNB business areas are another important element of professional development, especially for supervisory departments. Personal development courses are also an integral part of internal training. In all, 271 employees received training on 20 soft skills courses in 2015.

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.

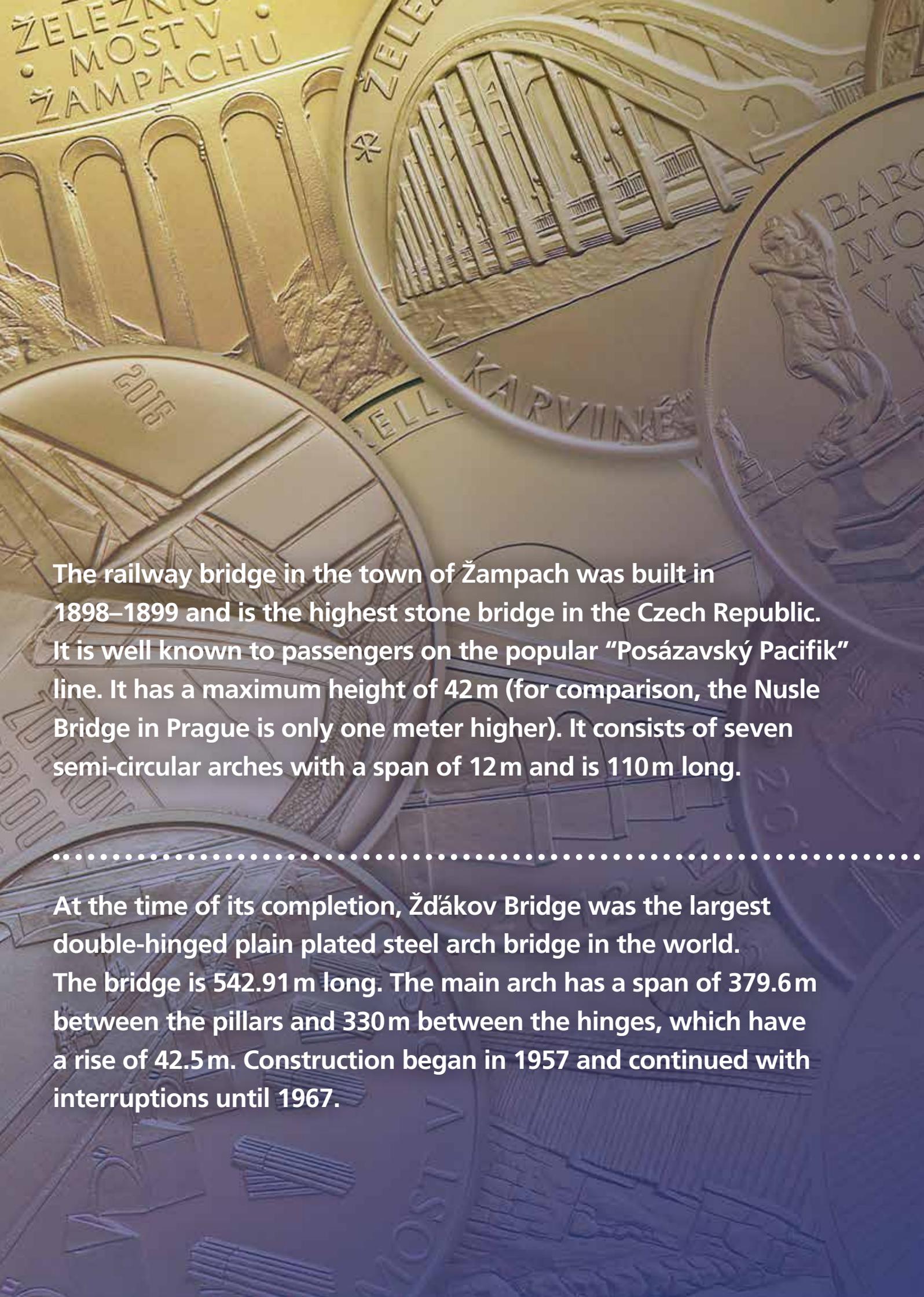
A management training programme, offering numerous training events, interesting lectures and excursions, is prepared for senior CNB officers every year. Personal coaching is also available to managers.



Participation in international seminars and workshops is a key element of professional development. This form of training is supported mainly because it gives staff an opportunity to share information and knowledge with colleagues from partner central banks. Important training events included training in the fields of financial stability, economic modelling and the financial markets. Staff can also attend training events organised by the IMF, the Joint Vienna Institute, the Financial Stability Institute and other organisations.

As in previous years, employees of CNB supervisory units took advantage of seminars organised by the authorities responsible for supervising the individual sectors of the financial market in the EU (EBA, ESMA and EIOPA) in 2015.

The CNB has become a sought-after central bank organising seminars within the European System of Central Banks. In all, 13 international training events for 132 experts from other EU central banks took place at the CNB in 2015. The CNB was actively involved in organising training events for supervisors under the European Supervisor Education Initiative (ESE) in 2015.



The railway bridge in the town of Žampach was built in 1898–1899 and is the highest stone bridge in the Czech Republic. It is well known to passengers on the popular “Posázavský Pacifik” line. It has a maximum height of 42 m (for comparison, the Nusle Bridge in Prague is only one meter higher). It consists of seven semi-circular arches with a span of 12 m and is 110 m long.

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At the time of its completion, Žďákov Bridge was the largest double-hinged plain plated steel arch bridge in the world. The bridge is 542.91 m long. The main arch has a span of 379.6 m between the pillars and 330 m between the hinges, which have a rise of 42.5 m. Construction began in 1957 and continued with interruptions until 1967.

# IV

## PUBLIC RELATIONS



# PUBLIC RELATIONS

## EXTERNAL COMMUNICATIONS

As regards monetary policy communication, the CNB has long been one of the most open central banks in the world. For this openness, it received the prestigious Central Banking Transparency Award 2015 from Central Banking Publications.

Apart from openness, Central Banking Publications highlighted the use of online tools in communication. Regular press conferences, meetings with analysts and discussions with employers in the regions about the fulfilment of the inflation target and economic developments are streamed on the CNB website and are thus accessible to the public in real time. The cnBlog has proved useful for publishing the opinions and comments of the Governor, members of the Bank Board and experts and has often been quoted in the media. A total of 25 opinion pieces were added to this blog in 2015. A weekly Newsletter providing a regular overview of key topics and news was introduced and acquired almost one thousand subscribers in its first year.

An animated infographic "Helping the Czech economy – support 2% inflation with us", which aims to explain the benefits and effects of sustained moderate inflation on the economy, was created last year. It has clocked up more than 4,500 views on YouTube, becoming one of the CNB's most watched videos.

In the area of financial market supervision, a Long-Term Supervisory Strategy – the most comprehensive overview of the CNB's supervisory principles, organisation and policy to date – was presented to the public. The Financial Market Supervision Report for 2015 was extended to include an assessment of information submitted by the public.



The CNB also made active use of its official profiles on Twitter, Facebook and LinkedIn to publicise the results of its work and the interviews and presentations given by members of the Bank Board and other experts. The CNB responded to 1,081 phone queries, 4,165 electronic submissions and 910 written submissions as part of its day-to-day communication with the public in 2015.

On 1 September 2015, Marek Zeman became the new Director of the Communications Division and CNB spokesman.

## ● EXHIBITION

The CNB Exhibition, located in a former strong-room, celebrated its 14th birthday in 2015. More than 200,000 registered visitors, mostly school pupils and students, have visited the permanent exhibition *People and Money* since it opened. The exhibition is 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. The space was also used for shooting various TV programmes, and photographs of it appeared in numerous publications. The exhibition is open Tuesday to Friday. Tours are organised at 9 a.m., 11 a.m. and 1.30 p.m. each day, and also at 4 p.m. on Thursday. More information is available in the *People and Money* section of the CNB website.



## ● SPECIAL LIBRARY

The primary mission of the CNB's special library is to provide staff and outside specialists with information. 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 80,000 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 38 hours a week, 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 2015, it contained 64 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).

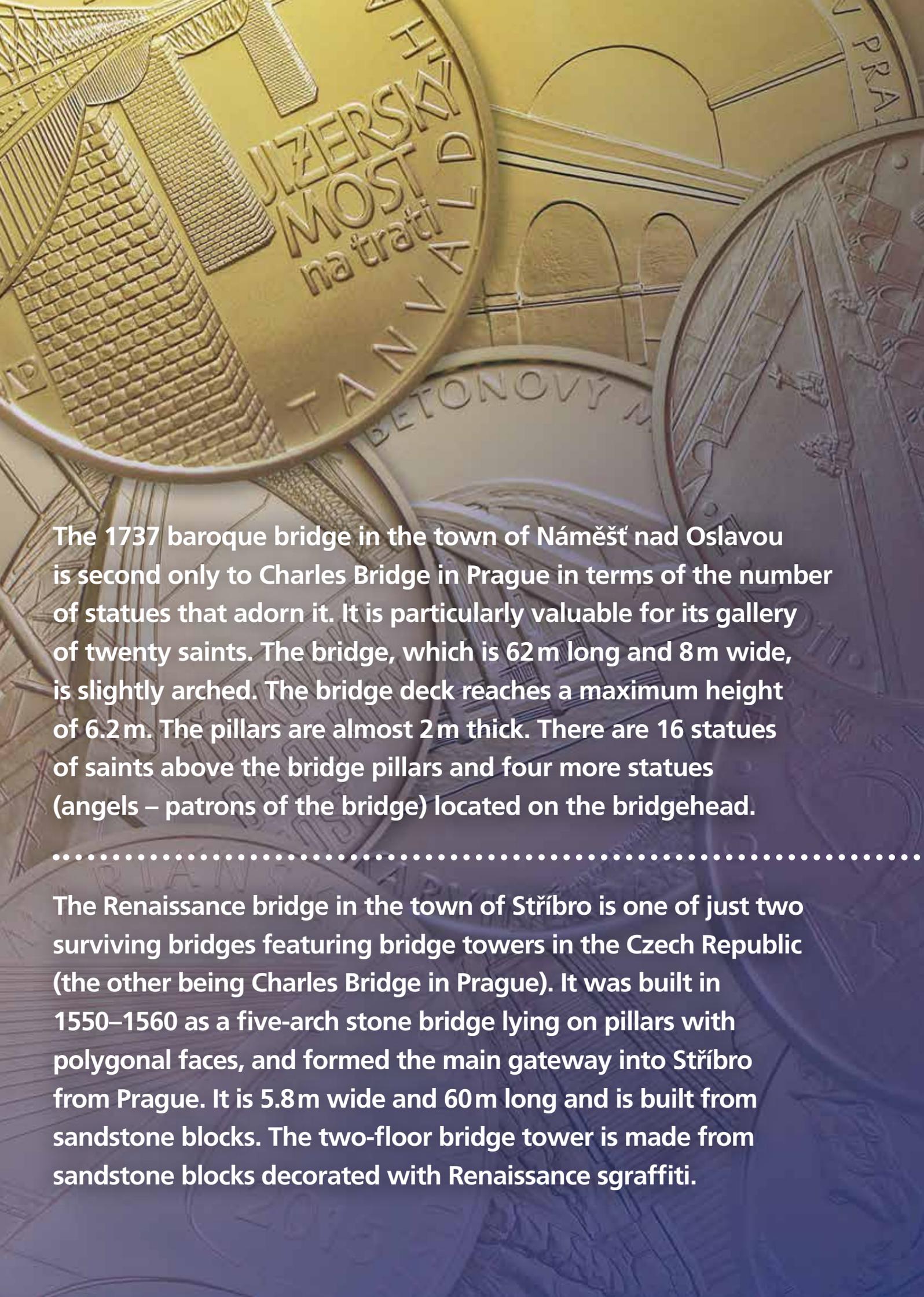


Through its archive, the CNB has long been involved in the activities of the European Association for Banking and Financial History (EABH), Europe's leading institution for the research of banking and financial history. The CNB organised an international conference on inflation and deflation in the past ("History of Inflation. Inflation in History") in partnership with the EABH and the Czech Banking Association in 2015. The event was accompanied by a workshop called "Inflation, Money, Output. Economic and Financial Data Underpinning Analysis and Policy Making" outlining ways of using statistical sources administered by the archives of financial institutions.

## ● 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, professional services and modern technology, the Congress Centre is one of Prague's most popular venues. Clients include public and private institutions, both domestic and foreign, from various fields of activity. Demand from these entities often exceeds the number of free dates offered by the Congress Centre. The Congress Centre's main tasks in 2015 included hosting the international BPS, EABH, ESE and OMFIF conferences. It also organised a Czech-Korean forum in cooperation with the Korean Embassy. More information is available in the *Congress Centre* section of the CNB website.





The 1737 baroque bridge in the town of Náměšť nad Oslavou is second only to Charles Bridge in Prague in terms of the number of statues that adorn it. It is particularly valuable for its gallery of twenty saints. The bridge, which is 62 m long and 8 m wide, is slightly arched. The bridge deck reaches a maximum height of 6.2 m. The pillars are almost 2 m thick. There are 16 statues of saints above the bridge pillars and four more statues (angels – patrons of the bridge) located on the bridgehead.

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The Renaissance bridge in the town of Stříbro is one of just two surviving bridges featuring bridge towers in the Czech Republic (the other being Charles Bridge in Prague). It was built in 1550–1560 as a five-arch stone bridge lying on pillars with polygonal faces, and formed the main gateway into Stříbro from Prague. It is 5.8 m wide and 60 m long and is built from sandstone blocks. The two-floor bridge tower is made from sandstone blocks decorated with Renaissance sgraffiti.

V

# FINANCIAL REPORT



# FINANCIAL REPORT

## Deloitte.

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Prague, Section C, File 24349  
Id. Nr.: 49620592  
Tax Id. Nr.: CZ49620592

## INDEPENDENT AUDITOR'S REPORT To the Bank Board of the Czech National Bank

Having its registered office at: Na Příkopě 28, 115 03 Prague 1  
Identification number: 481 36 450

We have audited the accompanying financial statements of the Czech National Bank prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2015, and the income statement and the statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

The management of the Czech National Bank is responsible for the preparation and fair presentation of these financial statements in accordance with accounting regulations applicable 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 and the related application guidelines issued by 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 about 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 the 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 give a true and fair view of the assets and liabilities of the Czech National Bank as of 31 December 2015, and of its expenses and income and its profit or loss for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

### Other Information

The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. Management of the Czech National Bank is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of opinion thereon. However, in connection with our audit of the financial statements, our responsibility is to read the other information and consider whether the other information in the annual report is not materially inconsistent with the financial statements or our knowledge obtained in the audit, the annual report has been prepared in accordance with the applicable legal requirements, or the other information does not otherwise appear to be materially misstated. If, based on the work we have performed, we conclude that the above is not true, we are required to report such facts.

Based on the work we have performed, we have nothing to report in this regard.

In Prague on 24 March 2016

Audit firm:

Deloitte Audit s.r.o.  
registration no. 079

Statutory auditor:

Diana Rádl Rogerová  
registration no. 2045

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## ○ FINANCIAL STATEMENTS

<b>ASSETS</b>		<i>31 December 2015</i>	<i>31 December 2014</i>
		<i>CZK million</i>	<i>CZK million</i>
1.	<b>Gold</b>	<b>616</b>	<b>648</b>
2.	<b>Receivables from the International Monetary Fund</b>	<b>60,985</b>	<b>59,979</b>
3.	<b>Receivables from abroad, including securities</b>	<b>1,556,939</b>	<b>1,197,432</b>
3.1.	Deposits at foreign banks and financial institutions	163,100	83,361
3.2.	Securities	1,359,241	1,053,385
3.3.	Other receivables from abroad	34,598	60,686
4.	<b>Receivables from domestic banks</b>	<b>0</b>	<b>0</b>
5.	<b>Fixed assets</b>	<b>3,609</b>	<b>3,776</b>
5.1.	Tangible fixed assets	3,578	3,753
5.2.	Intangible fixed assets	31	23
6.	<b>Other assets</b>	<b>5,917</b>	<b>5,300</b>
6.1.	Other financial assets	4,676	4,378
6.2.	Other	1,241	922
<b>TOTAL ASSETS</b>		<b>1,628,066</b>	<b>1,267,135</b>

<b>LIABILITIES AND EQUITY</b>		<i>31 December 2015</i>	<i>31 December 2014</i>
		<i>CZK million</i>	<i>CZK million</i>
1.	<b>Notes and coins in circulation</b>	<b>510,128</b>	<b>469,476</b>
2.	<b>Liabilities to the International Monetary Fund</b>	<b>49,941</b>	<b>46,076</b>
3.	<b>Liabilities abroad</b>	<b>40,070</b>	<b>22,724</b>
3.1.	Loans from foreign banks	3,823	5,084
3.2.	Other liabilities abroad	36,247	17,640
4.	<b>Liabilities to domestic banks</b>	<b>882,528</b>	<b>690,435</b>
4.1.	Loans received	193,102	216,601
4.2.	Bank monetary reserves	170,591	199,193
4.3.	Other liabilities to banks	518,835	274,641
5.	<b>Liabilities to the state and other public institutions</b>	<b>112,126</b>	<b>3,798</b>
6.	<b>Provisions</b>	<b>285</b>	<b>262</b>
7.	<b>Share capital</b>	<b>1,400</b>	<b>1,400</b>
8.	<b>Funds</b>	<b>14,161</b>	<b>8,050</b>
9.	<b>Revaluation reserve</b>	<b>7,838</b>	<b>10,826</b>
10.	<b>Accumulated losses from previous periods</b>	<b>0</b>	<b>-50,449</b>
11.	<b>Net loss/profit for the period</b>	<b>-549</b>	<b>56,560</b>
12.	<b>Other liabilities</b>	<b>10,138</b>	<b>7,977</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,628,066</b>	<b>1,267,135</b>

<b>OFF-BALANCE SHEET</b>		31 December 2015 CZK million	31 December 2014 CZK million
1.	Guarantees issued	157,953	157,954
2.	Issued loan commitments	40,538	41,588
3.	Receivables from spot, term and futures transactions	290,576	187,810
4.	Liabilities from spot, term and futures transactions	291,825	187,783
5.	Guarantees received	225,193	226,964
6.	Collateral received	41,900	79,145

<b>INCOME STATEMENT</b>		2015 CZK million	2014 CZK million
1.	Interest income and similar income	7,212	6,676
1.1.	Interest from fixed income securities	7,071	6,380
1.2.	Other	141	296
2.	Interest expense and similar expense	-1,710	-390
3.	Income from shares and other interests	3,335	2,840
4.	Fee and commission income	396	353
5.	Fee and commission expense	-122	-106
6.	Gains less losses from financial operations	-8,284	48,874
6.1.	Net foreign exchange gains/losses and foreign exchange spread	-16,340	43,625
6.2.	Other	8,056	5,249
7.	Other operating income	624	732
7.1.	Income from money issue	434	535
7.2.	Other	190	197
8.	Other operating expense	-382	-553
8.1.	Expenses for production of notes and coins	-336	-363
8.2.	Other	-46	-190
9.	Administration expense	-1,640	-1,609
9.1.	Personnel expenses	-1,318	-1,302
9.1.1.	Wages and salaries	-930	-921
9.1.2.	Social and health security	-310	-299
9.1.3.	Training and employee benefits	-78	-82
9.2.	Other administration expenses	-322	-307
10.	Depreciation and amortisation of fixed assets	-252	-257
11.	Reversal of provisions for receivables and guarantees, income from receivables already written off	501	7
12.	Write offs, additions and utilisation of provisions for receivables and guarantees	-227	-7
13.	Net loss/profit for the period	-549	56,560

The full version of the financial statements of the Czech National Bank as of 31 December 2015, including the notes thereto, is available on the CNB website (*About the CNB > Performance > Financial statements*) and on CD-ROM.

## The CNB's income and expenses in 2015

(in CZK millions)

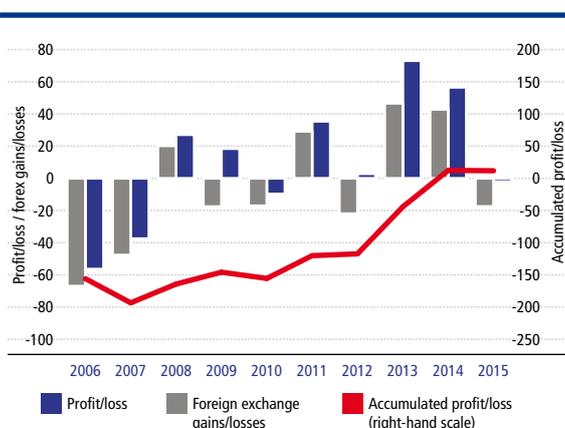
	expenses	income	net	y-o-y change
Monetary area	87,675	88,773	1,098	-57,015
monetary policy-making	417	0	-417	-63
international reserves management	41,167	58,468	17,301	2,609
valuation changes	45,858	28,378	-17,480	-60,295
client operations	42	1,455	1,413	330
other operations	191	472	281	404
Currency issuance and management	336	451	115	-73
Operations	1,940	178	-1,762	-21
<b>Total</b>	<b>89,951</b>	<b>89,402</b>	<b>-549</b>	<b>-57,109</b>

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

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

The CNB's performance  
2006–2015

(in CZK billions)



The CNB recorded a loss of CZK 549 million in 2015. This was largely due to unrealised exchange rate losses, which the bank recorded as a result of exchange rate movements and ensuing changes in the koruna value of foreign currency assets and liabilities held by the CNB. The resulting exchange rate loss was larger in magnitude than the net returns on international reserves management, which are an important source for covering the costs of the central bank's monetary policy operations and operating activities.

The structure of monetary policy instruments used by the CNB in 2015 was based on the need to continue maintaining significantly expansionary monetary conditions. Monetary policy interest rates remained at technical zero throughout the year. The CNB therefore used the exchange rate as an additional monetary policy instrument and repeatedly confirmed its commitment to intervene on the foreign exchange market to weaken the koruna so that the exchange rate of

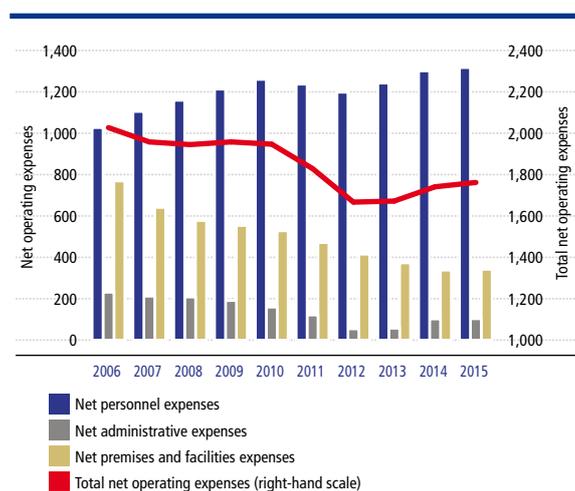
the koruna against the euro is kept close to CZK 27/EUR. The CNB bought a total of EUR 9 billion in the foreign exchange interventions regime in 2015. This is equivalent to CZK 243 billion. Despite a marked year-on-year increase in the banking sector's liquidity, the CNB again recorded minimal year-on-year growth in sterilisation costs. This fact was closely linked with the low level of interest rates.

The CNB's interventions in the foreign exchange market and the conversion of the inflow of EU funds fostered an increase in the central bank's international reserves, which rose by 32% year on year. The income on international reserves management was due mainly to the bond and equity portfolios. The net income from the realisable bonds portfolio was due both to the interest rate component, which was comparable in size with that in the previous year and reflected the persisting low level of interest rates in the market, and to the capital component, consisting of realised gains from bond sales and the change in valuation differences arising from the revaluation of bonds held by the CNB (recorded on the capital accounts in the bank's balance sheet). The income on the equity portfolio was due chiefly to dividend income, unrealised gains from the revaluation of shares held by the CNB and realised gains from equity trading.

An important source of income for the CNB in the area of client transactions was fees from conversions on client accounts. Their year-on-year growth was due to an increased inflow of money from EU funds, driven by efforts to draw down as much as possible of the money allocated in the previous programme period.

The CNB recorded a net profit in the area of currency issuance and management. The total number of banknotes and coins purchased decreased by 5% year on year. This was reflected in lower purchase costs for banknotes and coins. Most of the income came from sales of numismatic material, i.e. silver and gold commemorative coins and base metal coins for sets. No extraordinary income was recorded in relation to the termination of the exchange of invalid banknotes and coins in 2015.

### The CNB's net operating expenses 2006–2015 (in CZK millions)



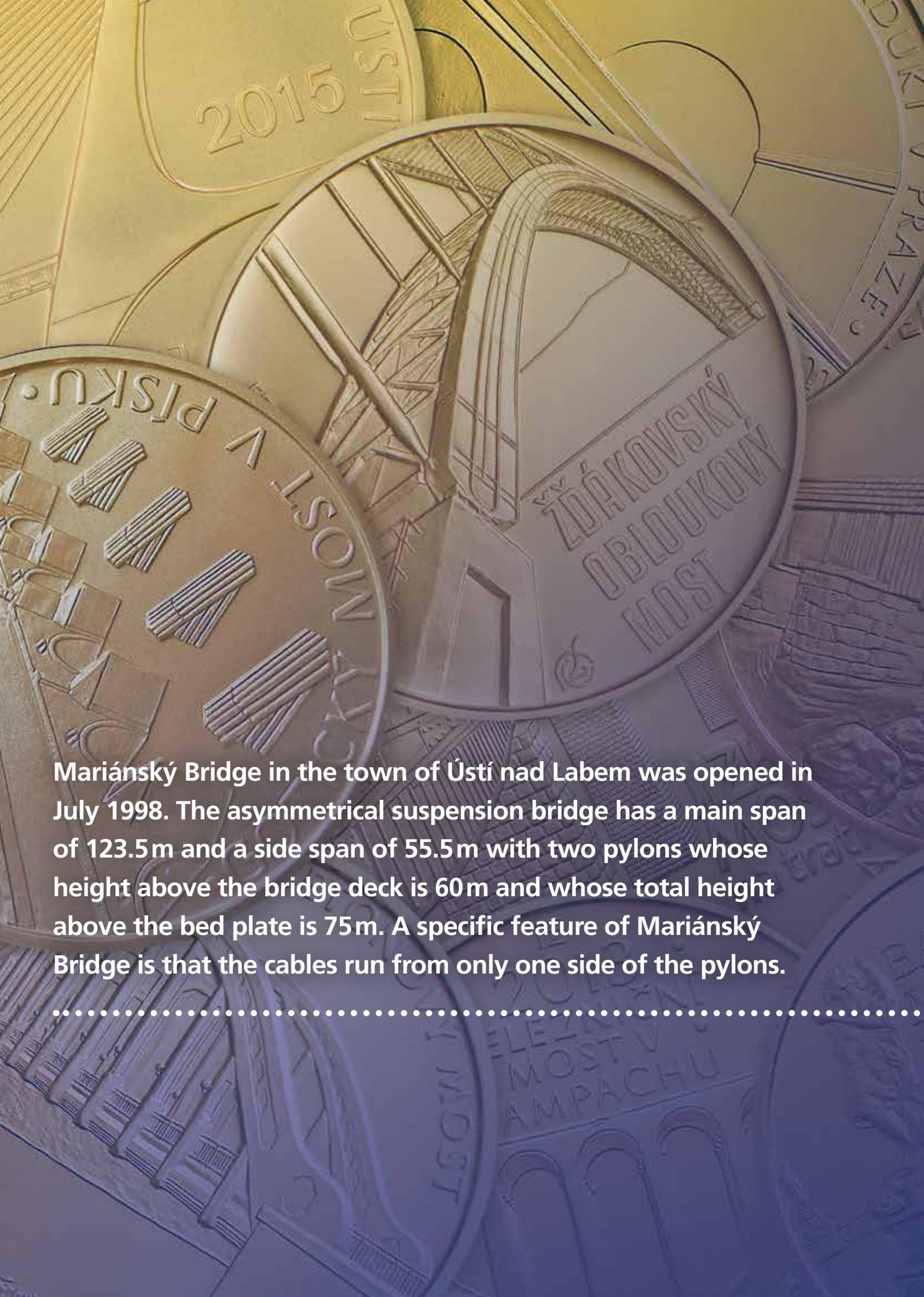
The bank's net operating expenses rose by 1% year on year. Personnel costs, which are the largest component of the CNB's operating expenses (68%), recorded the same year-on-year increase. Their year-on-year rate of growth slowed. This was closely related to the implementation of a project to reorganise the branch network, which in 2014 had resulted, among other things, in cuts in the number of job positions and a related one-off charge for severance pay. In the

area of human resources, the number of positions in the financial market supervision and retail distribution supervision departments was increased and new staff were hired to the resolution department, as had been previously announced. After a relatively long period of constant annual declines in the number of job positions, the CNB's workforce rose by 31 persons year on year to 1,352 employees at the end of 2015.

The remainder of the CNB's operating expenses saw no major changes in size compared with 2014. Some key technologies used at the central bank's headquarters and other premises are gradually reaching the end of their expected life. The planned overhaul/replacement of these technologies therefore requires the CNB to allocate an increased amount of money.

Given the loss recorded in 2015, the CNB could not pay any contribution to the reserve fund or transfer any profit to the state budget. The CNB's capital decreased year on year to a positive value of CZK 22,850 million.

More comprehensive information about the CNB's performance in 2015 is available on the CNB website (*About the CNB > Performance > Financial Reports*).



**Mariánský Bridge in the town of Ústí nad Labem was opened in July 1998. The asymmetrical suspension bridge has a main span of 123.5m and a side span of 55.5m with two pylons whose height above the bridge deck is 60m and whose total height above the bed plate is 75 m. A specific feature of Mariánský Bridge is that the cables run from only one side of the pylons.**

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# VI

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



# 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.

## **A) INFORMATION PROVIDED IN 2015 ON THE BASIS OF APPLICATIONS:**

1. Number of applications for information under the Act: 53
2. Number of decisions refusing an application: 12
3. Number of appeals submitted against decisions: 6
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:  
The CNB's actions in dealing with applications under Act No. 106/1999 Coll. were not subject to judicial review in 2015, so the CNB incurred no related costs.
5. Number of exclusive licences granted, including justification of the need to grant exclusive licences: 0
6. Number of complaints submitted under Article 16a of the Act, reasons for their submission and a brief description of the manner in which they were dealt with: 4
  - i) A complaint about the CNB's action in dealing with the complainant's application for information, which also included requests to produce new information. The complaint contested the obliged entity's action in dealing with the application on the grounds that the obliged entity had not provided the complainant with all the requested information but had referred him to the CNB website, which contained only part of the information. The complaint was dealt with under the procedure laid down in Article 16a(5) of the Act, and a decision partly refusing the application was issued.

- ii) A complaint about the CNB's action in dealing with the complainant's application for information, which also included a request for information not relating to the CNB's areas of competence and a request to produce new information. The complainant was provided the information in part, and in part the application was deferred by way of notification. The complainant submitted an appeal against this action and the obliged entity then called on him to provide the additional information needed for further action under the law. The complainant did not provide the information within the statutory time limit and the application was deferred.
  - iii) A complaint about the CNB's action in dealing with the complainant's application for the provision of the obliged entity's specific decision. In the complainant's opinion, the extent of anonymisation in respect of the decision was larger than that corresponding to the obliged entity's duty to protect anonymised data. The obliged entity complied with the application and provided the complainant with the requested decision with less anonymised data in compliance with law.
  - iv) A complaint about the CNB's action in dealing with the complainant's application for information, which also included a request for information subject to reasons for refusal thereof under Article 11(1)(a) and (2)(b) of the Act and a request to produce new information. The complaint contested the obliged entity's action in dealing with the application on the grounds that the obliged entity had not provided the complainant with all the requested information it should have provided by law. The complaint was dealt with under the procedure laid down in Article 16a(5) of the Act, and a decision partly refusing the application was issued.
7. Other information relating to application of the Act:  
The number of applications received in 2015 dropped by only six compared with the previous year. The trend of constant public interest in information relating to the CNB's areas of competence thus continued. The applications pertain to a broad range of information which cannot be narrowed down into typical groups. The queries from the public concerned statistics and monetary policy as well as the balance of payments and the circulation of banknotes and coins. The applications also contained questions about international reserves, enforcement proceedings and the remuneration of Bank Board members.

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

The CNB also provides information in a manner allowing remote access and publishes information pursuant to Articles 4b and 5 of the Act. The information subject to mandatory disclosure 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.

**Issued by:**

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

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**Design:**

Orbis Pictures Agency s.r.o.

**Layout:**

JEROME s. r. o.