

# Annual Report — 2019

Czech National Bank — Annual Report — 2019

**CNB** CZECH  
NATIONAL  
BANK





# The mandate of the CNB

- 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 its objectives and tasks.

## WHAT WE BUILD ON

### INDEPENDENCE

Broad statutory independence of the central bank is a key condition for successful implementation of monetary policy, i.e. for sustained low-inflation 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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## 2019 at a glance

- Although economic growth abroad recorded a slowdown that was also reflected in the domestic economy, the latter maintained a solid rate of growth. The still tight labour market situation fostered rapid wage growth and generated upward pressure on prices. Strong core inflation coupled with brisk growth in administered prices and food prices kept inflation in the upper half of the tolerance band around the CNB's target for most of the year.
- The CNB responded to this by raising its monetary policy interest rates in May.
- Starting with its summer *Inflation Report*, the CNB prepared its forecasts of future economic developments using an extended and refined g3+ core model.
- The domestic financial sector remained resilient to potential adverse shocks. At its May meeting on financial stability issues, the Bank Board increased the countercyclical capital buffer rate to 2.0% of exposures in the Czech Republic with effect from 1 July 2020 in light of an increase in cyclical risks.
- In November, the CNB launched a new centralised data collection system (SDAT), which will gradually replace the MtS system operating since 1998. Supervisory and statistical reporting data are submitted to the CNB through this system.
- With effect from 1 January 2019, the CNB transferred its branches from direct supervision by the Bank Board to supervision by the Executive Director of the Cash Department.
- The celebrations of the 100th anniversary of the Czech and Slovak koruna culminated. The CNB contributed by organising a series of events, ranging from an exhibition on the history of money in the Czech lands, which took place at Prague Castle, to a CNB Open Day, at which the public were given access to the central bank's premises for the first time in three years.

# Governor's foreword



Dear Readers,

The Czech economy grew for the sixth consecutive year in 2019 and continued to show some of the characteristics seen in previous years. First among these was an overheating labour market, manifesting itself in a general shortage of labour, an unprecedented number of vacancies and record-low unemployment. Although wages rose rather more slowly than in 2018, they remained – together with continued favourable consumer sentiment – the main reason for the buoyant growth in household consumption and the most important factor of domestic demand. Government consumption also maintained solid growth.

One new phenomenon, however, was a steady slowdown in external demand, on which the export- and manufacturing-oriented Czech economy is heavily dependent. During the year, weakening foreign leading indicators passed gradually through initially into domestic leading indicators and later also into domestic real variables, especially industrial production. The external uncertainties related to the trade disputes between the USA and China, the persistent uncertainty regarding Brexit, and the unclear outlook for the European automotive industry facing the challenge of a

forced transition to electromobility. These factors systematically skewed the risks to domestic economic growth downwards.

Amid gradually slowing economic growth, we thus witnessed an increase in the two-speed nature of the Czech economy, mirroring developments in our nearest neighbours: the export-oriented industrial sector slowed sharply, while the services sector, which is mainly dependent on domestic demand, maintained solid growth. So, the key analytical and forecasting questions in 2019 were how much and how quickly the external slackening would be reflected in the domestic economy, how this trend would affect inflation, and how our monetary policy should react to the mix of foreign anti-inflationary and domestic inflationary factors.

While 2018 had been almost a “promised” year in terms of the fulfilment of our 2% inflation target (with an inflation figure of 2.1% for the year as a whole), the persisting labour market overheating in 2019 was the main factor exerting strong upward pressure on domestic prices. While many other central banks – most notably the European Central Bank (ECB) – were facing the problem of “missing” inflation, the CNB had to deal with above-target, largely “demand-driven” inflation. Strong core inflation, coupled with brisk growth in administered prices and food prices, kept inflation in the upper half of the tolerance band around the CNB’s inflation target for most of the year. In November and December 2019, inflation even rose above the upper boundary of the tolerance band. The whole-year figure was 2.8%.

Owing to the persisting high inflation pressures, the Bank Board increased interest rates by 0.25 percentage point in May 2019. The key rate – the two-week repo rate – was raised to 2%, where it stayed until the end of the year. The Bank Board did not increase interest rates any further in 2019, mainly on account of persisting external risks and uncertainty linked with a potential sustained slowdown in euro area economic activity.

The CNB had expected the koruna to appreciate gradually against the euro during 2019, reflecting a markedly positive interest rate differential vis-à-vis the euro and continued real convergence of the Czech

economy. In reality, however, the exchange rate was broadly stable, owing to negative global sentiment caused by the build-up of the above-mentioned external uncertainties. The firming of the koruna against the euro expected by our forecasts was therefore gradually postponed and moderated over the course of the year. The generally weaker-than-expected koruna also contributed to an overheating of the domestic economy and to somewhat higher inflation.

Although our business cycle was similar to the foreign one, domestic inflation (especially core inflation) was significantly higher than inflation in the euro area. The monetary policy stance was consistent with this fact: the ECB further eased monetary conditions in the euro area in 2019, whereas the CNB took a further step towards normalising monetary policy, i.e. reaching an interest rate level that neither slows nor stimulates the economy. The CNB's monetary policy rate was thus 2.5 percentage points above the equivalent rate of the ECB. It is easy to imagine how much greater the overheating of the Czech economy would have been if we had (purely hypothetically) shared the same interest rate as the euro area countries in 2019. In this context, I regard it as beneficial that in 2019 we were still able to pursue a relatively independent monetary policy that basically suited the needs of the Czech economy.

As in previous years, the domestic financial sector remained highly resilient to potential adverse shocks in 2019. Our regular macro stress tests demonstrated that the financial institutions we supervise would be able to withstand even very adverse economic developments comparable, for example, to the 2008 financial crisis. Stress tests also confirmed the high stability of the insurance sector. At its May meeting on financial stability issues, however, the Bank Board increased the countercyclical capital buffer rate to 2.0% of exposures in the Czech Republic with effect from 1 July 2020 in light of a moderate increase in cyclical risks.

Turning to macroprudential policy, we continued our efforts to explain that our tools should be converted from the "soft" form of mere recommendations into legally enforceable instruments. Although we have been appointed guardian of financial stability, this key responsibility has not yet been underpinned by a corresponding legislative foundation in the form of effective enforceability of our instruments. It is more efficient and effective to prevent financial crises than it is to deal with their consequences afterwards. I regard it as unfortunate that in 2019 the CNB was again not granted the powers that have long been universally accepted in the international supervisory community. I am confident that the Czech Parliament will succeed in enacting macroprudential tools in an amendment to the Act on the CNB during 2020.

The year 2019 was an evolutionary one for the CNB in many respects. We achieved partial but noteworthy progress in various areas of activity. These included the transfer of branches from direct supervision by the Bank Board to supervision by the Executive Director of the Cash Department, the transition to the extended g3+ model, which further refined the previous g3 core prediction model, and the establishment of a Financial Research Division within the Financial Stability Department. This Annual Report discusses these changes and the ways in which we fulfilled our key tasks in more detail.

The celebrations of the 100th anniversary of the Czech and Slovak koruna culminated in 2019. The CNB contributed to the celebrations with a whole range of numismatic activities, especially the issuance of a unique heavyweight CZK 100,000,000 coin. It also marked the anniversary by organising a series of events for the general public and the economic community, including an exhibition at Prague Castle and an international conference attended by leading world economists.

My colleagues on the Bank Board and I regard 2019 as a successful year for the Czech economy and the central bank. This is evidenced by the results of opinion polls, which repeatedly show the CNB to be one of the most credible domestic institutions in the eyes of the Czech public. We also maintain a high reputation abroad, owing among other things to the exceptionally high transparency of our monetary policy decision-making and the professional quality of our staff. All these favourable perceptions imply a great commitment on our part going forward.

The first quarter of 2020 presented the Czech economy and the CNB with an unexpected challenge in the form of the coronavirus pandemic, which adversely affected the real economy and financial markets. The

CNB responded by introducing a mix of stabilisation measures in the areas of monetary policy, macroprudential policy and financial market supervision and liquidity-providing monetary operations. The Czech economy is well positioned to successfully cope with this negative situation thanks to the buffers created during favourable recent years. The CNB stands ready to use its instruments to support smooth adjustment of the economy.



Jiří Rusnok, Governor







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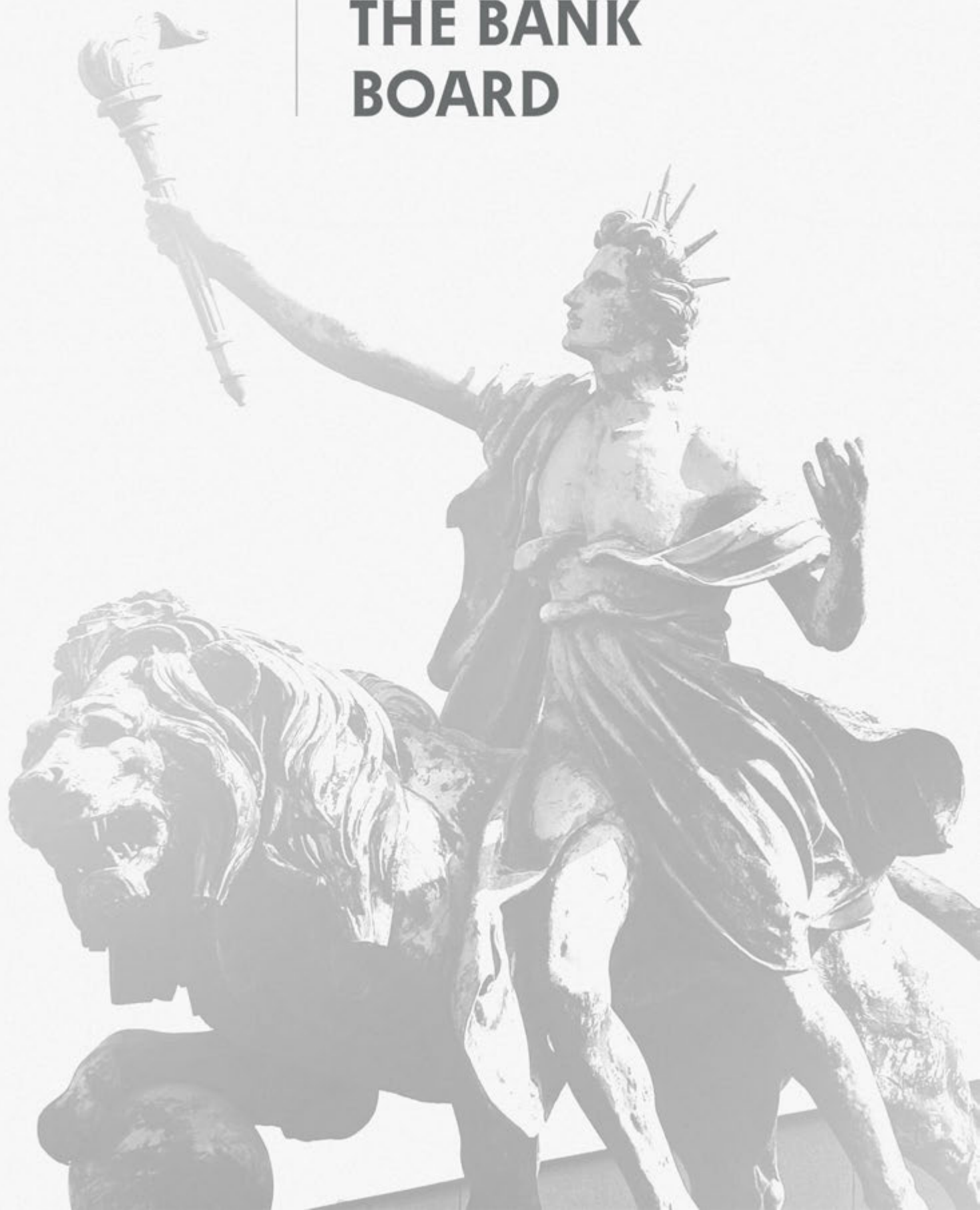
The crossroads by the Powder Tower has been a crucial junction since the Middle Ages, bringing traders to the Old and New Town of Prague. The busy local traffic along the entire length of Na Příkopě Street called for houses to be built, which helped develop trade. These were mostly inns and smithies. They were replaced by luxury hotels and banks mainly in the 19th century.

The first bank was erected on the site of the current CNB in 1900. It was built for Živnostenská banka pro Čechy a Moravu, which was expanding at an extraordinary rate at the time. The Neo-Renaissance building was designed by the well-known architect Osvald Polívka, whose work includes the nearby Municipal House. The statue of the Genius with the Lion started to watch over Czech banking at this time as well.



**I.**

**THE BANK  
BOARD**



## I. THE BANK BOARD

The Bank Board is the supreme governing body of the CNB. It has seven members: the Governor, two Deputy 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 or member of the governing, supervisory or inspection bodies of other banks or commercial undertakings, and the performance of any independent gainful occupation, except for management of own assets and scientific, literary, journalistic, artistic and pedagogical activities. 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.

In line with the CNB's primary objective, namely to maintain price stability, and in line with the task of maintaining financial stability, the Bank Board sets monetary and macroprudential policy and the instruments for implementing those policies. In addition, it decides on key measures relating to financial market supervision, potential 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 for its cooperation with international financial institutions. It decides on the bank's organisational structure and the powers and responsibilities of its organisational units. It also approves the CNB's budget and financial management principles.

The Governor, or, in his absence, a Deputy 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.

There was no change in the composition of the Bank Board in 2019.



The CNB is headed by the Bank Board, whose seven members are appointed for a term of six years



**The Bank Board as of 31 December 2019**

From left to right: Oldřich Dědek, Aleš Michl, Tomáš Nidetzký, Jiří Rusnok, Marek Mora, Vojtěch Benda, Tomáš Holub



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The current CNB headquarters building was originally built for the biggest Czechoslovak financial institution, Živnostenská banka. The buildings it replaced included the Blue Star Hotel, famous for being the venue of the signing of the peace treaty of 23 August 1866 that ended the war between Prussia and Austria.

The new building, designed by František Roith, was completed in 1942. It was built in the functionalist style of Czech individualistic modernism as a functional and practical building useable for all the activities of a modern financial institution.

Extensive repair work was carried out on the building in 1997–2000. This involved reconciling the efforts to preserve as much of the listed buildings as possible with the need to modernise them, especially as regards security.



**II.**

**THE CNB  
IN 2019**

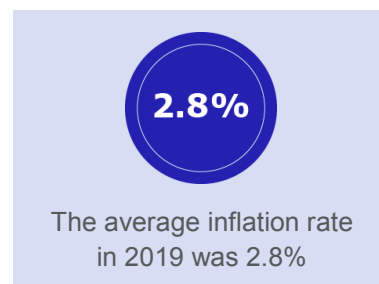


## II. THE CNB IN 2019

### II.1 MONETARY POLICY AND ECONOMIC DEVELOPMENTS

The primary objective of monetary policy is to maintain price stability. Since January 1998, i.e. for more than 20 years, the CNB has been applying an inflation targeting regime in which it endeavours to keep inflation close to a declared target. Since 2010, the inflation target has been set in the form of 2% year-on-year growth in the consumer price index with a tolerance band of  $\pm 1$  percentage point. This target is in line with the practice of advanced economies.

Global economic growth slowed in 2019. This, together with uncertainty regarding future developments, affected many European economies, including Germany, to which a substantial part of Czech exports is linked. The Czech economy slowed as well, but maintained a solid rate of growth and continued to generate appreciable domestic inflation pressures. The still tight labour market fostered rapid wage growth and contributed to the upward pressure on consumer prices. Strong core inflation coupled with brisk growth in administered prices and food prices kept inflation in the upper half of the tolerance band around the CNB's target for most of the year. In November and December 2019, domestic inflation rose above the upper boundary of the tolerance band.



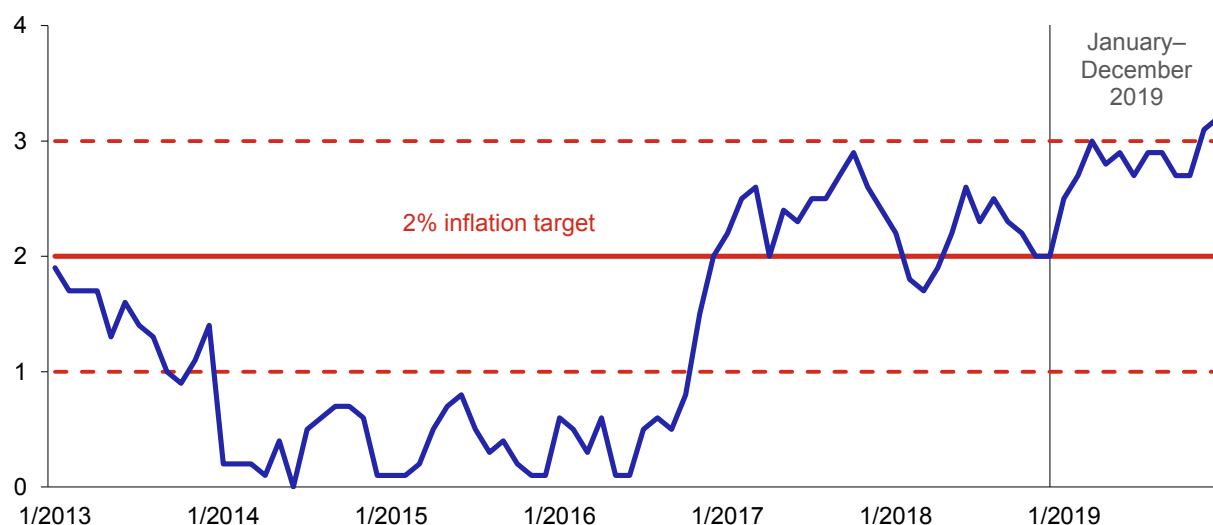
In May 2019, the CNB responded to the strong domestic inflation pressures by raising its monetary policy interest rates. The Bank Board did not increase them any further in the rest of the year, mainly on account of persisting strong risks and uncertainties regarding developments abroad.





### Fulfilment of the inflation target

(in %)

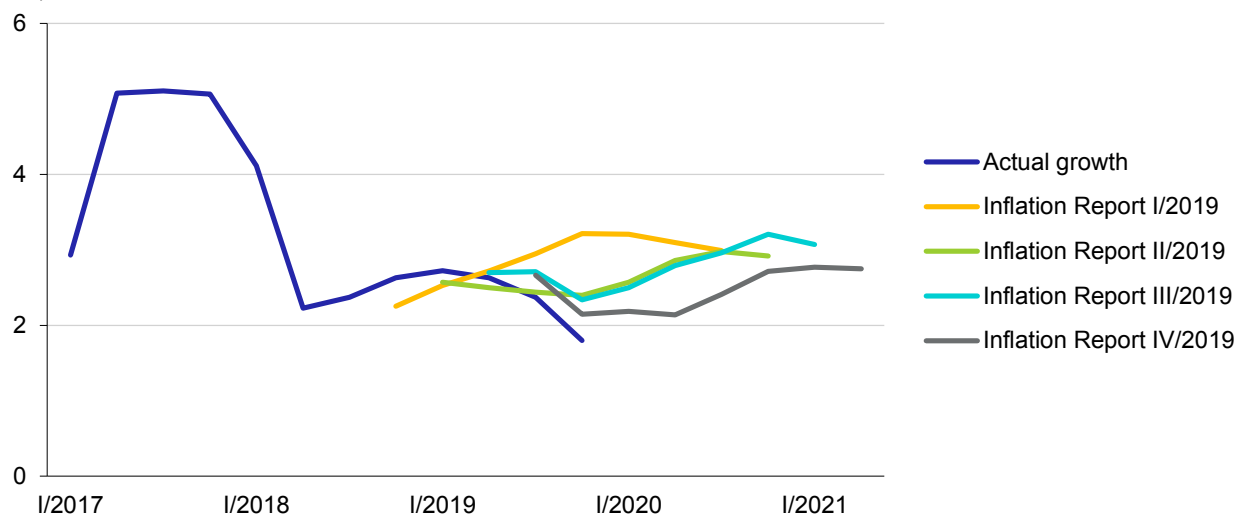


The key input to the Bank Board's decision-making are the forecasts of future economic developments drawn up by the Monetary Department. The forecasts are published together with a description and assessment of economic and monetary developments in quarterly [Inflation Reports](#).

The forecasts drawn up during 2019 indicated continued solid economic growth in the period ahead. The February forecast signalled a slight increase in GDP growth in 2019 followed by broad stability. The subsequent forecasts revised the economic outlook towards a temporary slowdown in GDP growth in 2019 and an acceleration the subsequent year. The main reason for this shift was a slowdown in fixed investment and, within it, private investment in particular, reflecting increased uncertainty of firms regarding future external demand. All the forecasts expected growth in both private and government consumption to remain robust.

### GDP growth forecasts

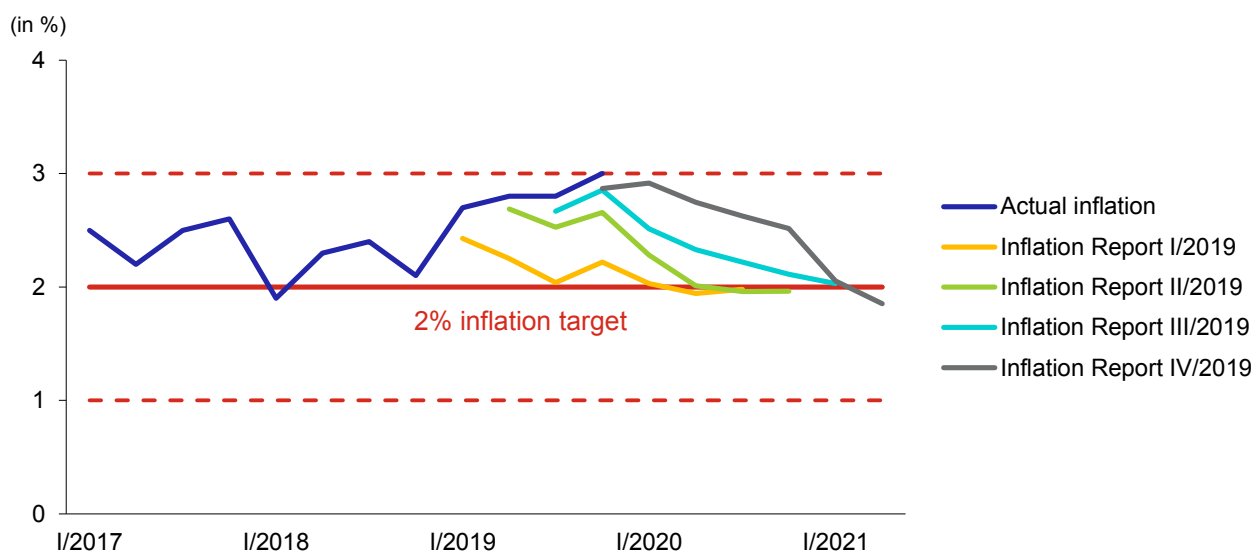
(in %)



The forecasts predicted that domestic inflation pressures would ease gradually as a result of decreasing wage growth. Inflation was thus expected to fall gradually from the upper half of the tolerance band to the CNB's target, where it would subsequently remain. In reality, however, inflation was higher and rose above the upper boundary of the tolerance band around the CNB's target at the close of 2019. This was mainly due to accelerating growth in food prices and administered prices amid continued high core inflation. Over the

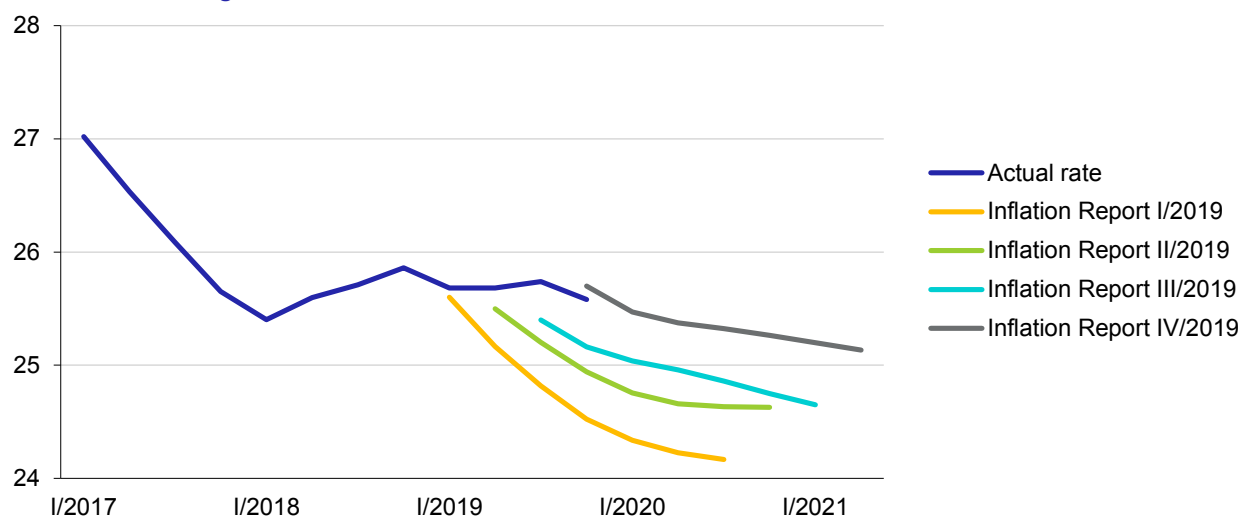
entire year, core inflation was supported by stronger domestic inflation pressures and a weaker koruna than the previous forecasts had expected. The forecasts thus gradually shifted the time horizon for achieving the CNB's target to the start of 2021.

### Inflation forecasts

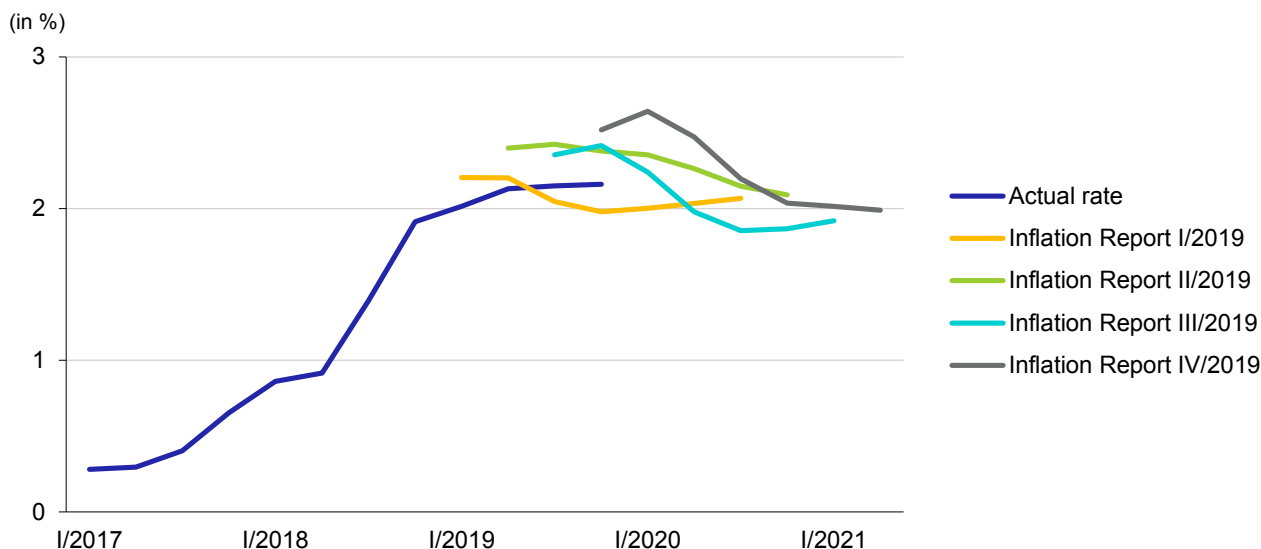


All the forecasts expected a gradual appreciation of the koruna against the euro to help cool the overall inflation pressures. The appreciation would reflect a markedly positive interest rate differential vis-à-vis the euro and continued real convergence of the Czech economy. In reality, however, the koruna exchange rate was broadly stable in 2019. This was due mainly to longer-lasting negative global sentiment connected with the threat of a disorderly Brexit and rising protectionism in global trade. A worsening outlook for external demand also fostered a weaker koruna. The firming of the koruna against the euro expected by the forecasts was therefore gradually postponed and moderated over the course of the year.

### Koruna-euro exchange rate forecasts



The forecasts expected a monetary policy tightening in the interest rate component of the monetary conditions as well. The forecasted increase in 3M PRIBOR market interest rates was related mainly to strong and only gradually slowing growth in domestic costs. As domestic inflation pressures were expected to moderate, the forecasts expected a slight decline in domestic interest rates in the longer term amid persisting deeply negative interest rates in the euro area even in the longer outlook.

**3M PRIBOR interest rate forecasts**

Throughout the year, monetary policy decision-making was associated with a number of risks and uncertainties. Persisting domestic inflation pressures were the main factor in favour of raising monetary policy interest rates. They kept inflation in the upper half of the tolerance band around the target for most of the year and led to it rising above the upper boundary at the close of the year. In line with the spring forecast, the Bank Board decided to increase monetary policy interest rates by 0.25 percentage point in early May. The main interest rate – the two-week repo rate – was thus raised to 2%. Although the subsequent forecasts expected a further increase in interest rates at their shorter end, the Bank Board did not take such a step in the rest of the year. This was due to growing perceptions of foreign risks and uncertainties. The main risk stemmed from the possibility of a more pronounced and potentially more protracted economic slowdown in the euro area.

**0.25 pp**

The CNB raised its two-week repo rate by 0.25 percentage point to 2% in May 2019

Starting with the summer forecast, the forecasts of future economic developments were prepared using an extended g3+ model, which further refined the previous g3 core prediction model. g3+ is also a dynamic stochastic general equilibrium model, but it is richer in structure, allowing the CNB to draw up more accurate and detailed analyses and forecasts for the domestic economy and external price factors.

Following the Government's decision not to carry out the next assessment of the fulfilment of the Maastricht criteria and the degree of economic alignment of the Czech Republic with the euro area until 2020, the CNB drew up the 2019 issue of its [Analyses of the Czech Republic's Current Economic Alignment with the Euro Area](#) in shortened form.

**II.2 FINANCIAL STABILITY**

Maintaining financial stability and seeing to the sound operation of the financial system in the Czech Republic are among the central bank's important objectives. The CNB identifies, monitors and assesses risks jeopardising the stability of the financial system. By means of its power to set the relevant macroprudential tools, it prevents or mitigates these risks. In doing so, it creates macroprudential policy and contributes to the resilience of the financial system and the maintenance of financial stability. It provides information about the conduct of this policy in the [Macroprudential policy](#) section of its website.

The CNB informs the public about financial stability developments mainly in its [Financial Stability Report](#). The CNB publishes this report in June and also provides information about the results of the analyses 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 Financial Stability Report is an underlying document for the spring Bank Board meeting on financial stability issues. CNB experts prepare an update to it for a similar autumn meeting. The update is published in December in the publication [Risks to financial stability and their indicators](#). Since 2019 the CNB has been publishing minutes of the spring and autumn meetings on financial stability issues and the documents underlying the decisions in a similar time sequence as its monetary policy decisions.

Last year, both the aforementioned publications confirmed again that the financial sector had maintained a



high level of resilience to potential adverse shocks. [Macro stress tests](#) demonstrated the ability of the supervised financial institutions to withstand even very adverse economic developments. The results of supervisory stress tests of banks, the scope of which was extended last year from the previously tested largest banking groups to almost all banks supervised by the CNB, also showed high resilience. Supervisory stress tests of insurance companies, in which almost all institutions also participated, confirmed the stability of the insurance sector.

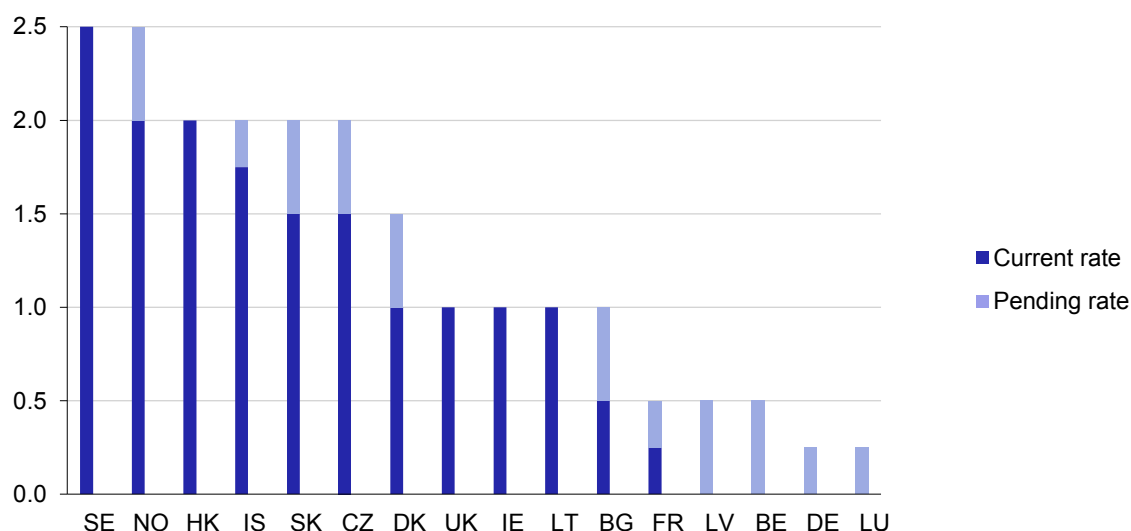
As regards potential future sources of risks to financial stability, the CNB recorded a slight rise in risks associated with the domestic financial cycle. At its May meeting on financial stability issues, the Bank Board reacted to the continuing shift into the growth phase of the cycle by increasing the countercyclical capital buffer rate to 2.0% of exposures in the Czech Republic. This rate will be effective from 1 July 2020. At its November meeting, the Bank Board stated that the shift into the growth phase of the financial cycle had not continued further, but the economy was still close to its peak. The Bank Board therefore confirmed the countercyclical capital buffer rate at 2% and stated that it could be expected to stay unchanged for the near future.



The CNB reacted to a slight rise in cyclical risks by increasing the countercyclical capital buffer rate

### Countercyclical capital buffer rates in countries with non-zero rate

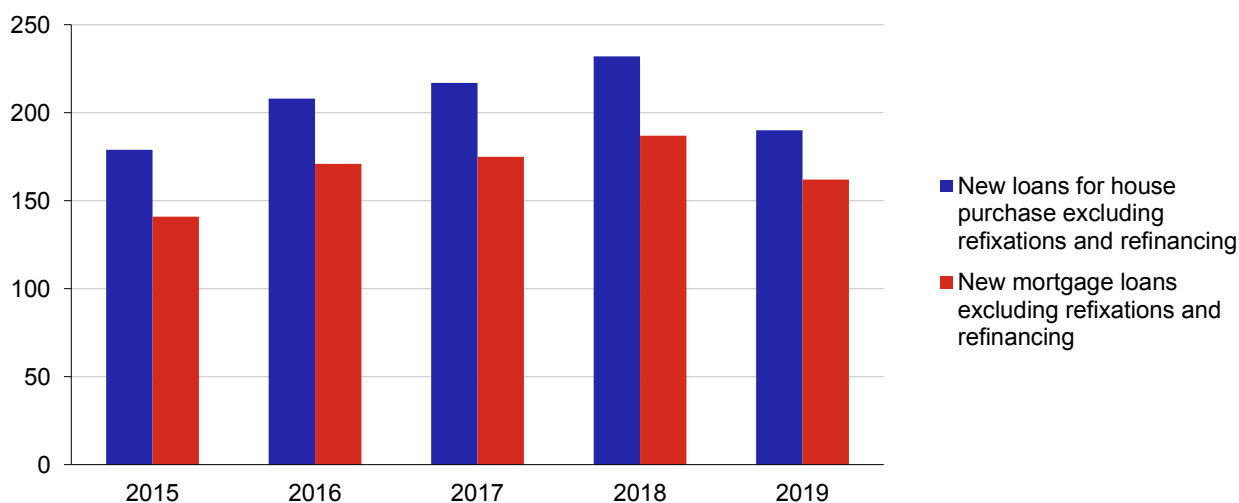
(in % of total risk exposure; data as of December 2019)



Since 2015, the CNB has focused intensively on risks associated with the relationship between property prices and loans for house purchase. At both its meetings on financial stability issues, the Bank Board decided that there was no need to change the current loan-to-value (LTV) limits for mortgage loans (an upper LTV limit of 90% and an aggregate limit of 15% for loans with LTVs of between 80% and 90%). It also confirmed the upper limits on the two income ratios effective since October 2018, i.e. a DTI (debt-to-income) ratio of 9 and a DSTI (debt service-to-income) ratio of 45%. At its November meeting, however, the Bank Board newly recommended that banks should act with increased caution in the case of mortgage loans that are in all probability of an investment nature.

### Genuinely new mortgage loans and loans for house purchase

(annual totals in CZK billions)



Following the introduction of the DTI and DSTI limits, the mortgage market cooled roughly to the extent expected by the CNB, especially in the first half of the year. However, the market certainly did not freeze, as genuinely new mortgage loans amounted to CZK 162 billion and genuinely new loans for house purchase to CZK 190 billion. At the end of the year, the Chamber of Deputies started to debate an amendment to the Act on the CNB which should, among other things, enact powers for the CNB to set binding upper limits on the LTV, DTI and DSTI ratios for all mortgage lenders. In September, the European Systemic Risk Board (ESRB) notified the Czech authorities that such legislation was necessary, mainly to ensure future

enforceability of macroprudential policy measures not only vis-à-vis domestic banks, but also in respect of non-bank and cross-border providers of loans for house purchase.

### II.3 FINANCIAL MARKET SUPERVISION

In accordance with the law, the CNB supervises entities operating on the financial market and lays down rules for their business to safeguard the stability of the financial system. Besides systematic regulation and supervision, it also issues penalties for non-compliance with the rules. It is part of the European System of Financial Supervision (ESFS) and works in cooperation with the European Systemic Risk Board (ESRB) and the European Supervisory Authorities for the banking industry (EBA), insurance and occupational pensions (EIOPA) and securities and markets (ESMA). The CNB provides detailed information about its supervisory work in its annual [Financial Market Supervision Report](#).

#### Financial market regulation

Last year, the CNB was actively involved in preparing financial market laws, mainly in partnership with the Ministry of Finance. It prepared implementing decrees, issued a series of explanatory opinions and replied to questions from financial market participants on the application of regulatory requirements. In this context, it created a [FinTech contact point](#), which aims to promote the introduction of innovative technologies on the Czech financial market through more active and intensive communication with incumbent institutions and potential new entrants. On its website, it maintains a [complete list](#) of the CNB's decrees, provisions of a general nature, official information and opinions relating to the financial market.

Work on an amendment to the Act on Banks and the Act on Credit Unions continued in 2019. The government submitted the amendment to the Chamber of Deputies for debate in July 2019. The amendment mostly comprises proposals going beyond transposition of EU law, such as rules for the conversion of banks into foreign bank branches, instruments for more effective supervision, and measures benefiting clients.

An additional amendment to the Act on Banks, the Act on Credit Unions and other acts was also prepared in connection with an amendment of the directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms. The planned amendment aims to lay down rules for the supervisory review and evaluation process for credit institutions, clarify the rules for capital buffers and incorporate changes regarding the regulation of European and domestic financial holding entities and mixed-activity financial holding entities. The legislative process was commenced in January 2020 and the amendment is expected to take effect at the end of 2020.



The amendment to the Act on Banks and the Act on Credit Unions should lead to more effective supervision and put clients in a better position

During the year, the CNB was involved in work on an amendment to the Recovery and Resolution Act following the adoption of an amendment to the relevant EU directive. The planned amendment aims mainly to enhance the bank resolution framework, primarily by implementing the international standard for own funds and liabilities eligible for use in bank resolution. The legislative process was commenced in late 2019 and the amendment is expected to take effect at the end of 2020.

Work continued on a planned amendment to the Act on Certain Measures against Money Laundering and Terrorist Financing, the Act on the Central Register of Accounts and the related Act on the Register of Beneficial Owners. The aim of the proposals is to transpose an amendment of the Anti-Money Laundering Directive into Czech law and to incorporate the recommendations of the Council of Europe's MONEYVAL Committee, which conducted an assessment of the Czech Republic in this area in 2018. For example, the proposals introduce an explicit duty to carry out intensified vetting of clients in higher-risk situations and stipulate stricter penalties, an extension of the data entered in the Central Register of Accounts, and a clarified definition of beneficial owner.



As regards capital market regulation, the CNB got involved in a public consultation of the Ministry of Finance on the development plan for the Czech capital market and subsequently discussed specific legislative proposals. In this context, it submitted a number of suggestions and comments, which it discussed with the Ministry of Finance on an ongoing basis. The discussion will continue in 2020. The legislative process for a bill amending the laws governing capital market undertakings, the activities of management companies and funds and the intermediation of pension products continued in 2019. In particular, the act adapts Czech law to the new Prospectus Regulation, contains provisions on mutual fund insolvency and fleet insurance requirements, and introduces independent pension product intermediaries.

The CNB worked with the Ministry of Finance, the Ministry of the Interior and the Financial Analytical Unit on a project initiated by the Czech Banking Association concerning a legislative proposal governing banking identity for bank clients, through which clients would be able to use electronic services provided by the state and the private sector. In this context, a group of deputies submitted to the Chamber of Deputies a draft amendment to the Act on Banks and the Act on Certain Measures against Money Laundering and Terrorist Financing in autumn 2019. Besides banking identity, the amendment contains some other changes, for example allowing banks to access data in public administration information systems.

Work related to an amendment to the Act on Insurance and Financing of State-Subsidised Exports and an amendment to the Act on the Supreme Audit Office and the Act on Budgetary Rules was done during the year. The draft amendment contains a whole range of changes. Above all, it allows the Export Guarantee and Insurance Corporation to own the Czech Export Bank, sets out new rules for their financial products, and obliges these institutions to deposit their funds on accounts subordinated to the Treasury. Among other things, the proposals aim to create legislative room for a new institutional arrangement for state-supported financing and insurance of Czech exports. The government approved the draft law in early 2020.

An amendment to the Act on Bureau de Change Activity, which the CNB had initiated in 2016 on the basis of its supervisory findings, took effect on 1 April 2019. The amendment introduced the right of a consumer to withdraw from (cancel) a bureau-de-change transaction contract within three hours, consistent implementation of the single exchange rate list rule, and the inclusion of most fees in the exchange rate.



To protect retail clients, the CNB carried out a product intervention in June and July 2019 by issuing a provision of a general nature prohibiting binary options and restricting contracts for difference. Binary options and contracts for difference are unsuitable products for most retail clients and have caused substantial losses in the past, especially among retail clients. The product intervention followed up on an ESMA decision to temporarily ban binary options and temporarily restrict contracts for difference in the EU as a whole. Similar measures applying to binary options and contracts for difference were adopted by the majority of supervisory authorities in other EU Member States.

### European regulation

Throughout the year, the CNB helped prepare opinions and comments on proposals for EU legal acts discussed in EU Council working groups and in dialogue negotiations with the European Parliament. The proposals included the following regulations published in the EU Official Journal:

- an amendment to the directive establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD 2) introducing into EU law the international standard for own funds and liabilities eligible for use in resolution (the TLAC standard). The amendment aims at strengthening the European resolution framework by ensuring that banks have adequate loss-absorbing capacity and by laying down clearer rules for the decisions of competent authorities in the case of cross-border banking groups;

- an amendment to the directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD 5) and an amendment to the regulation on prudential requirements for credit institutions and investment firms (CRR), which implement into EU law, among other things, the new prudential standards of the Basel Committee on Banking Supervision, for instance a binding leverage ratio, a net stable funding ratio and rules for disclosure of information on compliance with prudential requirements;
- a directive and a regulation on investment firms (IFD and IFR), which aim to provide a new prudential framework for investment firms and the supervision of such entities;
- an amendment to the regulation on trading in financial derivatives (EMIR), which was changed in two areas in 2019. The first amendment aimed at reducing administrative burdens and the costs arising from the regulation. In particular, it set clearing thresholds for financial counterparties and cancelled the obligation to report intra-group transactions involving non-financial counterparties. The second amendment reacted to the increased concentration of clearing in a relatively small number of central counterparties and the rising cross-border activity of those counterparties. In relation to EU central counterparties, the amendment broadened the powers of supervisory colleges, introduced a categorisation of third-country central counterparties by systemic importance, and established an ESMA committee for supervision of central counterparties;
- a regulation on the promotion of the use of SME growth markets, which mainly comprises amendments to the Markets in Financial Instruments Directive (MiFID II), the Market Abuse Regulation (MAR) and the Prospectus Regulation (PR). The regulation aims at reducing dependence on bank lending, at diversifying sources of financing for SMEs and at promoting the issuance of bond and shares by SMEs on public markets, primarily by reducing regulatory compliance costs. It simplifies the procedures for notifications of delays in publishing inside information, clarifies the conditions for maintaining insider lists for SMEs, clarifies the disclosure rules for secondary issuances and defines a specific EU Growth prospectus;
- a regulation facilitating cross-border distribution of collective investment funds, which contains, among other things, requirements applying to marketing communications and cross-border distribution fees and introduces a central database of collective investment funds maintained by ESMA;
- a regulation on a pan-European personal pension product (PEPP), which aims at creating a standardised supplementary voluntary pan-European pension product, available in all EU Member States, empowering consumers to transfer their pension rights between Member States. The regulation governs the key areas (registration, cross-border provision, portability, distribution, information requirements, supervision, provider switching, the payment accumulation and decumulation phases, investment rules) and assumes the subsequent adoption of regulatory and implementing technical standards.

As part of its work in the European Supervisory Authorities, the CNB also contributed to numerous other implementing measures, guidelines and explanatory opinions on the application of EU regulatory rules by both market participants and supervisory authorities.

#### International cooperation on the financial market

The discussion of the European Commission's legislative proposals to change the regulations establishing the European Supervisory Authorities (ESAs) was concluded in 2019. A political agreement was reached between the Council of the EU and the European Parliament on the final text of the regulation on 21 March. Through cooperation with the Ministry of Finance, the CNB was actively involved in the preparation of the Czech Republic's positions for the final negotiations. As the CNB essentially considers the ESAs' current functioning to be satisfactory, it advocated only partial modifications to further streamline the work of the ESAs. It opposed materially unjustified centralisation of powers, the replacement of representatives of national supervisory authorities in the ESAs' governance structures by experts appointed by European institutions, and the transfer of financing of the ESAs' budget from national supervisory authorities to supervised entities. Most of the problematic elements of the European Commission's original proposal,



especially in the area of centralisation of the powers and other mandates of the ESAs, were not adopted in the final text of the Regulation, and the ESAs thus acquired only partial new powers.

In 2019, the CNB was involved in nine supervisory colleges for European banking groups. In one case, it acted as consolidating supervisory authority. As in 2018, the colleges focused mainly on assessing the risk profiles of supervised entities and group recovery plans. In 2019, the CNB also cooperated in 13 supervisory colleges for European insurance groups, which concentrated mainly on group internal models, compliance with the requirements of the directive on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) and risk assessments of supervised insurance companies. Given the interconnectedness of financial markets in Europe and globally, bilateral cooperation and exchange of information with partner supervisory authorities abroad are also an integral part of supervision.

The CNB also signed multilateral memoranda of understanding on cooperation between the European Supervisory Authorities, specifically ESMA and EIOPA, and their British counterparts in the context of efforts to limit the impacts of a potential hard Brexit. It also negotiated a bilateral memorandum of understanding with the UK supervisory authorities on cooperation in the supervision of banks. This memorandum was prepared using the EBA template.

#### Licensing, approval and authorisation activities in the financial market area

As the financial market supervisory authority, the CNB issues authorisations (licences and registrations) to the majority of service providers on the financial market. It also issues other permissions and approvals, for example consents to the acquisition of qualifying holdings in regulated entities, approvals for senior officers, approvals of securities prospectuses and approvals of the publication of takeover bids. In these cases, the CNB acts as an administrative authority. Most of these activities take the form of administrative proceedings.

#### Numbers of selected supervised entities

Categories of financial entities <sup>1)</sup>	As of 31 December 2018	Entries in 2019	Exits in 2019	As of 31 December 2019
Credit institutions	60	1	3	58
Insurance sector (insurance and reinsurance companies and Czech Insurers' Bureau)	48	2	2	48
Pension management companies and funds	44	2	0	46
Management companies and investment funds	412	52	20	444
Investment firms	79	4	5	78
Payment institutions and electronic money institutions	42	7	6	43
Processors of domestic banknotes and coins	5	0	0	5
Non-bank consumer credit providers	87	4	5	86
Issuers of securities admitted to trading on a regulated market in the Czech Republic	117	16	11	122
Market infrastructure <sup>2)</sup>	10	0	0	10
Accredited entities	41	26	6	61
Bureaux de change	999	38	85	952

1) Including branches of foreign companies.

2) The role of entities in the position of a regulated market operator, a multilateral trading facility operator, an organised trading system operator, an operator of a settlement system with settlement finality, a central depository and a benchmark administrator.

Listed below are selected events from the licensing, approval and authorisation activities of the CNB.

In the credit institutions sector, HSBC Bank plc – pobočka Praha and Sumitomo Mitsui Banking Corporation Europe Limited, Prague Branch, terminated their activities. Moravský Peněžní Ústav – spořitelní družstvo also ceased to exist after acquiring a banking licence and converting into MPU banka a.s. The new company operates under the business name of Trinity bank a.s.

In the insurance sector, a new life insurance company Simplea a.s. was licensed at the beginning of 2019. On the approval of CNB, the bulk of the insurance activities of Generali pojišťovna and Česká pojišťovna ZDRAVÍ were transferred to Česká pojišťovna a.s. following the granting of consent to the takeover of Generali pojišťovna by Česká pojišťovna under the new company Generali Česká pojišťovna a.s. Also in 2019, the cross-border merger of Aegon Insurance Company with the successor Dutch insurance company Nationale-Nederlanden Maatschappij led to the demise of the domestic AEGON pojišťovna. Besides this, the CNB issued consent to the acquisition of qualifying holdings in the case of intra-group transactions in the VIG and Generali groups.

In the non-banking investment firm sector, the CNB granted two investment firm licences (to Moventum a.s. and eFrank.cz a.s.).

The number of licence applications for payment institutions, electronic money institutions, small-scale payment institutions and small-scale electronic money issuers under the Payment System Act remained elevated in 2019. At the end of the year, a total of 70 proceedings were ongoing pursuant to the Payment System Act. Applicants were often unable to properly describe their business plans and were unable to submit an account agreement with a credit institution or a promise to enter into an agreement that would prove in licensing proceedings that funds entrusted for the performance of payment transactions were protected. Among others, Zonky s.r.o. and payment account information administrator BudgetBakers s.r.o. received authorisation to act as payment institutions.

In the management company and investment fund sector, the CNB granted licences to three new investment firms in 2019 (Sirius investiční společnost a.s., TILLER investiční společnost a.s. and Winstor investiční společnost a.s.) and to one autonomous investment fund (Bohemian Empire, investiční fond s proměnným základním kapitálem, a.s.).

In the area of securities issues, the CNB issued 70 administrative decisions on the approval of documents (securities prospectuses and supplements thereto).

The CNB performed standard checks of issuers' reporting duties (checks of the annual and half-yearly reports of all more than 70 issuers and detailed checks of the application of IFRS international accounting standards in selected financial statements) and pointed out deficiencies. These deficiencies were subsequently eliminated by the supervised entities.

In the market infrastructure area, in 2019 the CNB granted a waiver from pre-trade transparency to the Prague Stock Exchange (PSE). It also conducted two proceedings with the PSE concerning the suspension of waivers from the market transparency obligation under the Markets in Financial Instruments Regulation (MiFIR) and assessed changes in trading rules connected with the transition to the XETRA T7 trading system. The CNB also newly assessed 23 notifications of the intention of non-financial groups to apply the exemption from the obligation to report to a trade repository according to Article 9(1) of EMIR.

Securities of 16 issuers were newly admitted to trading on a regulated market during 2019. By contrast, securities of 11 issuers were excluded from trading. Six of them were shares excluded at the decision of the issuer or regulated market operator and five were bonds excluded because of due or early repayment.

The number of supervised entities in the market infrastructure area did not change in 2019. There continued to be three trading systems operating in the roles of operators of regulated markets, multilateral trading facilities and organised trading systems (Burza cenných papírů Praha, a.s., RM-SYSTÉM, česká burza

cenných papírů a.s. and 42 Financial Services, a.s.), two operators of settlement systems with settlement finality (Centrální depozitář cenných papírů, a.s., and the CNB as the operator of the Short-Term Bond System), one central depository (Centrální depozitář cenných papírů a.s.) and one benchmark administrator, namely the Prague Interbank Offered Rate (PRIBOR) administrator (Czech Financial Benchmark Facility, s.r.o.).

In the area of testing insurance distributors' expertise, the CNB published a set of examination questions pursuant to the Insurance and Reinsurance Distribution Act in August 2019. By the end of 2019, it had issued 19 accreditations for the organisation of professional examinations in accordance with this Act (one accredited entity requested that its accreditation be withdrawn). Accredited entities (entities with authorisation from the CNB to test providers or intermediaries of financial services) have been testing expertise pursuant to the Consumer Credit Act since 2017 and pursuant to the Capital Market Undertakings Act since 2018.

On 2 December 2019, the CNB ended the acceptance of administrative fees for the renewal/extension of authorisation to carry on intermediary activities under the Supplementary Pension Savings Act, the Capital Market Undertakings Act and the Consumer Credit Act. In all, 10.6% of entities lost their authorisation due to unpaid fees. A total of CZK 26.251 million was paid.

#### Numbers of financial services intermediaries and shares of defunct intermediaries due to unpaid administrative fees

Law	Number of entities with CNB registration subject to renewal on 1 October 2019	Share of entities that ceased to operate due to non-payment
Supplementary Pension Savings Act	6,298	9.3%
Capital Market Undertakings Act	7,906	23.8%
Consumer Credit Act	13,783	3.7%
Total	27,987	10.6%

In the area of insurance intermediary registrations, an amendment to the Insurance and Reinsurance Distribution Act entered into force on 1 December 2018. It introduced three new categories of insurance intermediaries – independent intermediaries, tied agents and supplementary insurance intermediaries. As a result of the transitional provisions, some entities lost their authorisation to operate, and after the transitional period ended the number of insurance intermediaries decreased to 37,381 from the 162,863 insurance intermediaries registered on the date of entry into force of this Act.

In addition to the financial entities listed in the table *Numbers of selected supervised entities*, the CNB supervises tens of thousands of other entities, mostly intermediaries of financial products such as insurance, consumer credit and investment services. The CNB publishes lists of all regulated and registered supervised entities on its website. At the end of 2019, the CNB was supervising 38,482 insurance intermediaries, 177 investment intermediaries, 16,513 tied agents under the Capital Market Undertakings Act, 309 independent consumer credit intermediaries, 17,025 tied agents under the Consumer Credit Act and many other types of financial entities.

#### Financial market supervision

In its supervisory work, the CNB continuously monitored the activity and financial performance of individual financial market entities and assessed the evolution of the market as a whole and its segments. Financial market supervision in the areas of prudence, conduct of business, consumer protection and AML/CFT took the form of both off-site surveillance and on-site inspections. Conducting comprehensive assessments of the risk profiles of supervised entities is also an integral part of CNB supervision.

The CNB's supervision of credit institutions was concentrated on the credit portfolio quality, capital adequacy, liquidity and overall performance of banks and their consolidated groups. The CNB also regularly assessed the quality of, and commented on, resolution plans. With regard to current market developments, supervisors paid attention to retail loans in order to maintain high credit standards in this area and to ensure adequate management of related risks. Supervisors also addressed the issue of information systems and information technology, especially as regards cyber risks and outsourcing risks. The CNB carried out an extensive examination of banks' information and communication technology in 2019. As part of its supervision, the CNB also consistently focuses on the risks of money laundering and terrorist financing. In the conduct of business area, the CNB examined compliance with rules of conduct relating to the provision of payment and investment services, communication with clients and procedures for entering into, changing and terminating contractual relationships.

Stress testing of banks is an integral part of banking supervision. Since 2019, the CNB has been performing such tests every two years. The aggregated results of the stress tests confirmed the good resilience of domestic banks. Their capital adequacy ratio stayed above the regulatory minimum by a sufficient margin even in an adverse scenario.

Prudential supervision of insurance companies is based mainly on regularly assessing the financial condition and solvency situation of the supervised insurance companies, assessing compliance with control system requirements and overseeing compliance with the requirements for regulatory reporting and information disclosure. In life insurance, supervisors continued to verify the compliance of insurance companies' approaches to setting technical provisions with the Solvency II requirements and the overall quality of asset and liability management. In non-life insurance, the CNB paid the greatest attention to systems for managing premium sufficiency in vehicle liability insurance. The CNB has also long put great emphasis on assessing internal models for determining capital requirements under the Solvency II regulatory regime and on subsequent supervision of those models.

As regards professional care in insurance companies, the CNB focused on checking compliance with the requirements of the Insurance and Reinsurance Distribution Act (effective 1 December 2018), which introduced a whole range of new obligations in the area of professional care and consumer protection, especially with regard to product transparency and distributor reporting obligations. In this context, supervisors monitored the preparedness of insurance companies for the new regulatory requirements relating to product management. Supervision in the area of professional care will be focused on compliance with these requirements in the coming years.

In the past year the CNB conducted its own stress tests, which covered most domestic insurance companies. The aggregated results proved that the sector as a whole is sufficiently capitalised and able to absorb major changes in risk factors. As in the banking sector, stress testing will now be performed every two years.

Pension management companies (PMCs) and the transformed and participation funds managed by them are another major sector. The CNB assessed their compliance with regulatory requirements, especially fulfilment of the capital adequacy requirements by PMCs, and evaluated their capital positions and capital management. Supervisors also monitored compliance with the rules for the management of transformed and participation funds' assets and follow-up control mechanisms.

In the area of consumer credit provision, the CNB focused its supervisory investigations on the activity statements of non-bank consumer credit providers, the settlement of complaints by consumer credit providers, and providers' approaches to consumers in billing for costs incurred in connection with early repayment of consumer loans. Information-gathering visits to non-bank consumer credit providers and on-



Supervisory stress tests confirmed the good resilience of domestic banks and insurance companies

site examinations were an integral part of supervision. Supervisors paid continued attention to investigating consumer alerts of unauthorised lending. The CNB received 36 such alerts and the first penalties were imposed on their basis. The CNB investigated 400 complaints from the public regarding the provision of consumer credit.

As regards off-site surveillance in the capital market sector, in the area of investment firms, the CNB concentrated primarily on conducting comprehensive investigations focused on the fulfilment of obligations in relation to customers. In the area of fund investment, it emphasised the updating of the information duties of supervised entities, including compliance with the requirements laid down in the regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs). The CNB's on-site inspections dealt, among other things, with the offering of debt instruments to retail clients and the pricing of those instruments by supervised entities. The CNB also investigated 93 capital market-related complaints from the public, most of which concerned foreign investment firms.

In its off-site surveillance of the payment services sector, the CNB focused on the readiness of individual non-bank providers to meet the requirement of strong authentication for electronic payments. It also checked compliance with the capital requirements by payment institutions and electronic money institutions. In its on-site inspections, it paid particular attention to the compliance of providers' activities with their declared business plans and the fulfilment of the information duty to customers. The CNB also verified compliance with the obligation to identify and vet clients under the AML rules. It also investigated 51 complaints from the public about the activities of non-bank payment service providers.

In the area of bureaux de change activities, the CNB paid heightened attention to compliance with the new obligation of bureaux de change to allow exchange transactions to be cancelled within three hours of their execution, and compliance with the ban on publishing VIP rates. As in the previous period, on-site inspections focused primarily on bureaux de change in Prague. The inspections included verification of compliance with AML obligations. As part of its supervisory work, the CNB investigated 174 complaints from the public drawing attention to the illegal practices of bureaux de change. The number of such complaints decreased visibly after an amendment to the Act on Bureau de Change Activities entered into force.

In its supervision of the distribution of financial products, the CNB focused on compliance with the new legal requirements in the area of insurance distribution, primarily by conducting on-site inspections. As part of its off-site surveillance, it conducted a number of investigations focusing on, for example, the governing bodies of investment intermediaries, the distribution of investment life insurance, fleet insurance, mandatory insurance of credit intermediaries and distributors' products. The CNB dealt with a total of 215 complaints from the public about the activities of financial product distributors.

### Enforcement

In the enforcement area, the CNB mainly investigated petitions for the opening of ex officio proceedings, made decisions on the opening of such proceedings or the deferral of cases, and conducted first-instance proceedings, in which it imposed fines and remedial measures, revoked licences and cancelled registrations. In addition to conducting proceedings with supervised entities, the CNB – where the law so allows – conducted proceedings with entities that had provided financial services without having the relevant licence (unauthorised business). In cases where objections or appeals were lodged against a first-instance order or decision, the CNB Bank Board decided in the second instance. In the areas of CNB supervision where publication is prescribed by law, the CNB publishes [final decisions](#) on its website.

## Statistics on administrative penalty proceedings

Area of imposition of penalty	No. of proceedings continuing from 2018	No. of proceedings opened in 2019	No. of proceedings closed in 2019	Total fines imposed (in CZK thousands)
Supervision of credit institutions	6	10	10	12,000
Supervision of insurance companies	6	12	13	400
Capital market supervision	19	44	44	14,885
Violation of the Act on Bureau de Change Activity	5	14	14	2,730
Consumer protection	1	0	0	0
Payment system	21	50	44	1,050
Circulation of banknotes and coins	3	5	7	1,325
Consumer credit	6	25	25	2,995
Act on Certain Measures against Money Laundering and Terrorist Financing	0	8	8	1,385
Financial market supervision, total	67	168	165	36,770

The following passage lists selected penalty decisions for cases where publication of decisions is prescribed by law. mBank S.A. was fined CZK 1 million under the Act on Banks for breach of banking secrecy, and NEY, spořitelní družstvo, was subject to remedial measures, including an additional capital requirement, under the Act on Credit Unions. RAMFIN Holding, a.s., was fined CZK 1 million under the Act on Banks for violating the ban on accepting deposits from the public, and Fair Credit International SE was fined CZK 10 million for accepting funds from the public and for publicly offering bonds for subscription without publishing a prospectus.

Pursuant to the Capital Market Undertakings Act, heavy fines were imposed on Conseq Investment Management, a.s. (CZK 500,000 for insufficient obtainment of information from clients and provision of information to clients), HighSky Brokers, a.s. (a former investment firm, fined CZK 1 million for breach of obligations in the area of professional care and certain other areas), ASJC a.s. (the former investment firm AFIN BROKERS, a.s., fined CZK 500,000 for breach of obligations in managing customers' assets, especially for churning and failure to inform customers) and BH Securities a.s. (fined CZK 5 million for failure to implement rules and procedures for communication with customers about specific risks associated with bonds in connection with bonds placed in customers' assets, including providing information on incentives received from the issuer). Raiffeisenbank a.s. was fined CZK 4 million for breach of the obligations of an investment firm when providing investment services.

In the bureau de change sector, CNB, among other things, imposed fines of CZK 500,000 under the Act on Bureau de Change Activities on Exclusive Change, s.r.o., and CHIVAS INVEST s.r.o. for the publication of information on the offer of more advantageous exchange rates in a manner that could be confused with the information on exchange rates stated on the exchange rate list, and a fine of CZK 350,000 under the Act on the Circulation of Banknotes and Coins on PEMEX change s.r.o. It also revoked two operating licences.

Pursuant to the Consumer Credit Act, UNICREDO SYSTEM a.s. was fined CZK 1.4 million for intermediating more than 3,500 consumer loans with a total value in excess of CZK 16 million without authorisation.



## II.4 RESOLUTION PROCEDURES

In 2019, the European framework for the resolution of potential crises represented by the Bank Recovery and Resolution Directive was revised to take into account five years of experience with its application. However, two main principles were left unchanged: the losses and costs incurred as a result of the failure and recapitalisation of banks should be borne primarily by their shareholders and creditors, and any resolution measures must be in the public interest.

The package of new regulations affecting resolution contains several important innovations. In particular, the existing rules and definitions have been clarified to better suit the two main types of resolution strategies and to link to the minimum requirement for own funds and eligible liabilities (MREL). The main resolution strategies depend, among other things, on the organisational set-up of banking groups, financial and operational interconnectedness, and potential separability. The “Single Point of Entry” resolution strategy is better suited for centralised banking groups, while the “Multiple Point of Entry” resolution strategy is better suited for decentralised banking groups. The internal MREL for banks with a Single Point of Entry strategy has been redefined. The interaction between the MREL and the prudential requirements for the combined capital buffer has also been changed.

Another important feature of the MREL in the new legislation is a more detailed subordination requirement. This should ensure smooth resolution and limit the risk of bank creditors faring worse in resolution than they would in bankruptcy.

As a resolution authority, the CNB prepares resolution plans itself and participates in their preparation in cross-border colleges. The CNB is a member of seven colleges, six of them organised by the Single Resolution Board (SRB) and one which it chairs itself. In all cases, joint decisions were reached between the college members both on the relevant resolution plans and on the establishment of the MREL.

The CNB made the MREL known to banks already in the last quarter of 2019 to help them with their capital planning. All banks for which the CNB is the resolution authority will have four years to comply. Compliance by the end of 2023 will significantly increase the resilience and resolvability of banks.

In the area of resolution financing at the European level, there was progress in the debate on the potential provision of fiscal insurance for the Single Resolution Fund (SRF). Part of the solution could be an agreement between the SRF and the European Stability Mechanism (ESM).

The European Banking Authority (EBA) requires national institutions to conduct a series of tests in the bank resolution area. In 2019, the CNB and representatives of other participating institutions in the field of financial market rescue mechanisms took part in a simulation exercise which tested the procedures for paying out the deposits of customers of small banks. The exercise showed that the institutions are well prepared for this eventuality. The CNB will perform or participate in similar exercises in the coming years.

## II.5 CURRENCY AND PAYMENTS

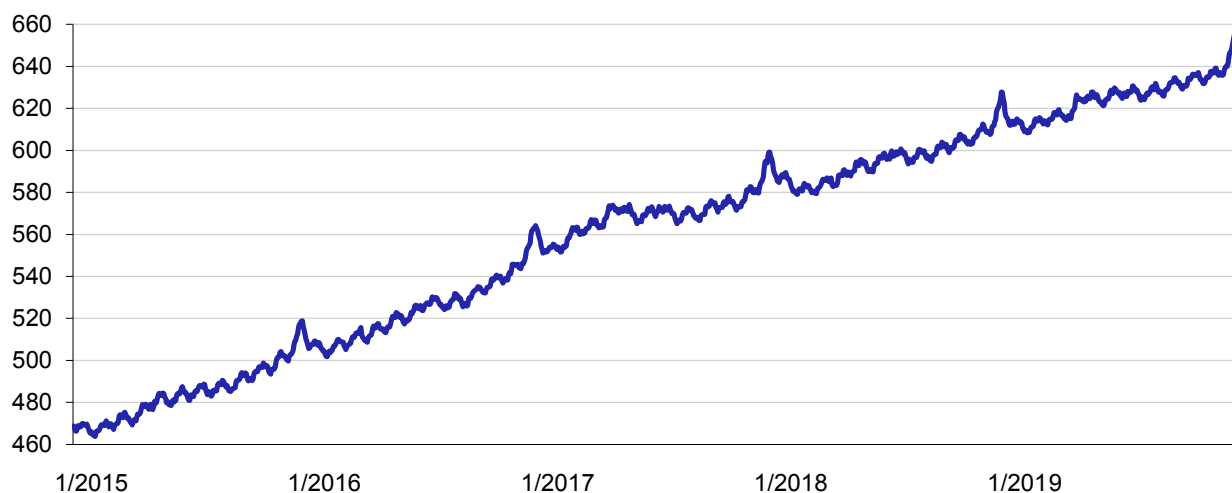
### II.5.1 Currency in circulation

Under the Act on the CNB, the central bank has the exclusive right to put banknotes and coins into circulation and to manage the circulation of currency.

The value of currency in circulation rose by CZK 25.8 billion in 2019. As of 31 December 2019, it amounted to CZK 644.4 billion. Currency in circulation increased by 4.2% compared with 31 December 2018. The ratio of currency in circulation to nominal GDP fell from 11.6% in 2018 to 11.4% in 2019.

**Currency in circulation – 1 January 2015 to 31 December 2019**

(in CZK billions)



CZK 2,000 banknotes accounted for almost 44% of the value of currency in circulation. CZK 5,000, CZK 2,000 and CZK 1,000 banknotes together accounted for more than 90% of the value of currency in circulation.

**Structure of banknotes and coins in circulation as of 31 December 2019**

Denomination	CZK millions	Share	CZK millions	Share
CZK 5,000	159,344.0	24.7%	31.9	6.5%
CZK 2,000	281,894.3	43.7%	140.9	28.8%
CZK 1,000	141,139.4	21.9%	141.1	28.9%
CZK 500	22,383.7	3.5%	44.8	9.2%
CZK 200	12,919.8	2.0%	64.6	13.2%
CZK 100	6,556.9	1.0%	65.6	13.4%
<b>Banknotes, total</b>	<b>624,238.1</b>	<b>96.9%</b>	<b>488.9</b>	<b>100.0%</b>
CZK 50	7,440.6	1.2%	148.8	7.2%
CZK 20	4,465.8	0.7%	223.3	10.8%
CZK 10	2,498.2	0.4%	249.8	12.1%
CZK 5	1,466.2	0.2%	293.2	14.2%
CZK 2	1,041.3	0.2%	520.7	25.3%
CZK 1	625.1	0.1%	625.1	30.3%
<b>Coins, total</b>	<b>17,537.2</b>	<b>2.7%</b>	<b>2,060.9</b>	<b>100.0%</b>
<b>Commemorative banknotes and coins</b>	<b>2,591.5</b>	<b>0.4%</b>	<b>2.9</b>	<b>100.0%</b>
<b>Total</b>	<b>644,366.8</b>	<b>100.0%</b>	<b>2,552.7</b>	

The numbers of banknotes and coins in circulation rose by 14.7 million and 95 million respectively in 2019. The CNB accepted 121.4 million circulating banknotes, 142.6 million circulating coins (including those for



annual sets), 29,200 gold coins, 7,200 bimetallic coins, 81,200 commemorative silver coins and 20,000 commemorative banknotes from producers. These banknotes and coins (including commemorative ones) cost the CNB a total of CZK 582.9 million to produce.

The CNB destroyed 52.9 million banknotes accepted from circulation and evaluated as unfit for recirculation due to wear or damage. Only 2.7 million coins accepted from circulation were rejected as unfit for recirculation. The significantly lower number of unfit coins than unfit banknotes is due mainly to the material used, which makes coins more resistant to wear and tear.

A total of 1,014 counterfeit and altered Czech banknotes and coins were seized in the Czech Republic in 2019. The value of the currency seized was almost CZK 1.2 million, the same as last year. The thousand-crown note was the most frequently counterfeited Czech banknote. There is only around one counterfeit per 10,000 inhabitants in the Czech Republic. Czech banknotes and coins can therefore be described as very secure by international comparison.

Cash turnover in Czech currency at the CNB's cash offices amounted to CZK 1,363 billion in 2019, down by CZK 3.3 billion, or 0.2%, from a year earlier. The CNB's cash offices received 672.5 million banknotes and 377.4 million coins from circulation and issued 687.2 million banknotes and 472.3 million coins into circulation.

The CNB issued the first-ever CZK 100 Czech commemorative banknote into circulation in 2019. The note, bearing a portrait of Alois Rašín, was issued to mark the 100th anniversary of the Czech and Slovak koruna. The CNB also issued new precious metal coins: four CZK 200 commemorative silver coins, one CZK 500 commemorative silver coin, one CZK 2,000 bimetallic coin, two CZK 5,000 gold coins and one CZK 10,000 gold coin. It also issued limited edition special CZK 20 coins bearing portraits of three prominent personalities of the Czechoslovak currency – Alois Rašín, Vilém Pospíšil and Karel Engliš.



#### Supervision of compliance with the Act on the Circulation of Banknotes and Coins

Cash circulation, together with the related rights and duties of the CNB, banks, legal entities and natural persons, is regulated by the Act on the Circulation of Banknotes and Coins. Under this act, the CNB primarily supervises:

- the banknote-processing processes of credit institutions performing cash operations and processors of domestic banknotes and coins,
- the fulfilment of the other obligations stipulated in the Act on the Circulation of Banknotes and Coins for credit institutions performing cash operations,
- operators of self-service technical equipment,
- persons authorised by the CNB to organise special courses on the identification of suspected counterfeit or altered banknotes and coins,

- the fulfilment of the general obligations stipulated in the Act on the Circulation of Banknotes and Coins for natural and legal persons.

In 2019, the CNB opened a total of 18 inspections focusing on compliance with duties under this act:

- three inspections of banks, during which it conducted on-site inspections in 33 branches and one cash-handling centre and tested 47 banknote processing machines, 41 euro banknote processing machines and 33 deposit ATMs. It also conducted 147 mystery shopping inspections in banks focusing on the exchange of damaged banknotes
- four inspections of operators of anonymous devices, during which it tested 37 self-service cash registers in 22 shops,
- six inspections of persons authorised by the CNB to organise special courses, during which it inspected six special courses and six lecturers,
- five inspections of casino operators, involving on-site inspections in 23 establishments and tests of 33 slot machines.

As of 31 December 2019, the CNB had completed 18 inspections (one commenced in 2018 and 17 commenced in 2019).

Outside the plan for checking compliance with the Act on the Circulation of Banknotes and Coins, the CNB organised six seminars for bank employees in 2019. At these seminars, it presented, among other things, the work of currency circulation supervision, processes for processing domestic banknotes in accordance with the relevant standards, and processes for exchanging damaged banknotes.

## II.5.2 Non-cash payments

In the area of non-cash payments, the CNB keeps the accounts of the state and operates systems for transferring interbank payments and settling short-term securities transactions. These 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 CERTIS system is used to maintain accounts of banks, the SKD system records short-term bonds owned by banks, investment firms and other entities, and the ABO system maintains accounts of state organisational units and other state organisations and legal entities connected to the state budget. In order to execute state budget payments, the ABO system is closely linked to the Integrated Treasury Information System operated by the Ministry of Finance.

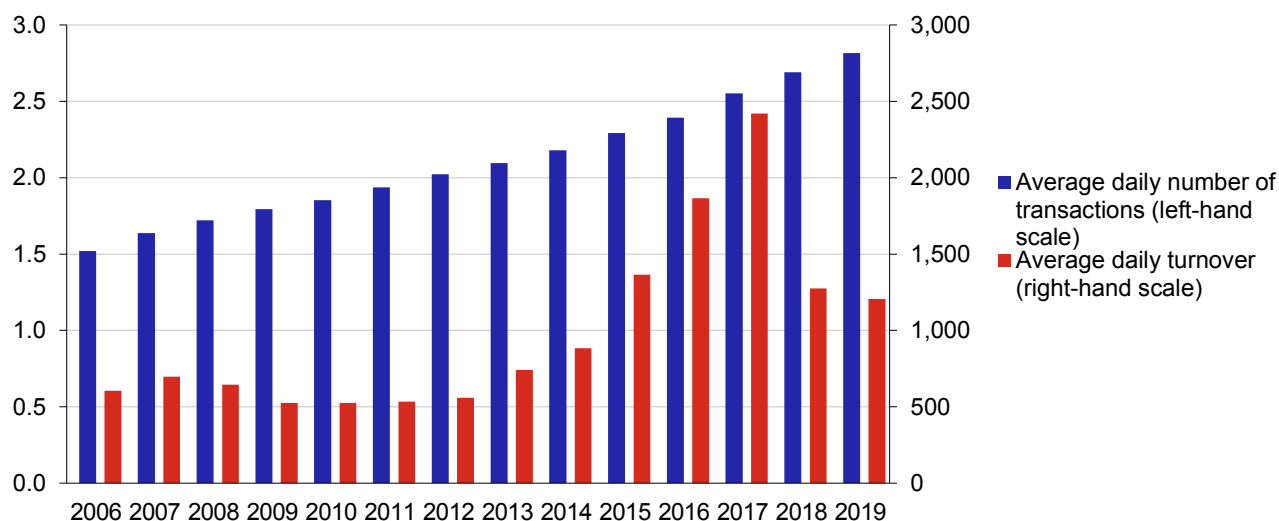
### CERTIS – interbank payment system

The CNB uses the CERTIS system to process interbank payments in the Czech Republic. Banks, credit unions and foreign bank branches are participants in this system. As of 1 December 2019, CERTIS had 49 direct participants with their own accounts and five third parties (card payment clearing houses and securities clearing and settlement institutions).

CERTIS processed 706.8 million transactions in 2019 (up by 5.1% year on year) with a total value of CZK 302,688 billion (down by 5.1%). A total of 2.82 million transactions were processed on average daily, with daily turnovers averaging CZK 1,206 billion.

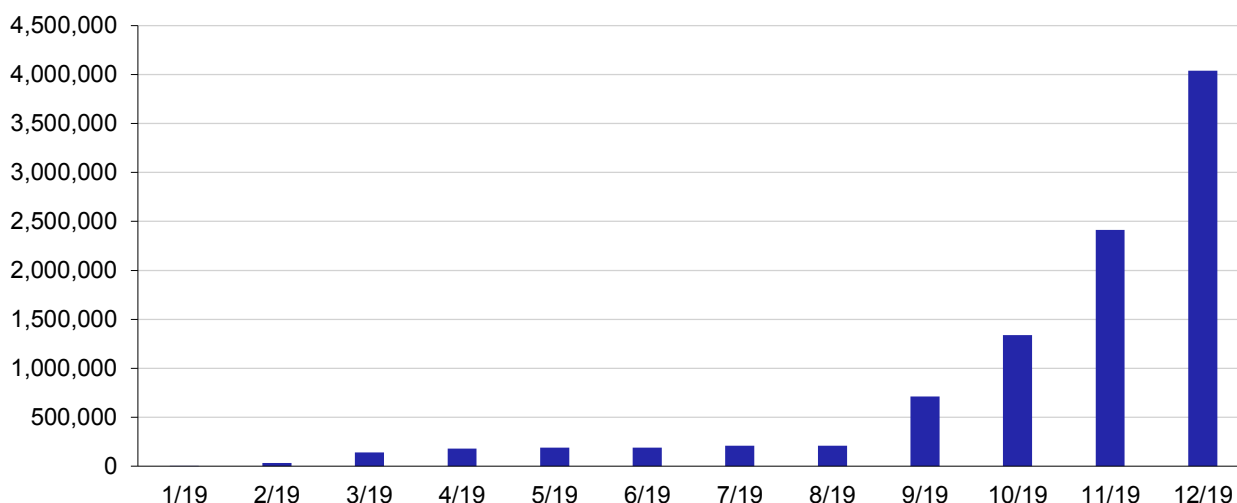
**CERTIS – average daily number of transactions and average daily turnover**

(in millions of transactions and CZK billions)



An instant payment service has been in operation in CERTIS since 1 November 2018. An instant payment is a one-off electronic payment in Czech koruna processed in seconds by instant payment scheme participants. The service is available 24 hours a day, seven days a week.

Nine entities joined the instant payment scheme between the launch of the instant payment service and the end of 2019. The first two banks launched the service for their customers in February. The main wave of additions of other entities took place in September to December. This accounts for the increase in the number of instant payment transactions in the final quarter, as instant payments can only be sent between entities participating in the scheme.

**CERTIS – number of instant payment transactions****SKD – short-term securities settlement system**

The CNB also operates the SKD system, which is a separate register of securities with maturities of up to one year and is the settlement system for those securities.

As of 31 December 2018, a total of 96 asset accounts – belonging to 58 clients (securities owners) and 12 custodians (securities managers) – were registered in SKD. The system records bonds issued by the CNB and government bonds issued by the Ministry of Finance.

The securities recorded in SKD are used, among other things, as collateral for the intraday credit that the CNB extends to banks for smooth accounting purposes within CERTIS. The CNB also uses them for repo operations and the Ministry of Finance for daily liquidity management of the Single Treasury Account. On average, 113 transactions a day were processed in SKD in 2019. The average daily turnover was CZK 733 billion.

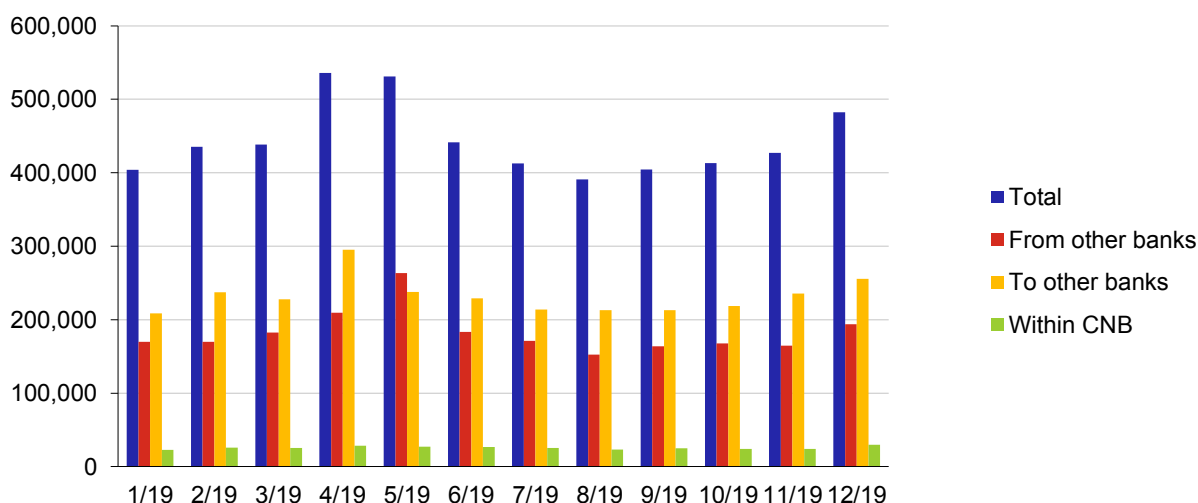
### ABO – the CNB's accounting and payment system

The CNB keeps its internal accounts and the accounts of its clients in the ABO system. At the end of 2019, it was maintaining 23,283 accounts, of which 3,246 were internal accounts, 3,904 CNB employee accounts and 16,133 accounts of legal entities. The majority of the accounts of legal entities – 15,504 – are Treasury accounts in the Czech currency, along with 257 Treasury accounts in the European currency. Treasury accounts are used for state budget revenues and expenditure and other financial operations of the state. Detailed information about the set of clients and the involvement of the CNB in the Treasury accounts system is available in the section *The CNB as the bank of the state*.

Most clients use the CNB's internet banking to manage their accounts. In all, 19,172 users were registered in the system as of the end of 2019.

The ABO system processes as many as one million transactions a day on peak days. The total number of transactions increased by 4.5% compared with 2018. The number of client orders went up by 4.1%.

### ABO – average daily number of transactions



### Promotion of smooth and efficient payments and clearing

The Act on the CNB tasks the CNB with promoting smooth and efficient payments and clearing and contributing to the safety, soundness and efficiency of payment and settlement systems and to the development thereof (oversight). In 2019, the CNB put an emphasis on, among other things, further enhancing the cyber-resilience of systemically important financial infrastructures, which, in the Czech Republic, are the CERTIS system, the SKD system and the Central Securities Depository. This process was based on analyses conducted and tasks set in previous years. The CNB concluded that it had succeeded in attaining a higher level of cyber-resilience in compliance with the recommendations of the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO).

## II.6 STATISTICS

The CNB compiles and publishes statistics for the purposes of monetary policy, financial market supervision and financial stability, and also for the needs of the European Central Bank (ECB), Eurostat and the Czech

Statistical Office. These statistics are also used by state administration bodies, financial market participants, the media and the public.

In November 2019, the CNB launched a new centralised data collection system (SDAT) to replace the MtS system operating since 1998. Supervisory and statistical reporting data are submitted to the CNB through this system. The launch of the system began the process of gradual transfer of the areas of reporting to the CNB from the old system to the new one. This process is scheduled to last until mid-2021, when the MtS system will be phased out. The CNB publishes the [latest information \(available in Czech only\)](#) on its website.



For two years now, the CNB has also been operating the [Central Register of Accounts \(available in Czech only\)](#) maintained by credit institutions in the Czech Republic. In 2019, the CNB handled a total of 682,738 applications from authorities and institutions eligible to access the data in this register. To increase the quality of the data, the CNB conducts inspections and information-gathering visits in credit institutions. In 2019, the CNB made a total of 18 visits, during which it detected shortcomings in reporting to this system. It notified credit institutions of these shortcomings and requested remedy.

In the area of macroeconomic statistics, the CNB – in cooperation with the Czech Statistical Office – started to prepare a review of the [external statistics](#) data and quarterly financial accounts data in a backward time series. The review is being coordinated with EU countries by the ECB and Eurostat. The reporting of [government finance statistics](#) to the ECB was also changed compared with 2019 to comply with the new government deficit and debt manual.

As regards [monetary and financial statistics](#), the CNB started to collect data in accordance with the ECB regulation on statistical reporting requirements for pension funds. It also started work on creating a system for compiling new harmonised statistics for this financial market segment. By the start of 2020, it was ready to start meeting the reporting duty to the ECB. In the European System of Central Banks (ESCB), the CNB continued to be involved in the preparation of two revised regulations on statistical data collection, namely the regulation on payment statistics and the regulation concerning the balance sheet of the monetary financial institutions sector. The ECB's Governing Council should approve the two regulations by mid-2020.

In the area of [microdata statistics](#), the CNB started to collect individual data on loans provided to legal entities and the related credit risk. Data collection commenced in July 2019. Regular data submission was subsequently stabilised and data quality improved in cooperation with banks and with the support of the Czech Banking Association. The stabilisation process will continue into 2020, with the aim to make the data in the AnaCredit project available to end users. The CNB also launched preparatory work on extending the data collected in AnaCredit to include loans provided to self-employed persons. In addition to data collection for AnaCredit, the CNB continued to support exchange of information on the credit commitments of legal entities and self-employed persons between banks and foreign bank branches through the Central Credit Register.

Data collection for [supervisory statistics](#) purposes encompasses the collection of data from all the financial market segments supervised by the CNB. The trends in these areas have so far been very changeable due to the gradual implementation of the European Supervisory Authorities' single reporting frameworks governing legislation, methodologies and reporting scope. In 2019, the CNB started preparing for the switch to a technologically new method of reporting in the SDAT collection system in accordance with the relevant taxonomies of the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA). In the context of the SDAT project, the CNB continued to communicate with reporting agents and provide them with methodological and technical assistance. Through its representatives in working groups, the CNB also continued to be involved in the work of the European Supervisory Authorities in the areas of reporting methodologies and data quality analyses.

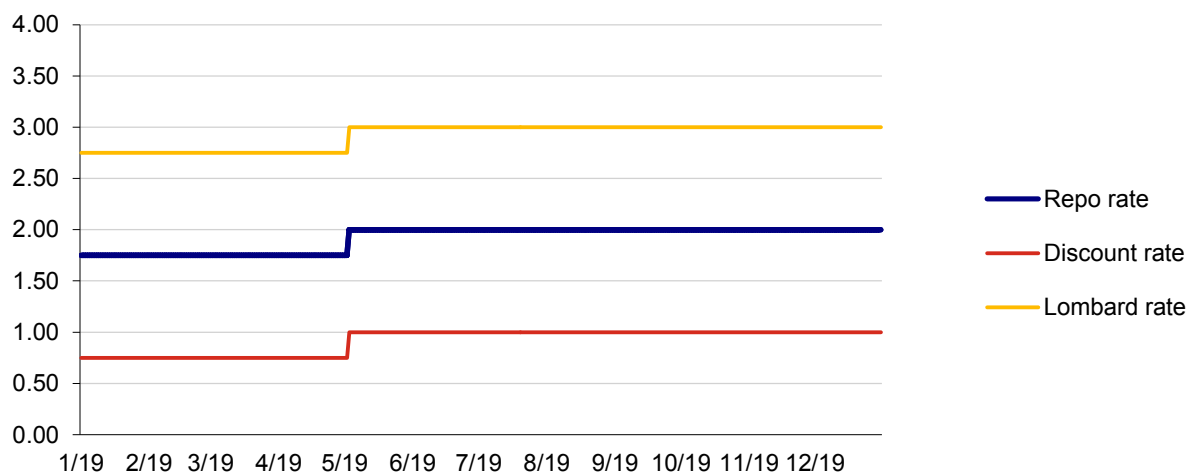
In the middle of the year, the CNB added data provision via web services to its web presentation [Regulated institutions and registered financial market entities lists](#). This extended the availability of information about financial market entities to users demanding machine-readable data. Following the launch of the European register of payment services providers, which is operated by the EBA, the CNB made its initial entries and provided regular updates of information about Czech payment service providers in this register.

## II.7 FINANCIAL MARKET OPERATIONS

In 2019, the CNB's main monetary policy instruments continued to include interest rate operations (repo operations and automatic facilities). The CNB Bank Board sets three interest rates: the repo rate, the discount rate and the Lombard rate. The main monetary policy rate is the two-week repo rate. The discount and Lombard rates provide the floor and ceiling respectively for short-term interest rates on the money market. The CNB raised interest rates once in 2019, doing so at its meeting in May. At the end of 2019, the repo rate stood at 2%, the discount rate at 1% and the Lombard rate at 3%.

### The CNB's interest rates

(in %)



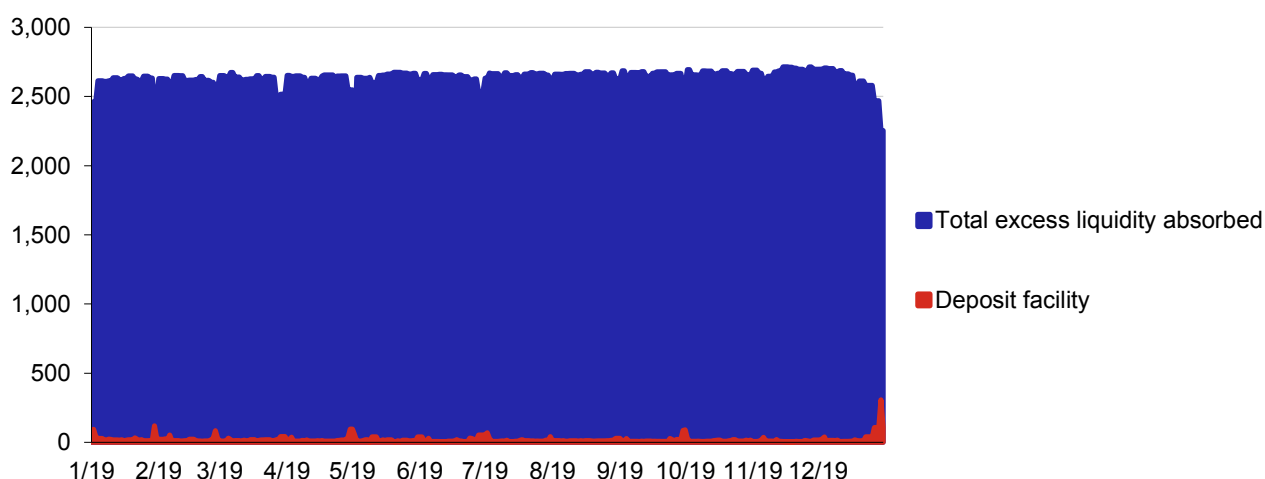
In addition to two-week repo operations, which are the largest in size, the CNB uses two automatic facilities – the marginal lending facility and the deposit facility – to implement monetary policy. Under the lending facility, the CNB lends funds to banks overnight in the form of a repo operation at the Lombard rate. The deposit facility gives banks the option of making overnight deposits with the CNB at the discount rate. In 2019, the amount of liquidity absorbed through the deposit facility was limited. The facility was used to a greater extent at the end of the minimum reserves calculation cycles. Recourse to the lending facility was rare.

The total average amount of excess liquidity absorbed was CZK 2,658 billion. Of this, 99.3% was absorbed through repo operations and 0.7% through the deposit facility.



**Excess liquidity**

(in CZK billions)



The CNB executed collateral exchanges with banks. In these technical operations, the CNB usually exchanged securities settled in the Central Securities Depository for securities settled in the Short-term Bond System. These operations were used not to affect the banking sector's excess liquidity, but to provide liquid securities to banks, for instance for obtaining intraday credit.

The CNB's toolkit still contains two-week liquidity-providing repo operations and foreign exchange swaps. The CNB launched them in October 2008 in response to the outbreak of the financial crisis and their existence is important for the stability of the domestic financial market. Although banks did not use these instruments actively in 2019, the CNB considers it appropriate to keep them available.

In the managed float exchange rate regime, the central bank reserves the option of intervening in the foreign exchange market if necessary. However, the CNB did not intervene in the foreign exchange market in 2019. [Information about the CNB's foreign exchange trading](#) is available on its website.

### II.7.1 International reserves management

The CNB manages its international reserves, which are made up of foreign assets in selected convertible currencies. These assets are used mainly to support the CNB's independent monetary policy-making and as a source of foreign exchange liquidity for CNB clients. At the end of 2019, the reserves totalled CZK 3,390 billion, equivalent to EUR 133.4 billion or USD 149.9 billion. International reserves form the bulk of the CNB's assets – they accounted for more than 98% of the CNB's total assets at the end of 2019. The size and structure of the reserves are published regularly in the [Financial markets](#) section of the CNB website.

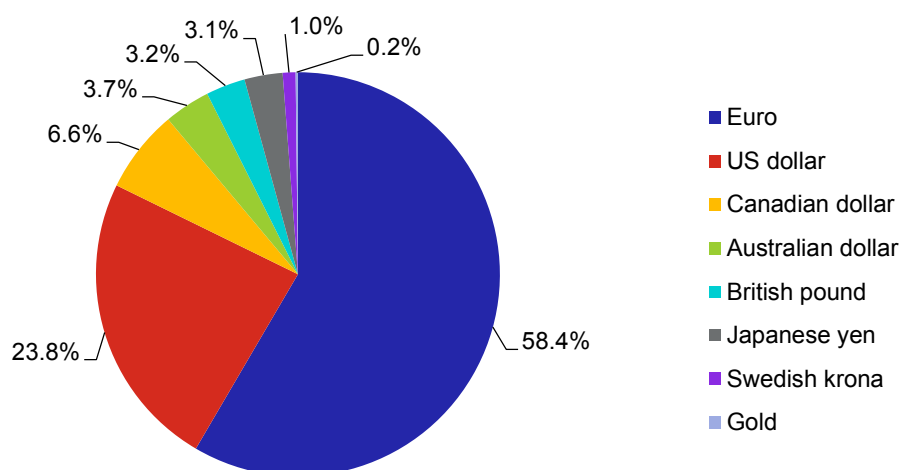
Almost 99% of the international reserves are represented by portfolios whose strategic allocation is a result of the CNB's internal decision-making processes. For these purposes, their size and performance are calculated on the basis of market revaluation. The rest of the reserves are made up of claims on the International Monetary Fund (IMF) in special drawing rights (SDR) and gold held by the CNB. The CNB manages most of its international reserves internally in accordance with its reserves management principles. The principles take into account the function performed by the international reserves and pay due regard to security, liquidity and returns. The largest part of the reserve portfolio is invested in debt securities issued by governments of economically advanced countries, selected government-guaranteed bonds and bonds issued by top-rated international institutions. Other instruments used for international reserves management include shares, repos, specific covered bonds, deposits with central banks, futures, and interest rate,

currency and equity swaps. All creditor positions vis-à-vis private counterparties are backed by financial collateral.

The market value of the international reserves specified above rose by CZK 165.5 billion year on year in koruna terms. From the perspective of strategic asset allocation, the rise was due most of all to portfolio returns, followed by purchases of foreign currency from clients and client deposits. By contrast, changes in the exchange rate of the koruna against the reserve currencies fostered a decrease in the reserves. The koruna appreciated against the most strongly represented reserve currency (the euro) and the Swedish krona, while depreciating against the other reserve currencies (the US, Canadian and Australian dollars, the Japanese yen and the British pound).

The CNB completed the shift of part of its euro assets into US dollars in 2019. This process was started in 2017 in order to preserve the diversification role of the US dollar in the CNB's reserve portfolio after the percentage share of the euro in the currency structure of reserves had increased significantly due to foreign exchange interventions in euros. Sales of euros made in 2019 reduced the share of the euro in the international reserves by 2 percentage points to around 58%. The share of the US dollar in the international reserves conversely rose from 23% to 24%.

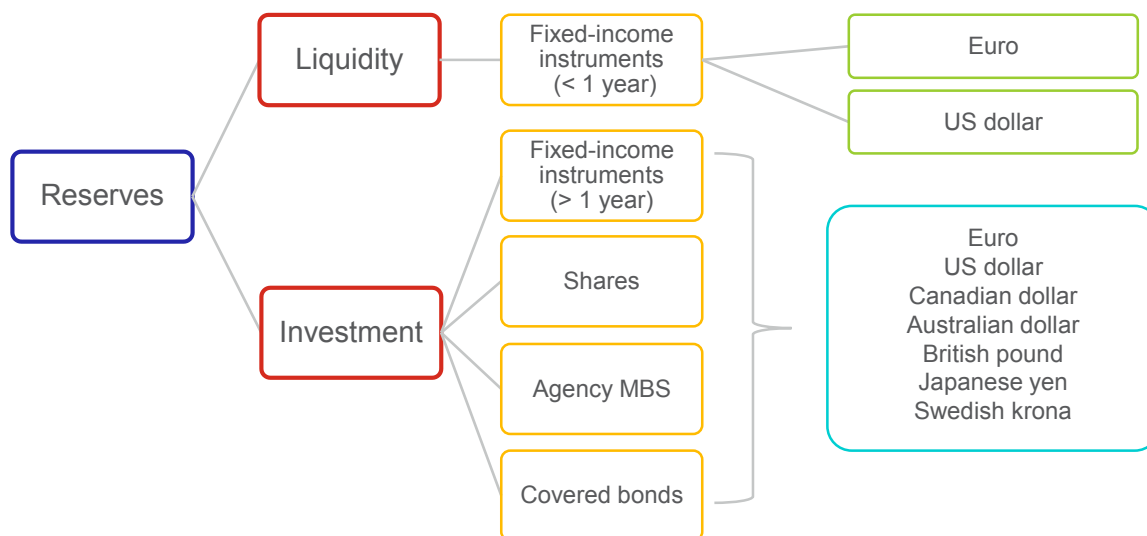
#### Currency structure of the actively managed portfolio (net of liabilities) as of 31 December 2019



The reserve portfolio is divided into two parts (tranches) which differ in investment horizon, risk parameters and expected returns. The ratio between the tranches is determined by the IMF methodology used to estimate the appropriate size of international reserves. The liquidity tranche, which accounted for 47% of the reserves at the end of 2019, contains fixed-income investment instruments with a residual maturity of up to one year in euros and US dollars, which, if necessary, can easily be converted into money without any major risk of capital losses. The remaining 53% of the reserves made up the investment tranche. It contains financial instruments which make it possible to generate higher returns in the longer run but at the same time bear higher risk. They include, for example, bonds with longer maturities, covered bonds of German and Canadian banks, and shares. In 2019, the CNB extended the range of investment instruments held in the investment tranche to include specific mortgage-backed securities (MBS) guaranteed by selected US agencies. It also approved the creation of a relatively small “starter” portfolio of Chinese government bonds of a size equivalent to USD 500 million. However, only preparatory work on the necessary infrastructure took place in 2019.

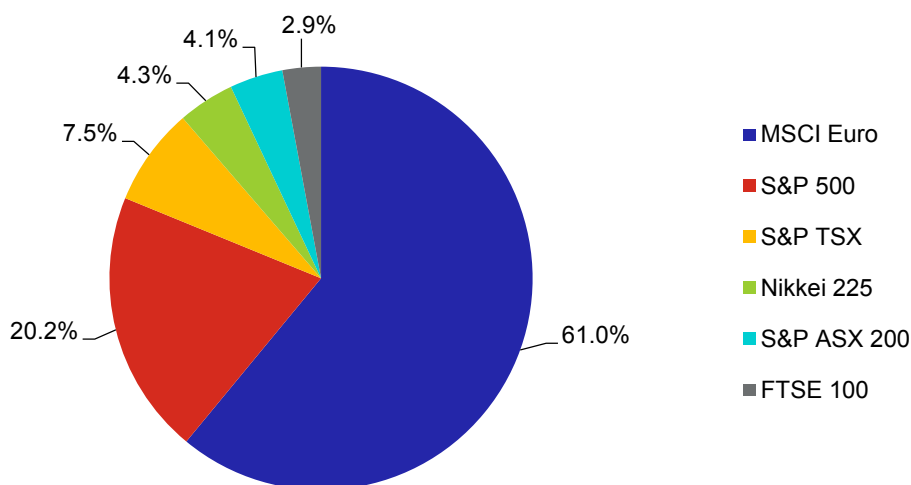


### Internal division of the international reserves into the liquidity and investment tranches



The equity and MBS portfolios are managed externally. The equity portfolios, which account for around 10% of the reserves and are managed by BlackRock and State Street Global Advisors, 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). The MBS portfolio, which has a share of about 0.4% in the reserves, is managed by BNP Paribas. All three external managers follow the Global Investment Performance Standards.

### Structure of the equity portfolio as of 31 December 2019



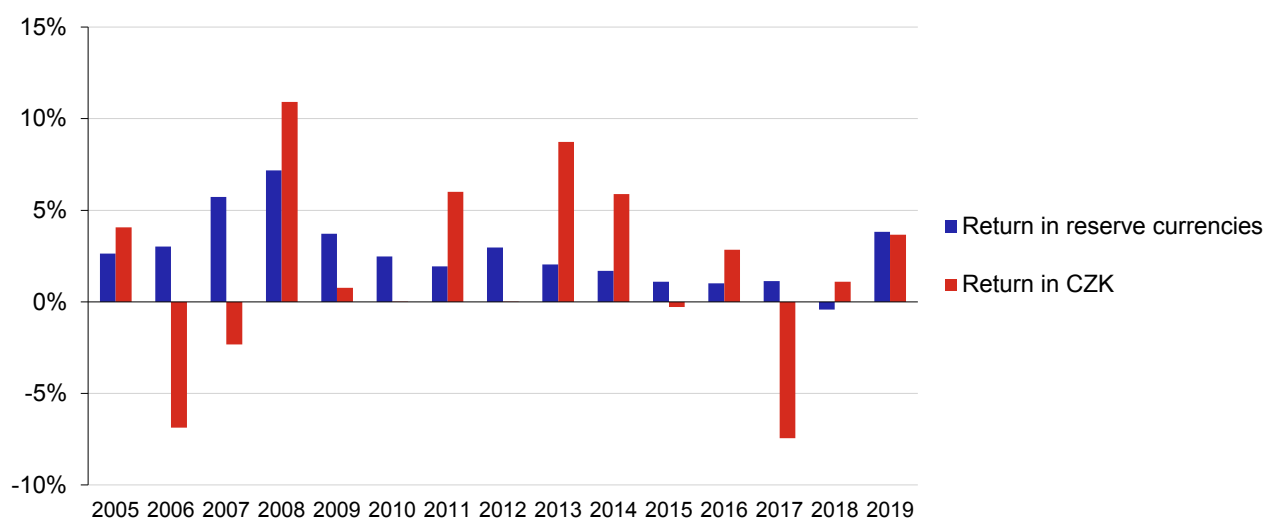
The liquidity and investment tranches recorded returns of 0.21% and 7.14% respectively in 2019 (in both cases, this is the weighted average of the rates of return on the individual portfolios measured in their own currencies). The return on the liquidity tranche was strongly affected by negative euro area interest rates, as the euro portfolio makes up a large majority of the tranche. The return on the investment tranche was due mainly to stock market growth and, to a lesser degree, to a decline in yield curves, which resulted in capital gains on the bond part of the portfolios.

## Returns and losses on the portfolios of the liquidity and investment tranches (in portfolio currencies)

Tranche	Euro	US dollar	Australian dollar	Canadian dollar	Swedish krona	Total
Liquidity	-0.47%	+2.71%	---	---	---	+0.21%
Investment	+6.14%	+8.77%	+8.48%	+4.89%	+0.42%	+7.14%

The total yield on the international reserves (the weighted average of the returns on the portfolios measured in their own currencies) was 3.82%. Combined with the changes in the exchange rate of the koruna against the reserve currencies, this resulted in a koruna return of 3.67%.

## Comparison of the total return on international reserves in 2019 with previous periods



A small part of the reserves consists of gold and the part of the claim on the IMF that has been paid or is maintained in a foreign currency, i.e. the reserve position with the IMF, SDR holdings and an IMF bilateral loan. This non-koruna financial position vis-à-vis the IMF was virtually unchanged from the previous year, amounting to SDR 887 million at the end of 2019. Part of the gold held by the CNB was used for the production of commemorative coins in 2019. The CNB thus had 8.0\* tonnes of gold at the end of 2019. In 2019, the Bank Board approved a new procedure for gold reserve holdings, aimed primarily at maintaining the amount of the gold held by the CNB at a certain minimum level. However, the share of gold in the central bank's international reserves will remain low, as the CNB does not consider this commodity to be an optimum instrument for the reserve holdings of modern central banks.

## II.7.2 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.

As of 31 December 2019, the CNB maintained 15,500 accounts for the state and the public sector. A total of 446,000 transactions took place on the Treasury accounts on average per day. Treasury clients now almost exclusively use internet banking.



The CNB maintains 15,500 accounts for the state and the public sector

\* Note: Following the publication of the print version of *Annual Report 2019*, the data on the stock of gold at the end of 2019 were brought into line with *Financial Report 2019* so that the rounding methodology for the conversion of the amount of gold from millions of troy ounces into tonnes was harmonised.

### Support for Treasury liquidity management

Most of the accounts which the CNB maintains for the state are included in the Single Treasury Accounts. The single accounts system allows for effective use of all the state's temporary liquidity to finance the state budget on an ongoing basis. In practice, this means that the time mismatch between state budget revenues and expenditures is constantly balanced.

There are two single accounts: koruna-denominated and euro-denominated. The koruna-denominated Single Treasury Account 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. In 2019, the Ministry of Finance also newly offered clients the option of making time deposits. The euro-denominated Single Treasury Account includes above all the funds of the National Fund, euro debt service funds and foreign funds of state organisational units.

Every morning, an estimate of revenues and expenditures on the accounts included in the Single Treasury Accounts is compiled in cooperation with the Ministry of Finance. During the day, this estimate is compared with the actual situation. The CNB invests any end-of-day liquidity surplus on the financial market. Conversely, it covers any end-of-day shortfall by borrowing from the market. The CNB conducts these operations on behalf of the Ministry of Finance. The daily balances on the Single Treasury Accounts are maintained at CZK 30 million and EUR 10 million, even though incoming and outgoing payments worth CZK 10–70 billion are settled every day.

The Single Treasury Accounts system increases the amount of liquidity available for financing a state budget deficit and allows for effective planning of government bond issues. This lowers the refinancing risk of the state and generates budgetary savings by reducing debt servicing costs.

### Support for state debt management

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 2019, the CNB organised seven auctions of T-bills, with sales totalling CZK 6.8 billion. The CNB also executed 61 auctions of government bonds totalling more than CZK 266 billion. Euro-denominated government bonds were also issued under Czech law for the first time. As administrator, the CNB made coupon payments for government bonds and payments of principal on three maturing issues. It also organised coupon payments and repayments of principal for issues of government saving bonds.

## II.8 ECONOMIC AND FINANCIAL RESEARCH

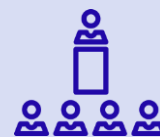
Economic and financial research at the CNB helps create an analytical and knowledge base for monetary and macroprudential policy-making and also for the development of knowledge in the fields of macroeconomics and the financial markets. In the CNB's organisation structure, the Economic Research Division in the Monetary Department is responsible for economic research and the Financial Research Division in the Financial Stability Department is responsible for financial research.

The CNB presents its research project outputs primarily in two publication series: the CNB Working Paper Series (12 papers published in 2019) and the CNB Research and Policy Notes (four papers published in 2019). These internationally reviewed research papers cover a wide range of subjects, from monetary policy transmission mechanisms, through the modelling of demand for crypto-assets, to financial stability.

The CNB held its traditional Research Open Day in May. The speakers at the event included JP Morgan Chase International Chairman Jacob A. Frenkel as guest of honour. On this occasion, the CNB Bank Board presented awards for the best CNB research publications. These awards take into account the technical level of the winning papers and their relevance to economic policy. In 2019, the awards went to two papers: [Quantifying the Natural Rate of Interest in a Small Open Economy – The Czech Case](#) by Tibor Hlédik (JVI) and Jan Viček (adviser to the CNB Bank Board), and [A Profit-to-Provisioning Approach to Setting the](#)

[Countercyclical Capital Buffer: The Czech Example](#) by Lukáš Pfeifer and Martin Hodula of the Financial Stability Department.

The CNB also held a high-level conference *The Future of Monetary Policy: What Can We See as the Dust Has Settled?* as part of the celebrations of 100 years of the Czech koruna in May. The speakers' presentations focused on interest rate and exchange rate modelling, and bounded rationality and new visions in macroeconomics. The conference also featured a panel discussion featuring representatives of countries whose currency is called the crown. Besides CNB Governor Jiří Rusnok, the panellists included Central Bank of Iceland Governor Már Gudmundsson, Sveriges Riksbank Deputy Governor Martin Flodén and Norges Bank Deputy Governor Jon Nicolaisen. The programme of the conference, including selected presentations, is available on [the web page dedicated to this conference](#).



In May 2019 the CNB organised an international conference on monetary policy attended by leading world economists



Details on research publications, seminars and conferences, and other research activities can be found in the [Research](#) section of the CNB website.

## II.9 EUROPEAN AND INTERNATIONAL COOPERATION

### European Central Bank, European System of Central Banks and European Systemic Risk Board

The CNB participated in four 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. The meetings focused on issues related to macroeconomic, fiscal and monetary developments around the world and in the EU. Other topics discussed included compliance with the prohibition of monetary financing by EU central banks, the impacts

of digitisation on the economy, low wage growth in a number of EU countries, and gender balance and career advancement in the ECB.

CNB representatives were actively involved in the activities of all 13 committees of the European System of Central Banks (ESCB) and a large proportion of its sub-committees and working groups. The CNB also participated in the process of assessing relevant draft EU and Member State legislation in the form of written consultations with the ECB. The CNB commented on the ECB's opinion on the EU instrument for convergence and competitiveness for the euro area and the ECB's opinion on a draft Estonian law on national defence.

#### Relations with EU Council, EU Committee

Within the bounds of its competence, the CNB participates to a limited extent in the meetings of some formations of the EU Council and its working and advisory bodies. These include, for example, the informal meetings of the Economic and Financial Affairs Council (ECOFIN), the Economic and Financial Committee (EFC) and the Economic Policy Committee (EPC). In its role as an advisory body to the government, the CNB also helps prepare the positions of government representatives for relevant negotiations and the general positions of the Czech Republic on strategic and legislative EU documents and its participation in the European Commission's public consultations. The CNB does so primarily through its involvement in the activities of the EU Committee at the working and government levels and the Committee's ministerial coordination groups.

In 2019, the debate about the completion of the Economic and Monetary Union continued at the EU level. The ambition in this area was to make greater progress in negotiating the key building blocks of the banking union and to complete the reform of the European Stability Mechanism (ESM). These goals were met only to a limited extent. As regards the banking union, efforts to find a compromise on the European Deposit Insurance Scheme (EDIS) in December resulted in the proposal of a new roadmap for its completion. However, the proposal was not adopted. The negotiations on individual unresolved issues will thus return to the technical level in 2020. By contrast, some progress was made in the negotiations on the Budgetary Instrument for Convergence and Competitiveness (BICC) for euro area countries and the similar instrument for non-euro area ones (CRI). As regards the reform of the ESM, general agreement was reached at Eurogroup level on all key issues (a nominal cap on the common backstop, including the option of earlier introduction, the degree of information sharing between the ESM and the Single Resolution Board, and a collective action clause) at the end of 2019 following complicated negotiations.

The CNB was actively involved in the intensive work performed last year in relation to the capital markets union. Although most of the proposals contained in the related 2015 action plan had been adopted, an assessment of the implementation of the capital markets union revealed that a large proportion of its goals had not been achieved. In its December conclusions, the ECOFIN Council therefore emphasised the need to remove barriers to cross-border capital flows, to enhance access to capital market finance for SMEs, to promote financial literacy so as to increase consumers' participation in the capital market, and to identify ways to support sustainable economies and digitalisation.

The situation in 2019 was also strongly affected by the final phase of the negotiations on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the EU. Despite repeated postponements of the withdrawal date, there was still a risk of a hard Brexit, in the event of which the UK would become a third country for the EU overnight with no transition period. To minimise the negative impacts and uncertainties related to this, the CNB was involved in work on a draft law amending certain matters in connection with the withdrawal of the UK from the EU, which entered into force on 14 March 2019 and would take effect if the UK left the EU without a withdrawal agreement. The CNB will continue to follow the negotiations on future relations between the EU and the UK in 2020 and assess their results so that it can respond to the new form of relations in good time.



Following the announcement by Bulgaria and Croatia of their intention to enter the Exchange Rate Mechanism (ERM II), and in light of their subsequent steps in that direction and the additional de facto entry conditions set for them by the euro area members, the CNB prepared a document about the conditions for ERM II entry, which was discussed at government level by the EU Committee. In this regard, the CNB asked the EU Council's Legal Service to prepare an opinion explaining the general conditions of ERM II entry laid down in EU law, including the requirement for simultaneous entry of an ERM II applicant to the banking union. In the document, the CNB summarised the past developments in this area and its disagreement with them, emphasising the potential implications for the Czech Republic (the obligation to join the banking union at the same time as entering ERM II). The CNB also presented its objection to the precedent created by the approach applied to Bulgaria and Croatia at an EFC meeting in September 2019.

Other topics monitored by the CNB included the negotiations and debate on anti-money laundering and terrorist financing measures and the manner of regulation of crypto-assets.

### International Monetary Fund

The CNB monitored and assessed the activities of the International Monetary Fund (IMF) on an ongoing basis and actively engaged in the discussions about the international monetary and financial system, including those held at the IMF and World Bank yearly spring and annual meetings in Washington, D.C., which were attended by Deputy Governor Marek Mora.

In 2019, the priority topic was the fifteenth general review of quotas, which was supposed to be completed by the IMF's annual meetings in October at the latest. However, the review was not finalised until early 2020 and with no agreement among the members on the fundamental issue of an increase in quotas. The IMF expressed the need to maintain the current level of funds and, due to the expiry of the existing bilateral loan agreements, called for the implementation of a package to increase its funding under the NAB multilateral borrowing arrangement and the initiation of a new round of bilateral loans. Another fundamental debate concerned enhancing the IMF's surveillance of the global economy and the economies of its member countries to better reflect the current challenges. In this context, the IMF launched comprehensive surveillance reviews, reviews of financial stability assessment programmes and reviews of the framework for conducting debt sustainability analyses of market-access countries. In the area of lending, the IMF reviewed its facilities for low-income countries and the design and conditions of its financial programmes.

Through its active membership in the Central and Eastern European constituency, the CNB was involved in the decision-making of the IMF Executive Board. In 2019, the Board approved, among other things, the provision of financial aid to several countries facing balance-of-payments problems. The largest new financial programmes were approved for Ecuador and Pakistan. The Executive Board also renewed the existing precautionary credit line for Mexico in a lower amount of SDR 44.6 billion (500% of quota). The programme for Argentina amounting to SDR 40.7 billion (1,277% of quota) was de facto suspended due to a deterioration in the country's economic situation following the primary presidential elections in August 2019.

The CNB continued to be involved as a creditor in providing assistance to IMF member countries in 2019. As regards the other financial transactions between the Czech Republic and the IMF, the CNB Bank Board decided in June 2019 to extend the bilateral loan agreement of up to EUR 1.5 billion signed in October 2017 by one year to December 2020. In November 2019, the Bank Board decided to extend the 20-year interest-free loan of SDR 5.7 million provided to the IMF in 2000 for the purposes of debt relief for low-income countries by another ten years (to February 2030).

The annual IMF Article IV mission to the Czech Republic took place in May 2019 to assess economic and financial developments in the country. In addition to the real economy, the main issues monitored were the monetary policy stance, the inflation outlook and developments in the banking sector and the financial stability area. The mission also focused on assessing anti-corruption measures and anti-money laundering and terrorist financing measures. The IMF concluded, among other things, that the new macroprudential recommendations relating to the housing market required more time to have an effect. However, the

measures might yet have to be tightened further due to rising property prices. The IMF supported giving the CNB legal powers in this area.

### CNB activities in other international organisations

As usual, the CNB Governor attended the regular meetings of central bank governors of the member countries of the Bank for International Settlements (BIS). He also attended the meetings of the Central Bank Governors' Club of Central Asia, Black Sea Region and Balkan Countries. The Club's autumn meeting was hosted by the CNB in Prague as part of the celebrations of 100 years of the koruna.

A CNB Deputy Governor represented the CNB at two meetings of the Basel Consultative Group (BCG), which is part of the Basel Committee on Banking Supervision (BCBS). The meetings widely discussed the issue of proportionality of the Basel standards (the BCG and the BCBS published a joint statement in November 2019). Deputy Governor Marek Mora co-chaired a meeting of the Regional Consultative Group for Europe of the Financial Stability Board (RCGE FSB) in Bucharest in May and in that capacity attended the FSB Plenary Meeting in New York. The CNB contributed significantly to the discussion about streamlining the RCGE by, among other things, sharing the experience it had gained during its co-chairmanship. The measures agreed were endorsed at the RCGE meeting in Basel in November, where the CNB was represented by Deputy Governor Tomáš Nidetzský. The CNB attended the meetings of the Group of Banking Supervisors from Central and Eastern Europe (BSCEE) and the related conference.

In addition, the CNB was represented at the meetings of a number of OECD working bodies, particularly the Economic Policy Committee and the Committee on Financial Markets. A CNB representative also attended the annual meeting of the European Bank for Reconstruction and Development (EBRD) in May 2019.

In 2019, the CNB continued to work closely with major rating agencies (Moody's, Fitch and Standard & Poor's) on setting the Czech Republic's sovereign rating. In this connection, it organised four review missions in the country. In October 2019, Moody's upgraded the Czech Republic's sovereign long-term foreign and domestic debt rating to Aa3, i.e. the fourth-highest investment grade, for the first time in 17 years.

### Foreign technical assistance

The CNB's systematic and active structured approach make it a sought-after provider of foreign technical assistance.

A total of 15 events to provide technical assistance to foreign partners were held in 2019. Six seminars were attended by 108 experts from 35 central banks, and seven consultations took place for 26 participants from seven central banks, mainly from the Philippines, Jordan, Turkey, Georgia and Albania. Two consultations were also held abroad – in Azerbaijan and Turkey.

CNB staff also provided technical assistance in cooperation with the IMF. They participated in three ad hoc events in Belarus, Kazakhstan and Ukraine as part of IMF missions.

In the area of technical assistance, the CNB also gained a prestigious position in an EU-funded programme to enhance the capacity of central banks in the Western Balkans with a view to integrating them into the ESCB.

In September 2019, the CNB – in partnership with the Alliance for Financial Inclusion (AFI) – co-organised an international conference *Global Dialogue on Regulatory Approaches for Inclusive FinTech*, which was attended by 80 experts from all over the world. The conference was intended for representatives of financial market regulators in advanced and emerging countries.





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The statue of the Genius and the Lion was made for the Živnostenská banka headquarters in 1900 in Antonín Hoffmann's workshop according to a model by the Czech sculptor Antonín Popp. It was moved from its original location when the new banking palace, which later became the CNB headquarters, was built.

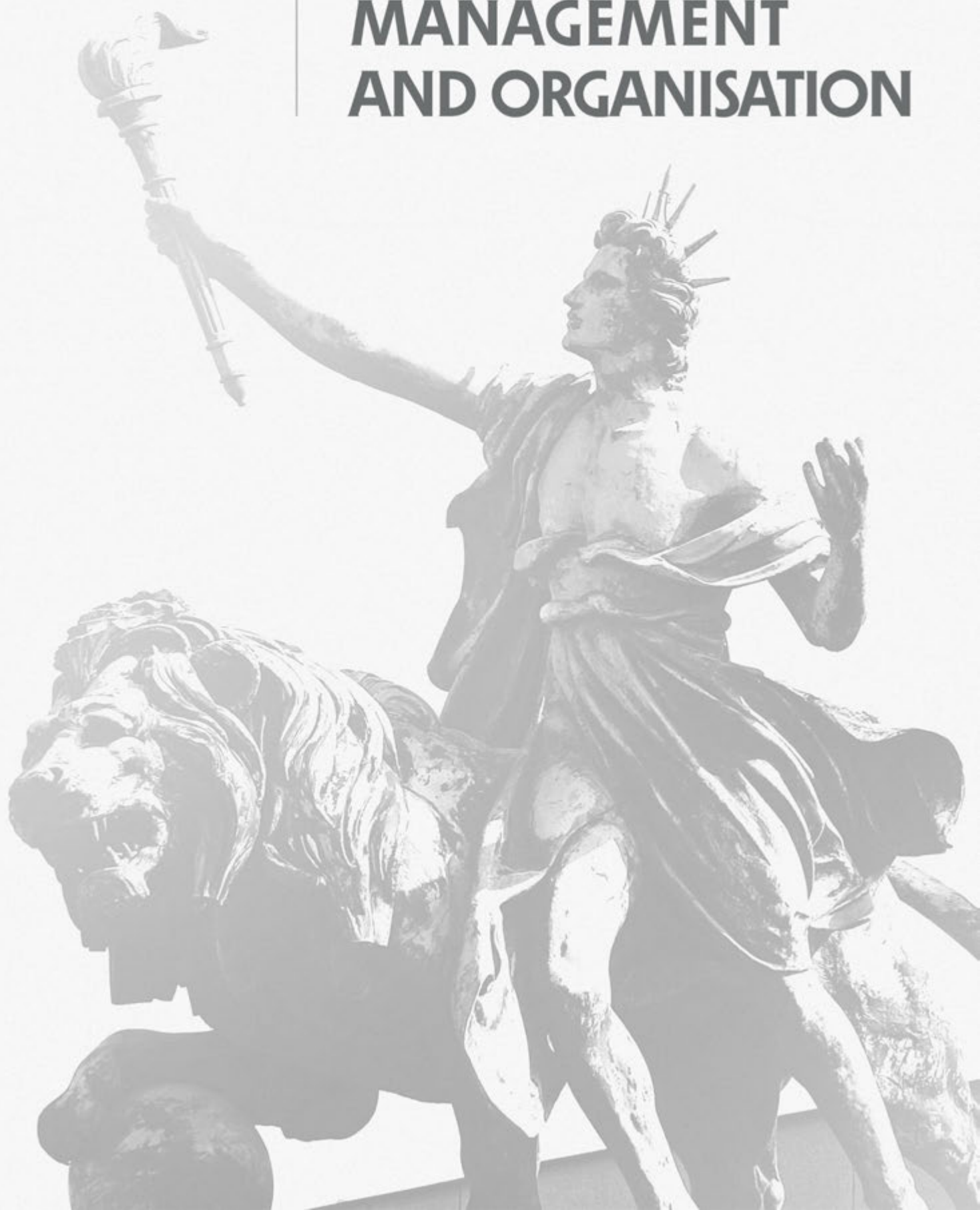
The statue is an allegory of progress and strength. It comprises a figure of a striding genius in a fluttering robe holding aloft a flaming torch. At his side is a lion holding a ball in its front right paw.

The hollow and sheathed sculpture is one of the few beaten-metal statues in the Czech Republic. It was made using the same technology as the Statue of Liberty in New York.

A time capsule containing documents about the history of the central bank was placed in the statue in the 1960s. In 2019, the contents of the time capsule were supplemented with documents and objects relating to the celebrations of 100 years of the Czech and Slovak koruna.

# III.

## MANAGEMENT AND ORGANISATION



### III. MANAGEMENT AND ORGANISATION

#### III.1 ORGANISATIONAL CHART AS OF 31 DECEMBER 2019



The CNB has a two-tier management system. Fundamental decisions relating to the maintenance of price stability, which is the central bank's primary objective, the maintenance of financial stability and other tasks corresponding to the CNB's defined areas of competence 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 the CNB's organisational units (departments).

The CNB's organisational structure consists of a headquarters in Prague and six out-of-Prague offices in Brno, Ostrava, Plzeň, Hradec Králové, Ústí nad Labem and České Budějovice, where the regional offices of selected CNB organisational units (the Cash Department, the Licensing and Enforcement Department, Financial Market Supervision Department II, the Statistics and Data Support Department and the Administration Department) are located. These offices mainly perform duties in the financial market supervision area and duties related to managing money reserves, maintaining accounts under the Act on Budgetary Rules and the accounts of other clients under the Act on the CNB, and making payments for those clients. The out-of-Prague office in Ostrava operates the Central Register of Accounts.

### 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 2019).

### Executive directors of departments

These senior officers carry out the decisions taken by the Bank Board and are responsible – subject to the CNB's development strategy and plans for its individual areas of competence – 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 selected methodological management activities in their competence within the bank, 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.

### Organisational units

Departments, subdivided into divisions (and in the case of the Cash Department also into branches), are the organisational units of the CNB. 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.

Coordination and advisory bodies – committees, expert committees 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.

A Bank Board decision on a new organisational structure for the CNB's offices came into effect on 1 January 2019. It transferred and divided the related activities between the relevant organisational units of the CNB. The Cash and Payment Systems Department was renamed the Cash Department as part of this organisational change. The Cash Department took over activities in the area of money reserves management, money circulation and payments for CNB clients from the CNB's former branches and the branches in Prague, Brno, Ostrava and Hradec Králové were subsumed into it. Management of the interbank settlement system CERTIS and the Short-term Bond System (SKD) was transferred from the Cash and Payment Systems Department to the Risk Management and Transactions Support Department and the payment services methodology was transferred to the Budget and Accounting Department. All the operational, technical,



The CNB changed the organisational structure of its offices in 2019

administrative and security activities of the CNB's branches were incorporated into the Administration Department and personnel management of the CNB's branches was transferred to the General Secretariat.

With effect from 1 August 2019, changes were made in connection with an amendment of the Act on Insurance and Reinsurance Distribution. The provisions of the new law were incorporated into the rules and conditions for supervision of this financial market segment. At the same time, independent loss adjusters were excluded from the scope of CNB supervision. In this connection, the Bank Board's competence to establish examining boards for assessing the professional expertise of insurance agents and insurance brokers was abolished.

With effect from 1 October 2019, minor changes were made to the internal structure of the CNB. A new Financial Research Division was established in the Financial Stability Department. In the Financial Market Supervision Department, an Insurance and Pension Companies Supervision Division was established and the former Prudential Supervision Division was renamed the Credit Institutions Supervision Division.

### III.2 HUMAN RESOURCES

Human resources management and staff welfare are vitally important to the CNB, as its employees are key to the successful fulfilment of all its activities and duties.

The main challenges for the CNB in human resources management are the tight Czech labour market and the related need to streamline the recruitment of new employees and stabilise the existing workforce, and adjustment to new trends in pay, bonuses and benefits.

#### Staff motivation and recruitment

The principle of long-term employment at the CNB is beneficial to the central bank not only in terms of staff costs, but also from the social point of view and in particular as regards sustainability of know-how in each of the CNB's areas of work.

The CNB's comprehensive remuneration system, performance appraisal system and benefit system are the main tools for stabilising its workforce.

Its transparent and fair wage system significantly helps the CNB to attract high-quality job applicants on the one hand, and to motivate, stabilise and develop its existing workforce on the other.

Staff appraisal is used for assessing employees' work in the previous period and setting main goals and development activities for the next half-year. Performance appraisal naturally adds value by supporting staff motivation and identifying talent in the existing workforce.

The benefit system includes benefits such as five weeks of annual leave and additional rest days, life insurance and private pension contributions, and long-term sickness allowance. The CNB also organises activities promoting employee belonging.

According to a survey conducted by Universum, the CNB ranks among the three most attractive employers in the Czech Republic among students of economics. This status aids the CNB in its systematic search for qualified employees. Vacancies are advertised on the CNB website and on job sites. The CNB also actively searches for suitable candidates and approaches them directly. The recruitment of new staff usually involves several rounds, in which the necessary qualifications and expertise and personal attributes of applicants for jobs at the CNB are tested.

Personnel expenses, comprising 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 1,793 million in 2019, up by about 6% on a year earlier.



**Salaries of Bank Board members in 2019**

(in CZK)

Bank Board Member	Gross salary <sup>1)</sup>	Net salary <sup>2)</sup>
Jiří Rusnok	5,687,503	4,077,358
Marek Mora	4,575,811	3,275,265
Tomáš Nidetzký	4,542,559	3,285,890
Oldřich Dědek	3,838,916	2,743,594
Vojtěch Benda	3,852,481	2,788,001
Tomáš Holub	3,854,905	2,789,742
Aleš Michl	3,805,149	2,753,838

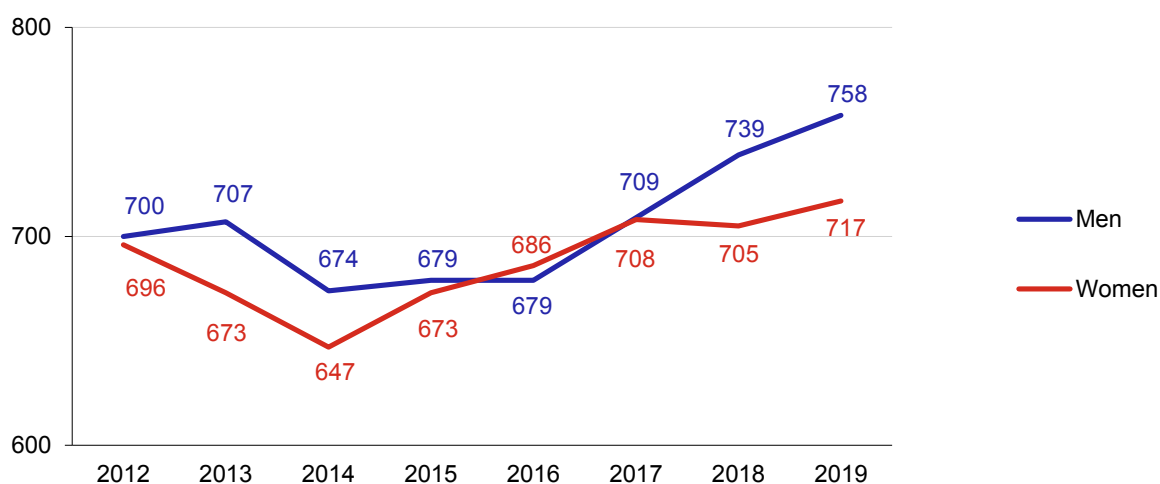
1) The gross salary comprises the basic wage, performance-related bonuses and compensation for salary pursuant to the Labour Code.

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

**Education, age and gender structure**

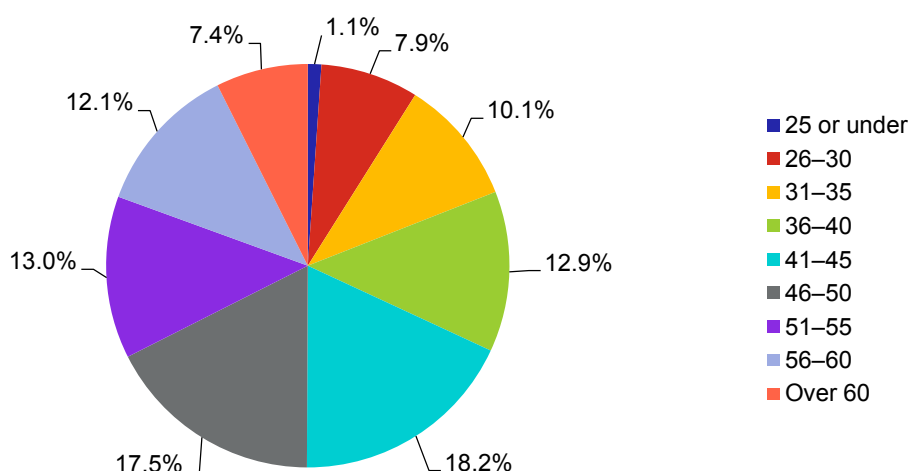
The CNB abides by the principle of equal opportunities for staff, regardless of, among other things, gender, nationality, religion, sexual orientation, ethnic origin, age, cultural background or disability. This approach creates a balanced age, gender and skills structure at the CNB in the long term.

As in previous years, the shares of men and women in the CNB workforce remained broadly balanced in 2019.

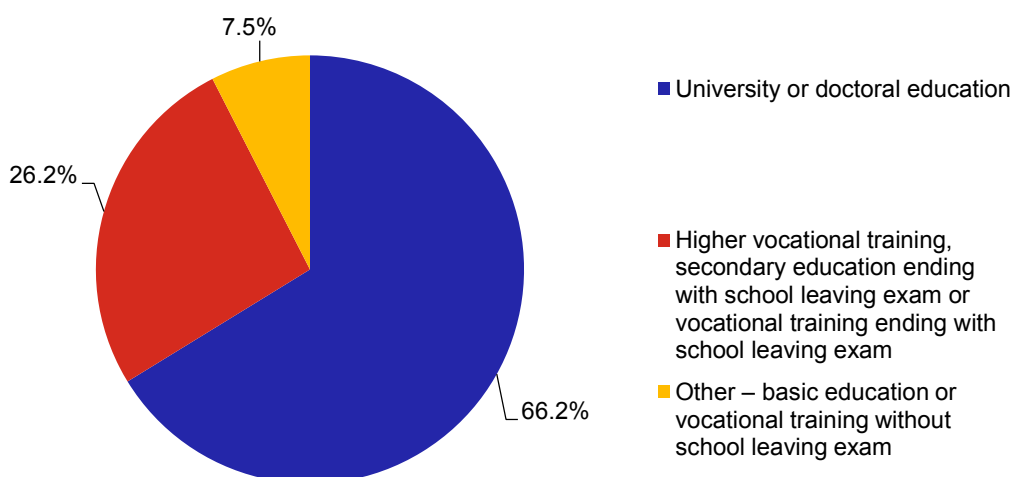
**Numbers of men and women employed at the CNB**

The age structure of CNB staff has long shown little change from one year to the next. Having every age category represented in working teams ensures that those teams function properly and smoothly absorb changes stemming from generational turnover.



**Age structure of employees as of 31 December 2019**

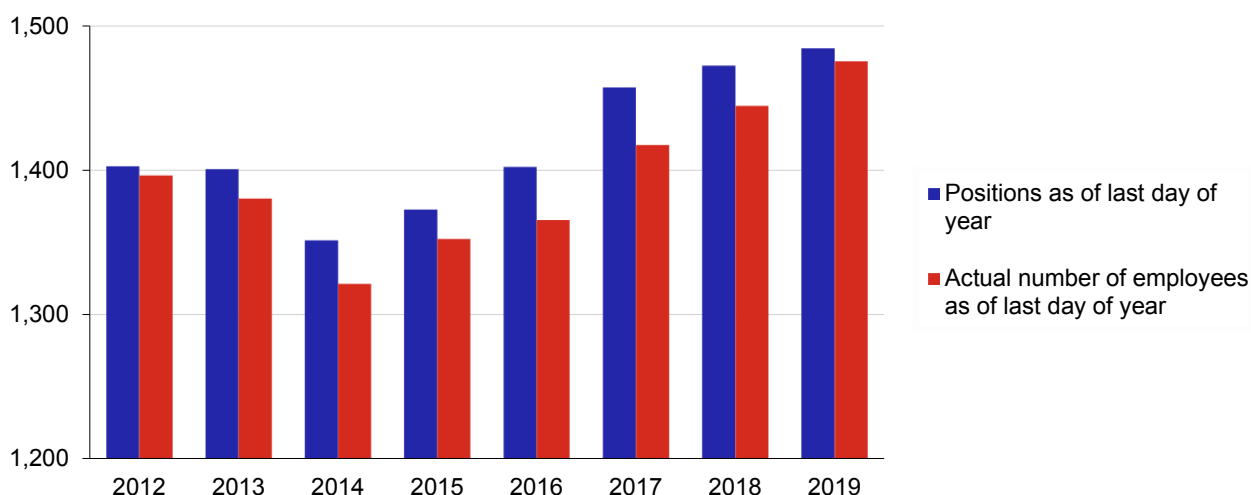
The workforce education structure, which is dominated by highly educated employees, reflects the complexity of the CNB's activities and the related expertise required of CNB staff.

**Employee structure by highest level of education attained as of 31 December 2019**

The CNB increased the number of positions in its workforce by 13 in 2019. It was able to cover natural attrition and fill vacancies.

The CNB had 1,475 employees as of 31 December 2019, 31 more than at the end of 2018. The overall staff turnover rate in 2019 was 5.8%, down by 2.5 percentage points compared with 2018. The average length of employment at the CNB increased slightly year on year to 14.1 years.

## Number of employees and number of positions



## Staff training

Staff training is an important area for the CNB, as it significantly contributes to the development of the staff expertise necessary to fulfil the tasks and objectives of the CNB. It also increases the CNB's attractiveness as an employer. The professional development programme encompasses a wide range of activities, from internal training organised at the CNB, through training provided by domestic external organisations (including university studies and language tuition), to training provided in other countries. The total direct costs (tuition fees excluding transport and accommodation costs) of CNB staff training amounted to CZK 14 million in 2019.

In 2019, the CNB organised a wide range of training activities for its employees, mainly in the fields of central banking, information technology and soft skills. The training took the form of internal courses, seminars and workshops, which were run by CNB experts and external training agencies and qualified lecturers. The management training programme was also developed in 2019. International seminars, workshops and consultations are a key element of the professional development of CNB staff. Attendance at such events gives CNB experts an opportunity to exchange information, experience and knowledge with colleagues from other central banks, supervisory authorities and other foreign institutions. The main topics of these training events were financial stability, monetary policy, economic modelling and financial markets, the use of data in financial market supervision units, statistical analysis and technological innovation in the financial sector (FinTech). Besides central banks, the organisers included the International Monetary Fund (IMF), the Joint Vienna Institute (JVI), the Financial Stability Institute (FSI) and the Study Center Gerzensee.

In 2019, employees of CNB supervisory units also continued to attend seminars organised by the authorities responsible for supervising the individual sectors of the financial market in the EU – the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA). The CNB also contributed to organising supervisory training events under the European Supervisor Education initiative. Moreover, the CNB gained access to Single Supervisory Mechanism (SSM) training programmes for its employees in 2019.

The CNB was also actively involved in preparing and organising courses. It hosted 18 international training events, attended by a total of 207 experts from other EU central banks, in 2019.



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The CNB issued a heavyweight CZK 100 million gold coin in 2019 to mark the 100th anniversary of the Czech and Slovak koruna. It is the largest gold coin in Europe and the second largest in the world.

The coin was designed by the sculptor and medal maker Vladimír Oppl, who also designed the Czech 20-koruna and 50-heller circulating coins, acclaimed gold coins, and the badge of the Order of Tomáš Garrigue Masaryk.

The production of the gold coin was a unique project and involved the use of some special processes. The coin was made for the CNB by the Czech Mint and its foreign subcontractors. The plaster model of the coin was first scanned to create a three-dimensional image. This was then modified and milled into a gold cylinder. The process of milling the cylinder and engraving and polishing it into its final form reduced its weight by around half to a final 130.24 kg.

The coin was unveiled in January 2019 at an exhibition held at Prague Castle. It was then put on show in the People and Money exhibition, which is located in a former strongroom at the CNB headquarters in Prague.

# IV.

## PUBLIC RELATIONS



## IV. PUBLIC RELATIONS

### IV.1 COMMUNICATIONS

The CNB's primary communication objectives are transparency and clarity. Fulfilment of those objectives hinges on its ability to conduct a debate not only with financial market participants, analysts and the financial institutions that it supervises, but also with the media and the general public.

The CNB therefore tailors its forms of communication to its target groups and uses various channels – its website, press conferences and publications for official statements, and Twitter, Facebook, YouTube and LinkedIn for accompanying information activities. The CNB launched a new website in April 2019. Its modern graphic style and responsive design have made content browsing more reader-friendly, with the layout actively adjusting to the user's end device. The new website also features enhanced security and new and improved functions.

In 2019, the public continued to view the CNB as a stable and independent institution that builds on the expertise of its staff. According to an opinion poll conducted by STEM in the second half of June 2019, 67% of the Czech population had confidence in the central bank. This makes it one of the most credible public institutions in the Czech Republic.

#### Main communication topics

Besides the traditionally most closely followed topic – the CNB's monetary policy – the public often searched for information on mortgage lending rules in 2019. There was also interest in information on commemorative banknotes and coins, partly due to distribution of CZK 20 circulating coins bearing portraits of the founding fathers of the Czechoslovak currency – Alois Rašín, Vilém Pospíšil and Karel Engliš – through the CNB's branches at the end of 2019 amid huge media and public interest. The new rules for bureaux de change initiated by the CNB, which came into force in April 2019, also generated a media response.

#### The 100th anniversary of the Czech and Slovak koruna

The motto and focus of proactive communication last year was the 100th anniversary of the Czech and Slovak koruna, which was also reflected in the CNB's visual style. The CNB held several events to celebrate the anniversary, the highlight of which was an exhibition about the history of Czech currency at Prague Castle in spring 2019. The CNB had a unique heavyweight gold coin (130 kg in weight and 535 mm in diameter) made specially for the occasion. It became the symbol of the celebrations and the leitmotif of the CNB's visual style for the anniversary year 2019. After the exhibition, the gold coin was moved permanently to the People and Money exhibition located in a former strongroom at the CNB's headquarters in Prague.

The main event of the celebrations in the area of the CNB's expert activities was an international conference *The Future of Monetary Policy: What Can We See as the Dust Has Settled?* held in May and attended by top representatives of foreign central banks and renowned world economists. The highlight of the programme was a panel consisting of representatives of central banks of countries whose currency is the crown and which use inflation targeting to manage monetary policy. More detailed information is given in the *Economic and Financial Research* section.

The celebrations of 100 years of the Czech and Slovak koruna culminated with the CNB Open Day held in September 2019. More than 3,000 people visited the main building in Na Příkopě, which the CNB opened to the public for the first time in three years, and more than 2,000 people attended the programme in the adjacent CNB Congress Centre and viewed the gold coin commemorating the 100th anniversary of the koruna. On this occasion, the CNB unveiled a real 3D model of the gold coin and launched the *Jubilejní emise 2019* app for mobile phones and tablets.

As in previous years, the central bank's representatives liaised closely with the Czech regions in 2019. To mark the 100th anniversary, the CNB held a series of discussion panels on monetary policy, financial



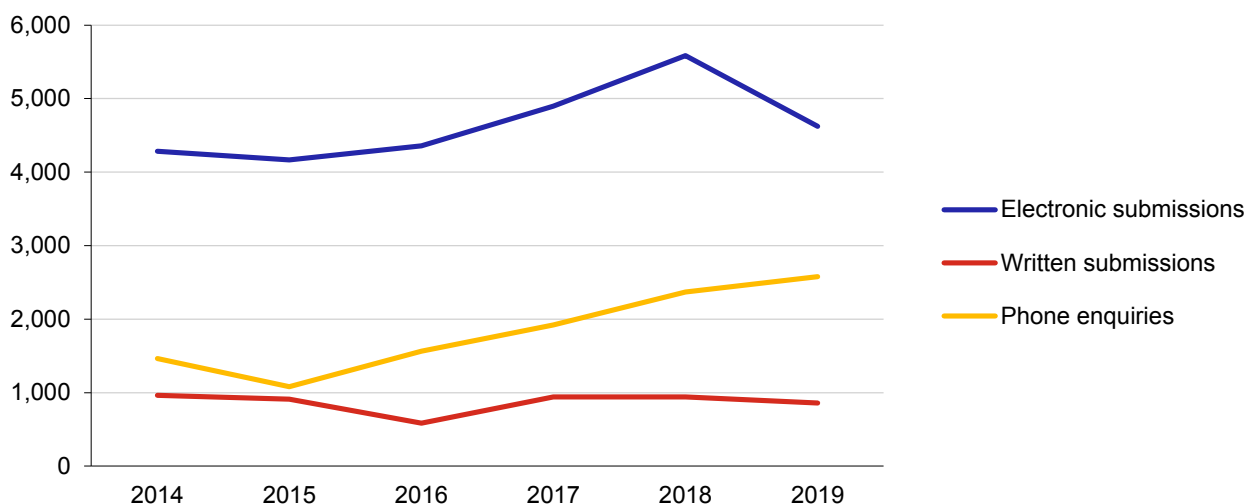
stability and money circulation at the universities in Brno, Ostrava and Hradec Králové. A round table, at which the Governor and other Bank Board members traditionally debate with representatives of firms in a selected region, was held in Jihlava. This completed the CNB's visits to all regional cities in this format over the last five years.



#### Written, electronic and telephone submissions

The CNB handled 2,578 telephone enquiries (compared with 2,369 in 2018) as part of its direct communication with the public. This rise mainly reflected increased public interest in the anniversary CZK 20 coins bearing portraits of the founding fathers of the Czechoslovak currency. In 2019, the CNB also replied to 4,652 electronic submissions (including complaints, suggestions and enquiries) and 857 written submissions from the public.

#### Numbers of submissions and enquiries from the public handled





### Financial and economic literacy

To support financial literacy, the CNB worked with the [Money on the Run](#) (*Peníze na útěku*) website, which offers advice and guidance to the public on how to create and manage a personal and family budget, and with the highly rated Czech Money app, which focuses on the security features of Czech banknotes.

The CNB was also involved in the Economics Olympics in 2019. The third annual edition of this event, organised by the Institute of Economic Education, was held under the official auspices of CNB Deputy Governor Tomáš Nidetzký. All the finalists who progressed from the regional rounds were allowed to compete for the CNB Award. For the first time, the finalists gave presentations on one of three announced topics relating to the central bank's activities in three-minute vlogs.

In 2019, the CNB also supported the 11th edition of the competition for secondary school pupils for the best essay on financial literacy. The competition is organised by the School of Business Administration of the Silesian University in partnership with the CNB and the town of Karviná.

## IV.2 PROVISION OF INFORMATION UNDER ACT NO. 106/1999 COLL., ON FREEDOM OF INFORMATION

The CNB provides information pursuant to Act No. 106/1999 Coll., on Freedom of Information, as amended (hereinafter the "Act") by way of disclosure on the internet, primarily at [www.cnb.cz](http://www.cnb.cz), or to applicants on the basis of applications. The following text gives details on applications for information under the Act in 2019.

1. Number of applications for information under the Act: 101
2. Number of decisions refusing an application: 6
3. Number of appeals submitted against decisions: 2
4. Court judgements relating to the CNB in the area of provision of information: 0
5. Number of exclusive licences granted, including justification of the need to grant exclusive licences: 0
6. Number of complaints submitted under Article 16a, reasons for their submission and a brief description of the manner in which they were dealt with: 5
  - The complaints contested the CNB's action in dealing with applications consisting in an objection that in its reply the obliged entity had not provided the complainants with all the requested information; three complaints were dealt with in the same manner under the procedure laid down in Article 16a(5) of the Act, with a decision refusing or partly refusing the application being issued. Two complaints were upheld and the information was provided.
7. Other information relating to application of the Act:
  - The number of applications received increased significantly from 71 in 2018 to 101 in 2019.

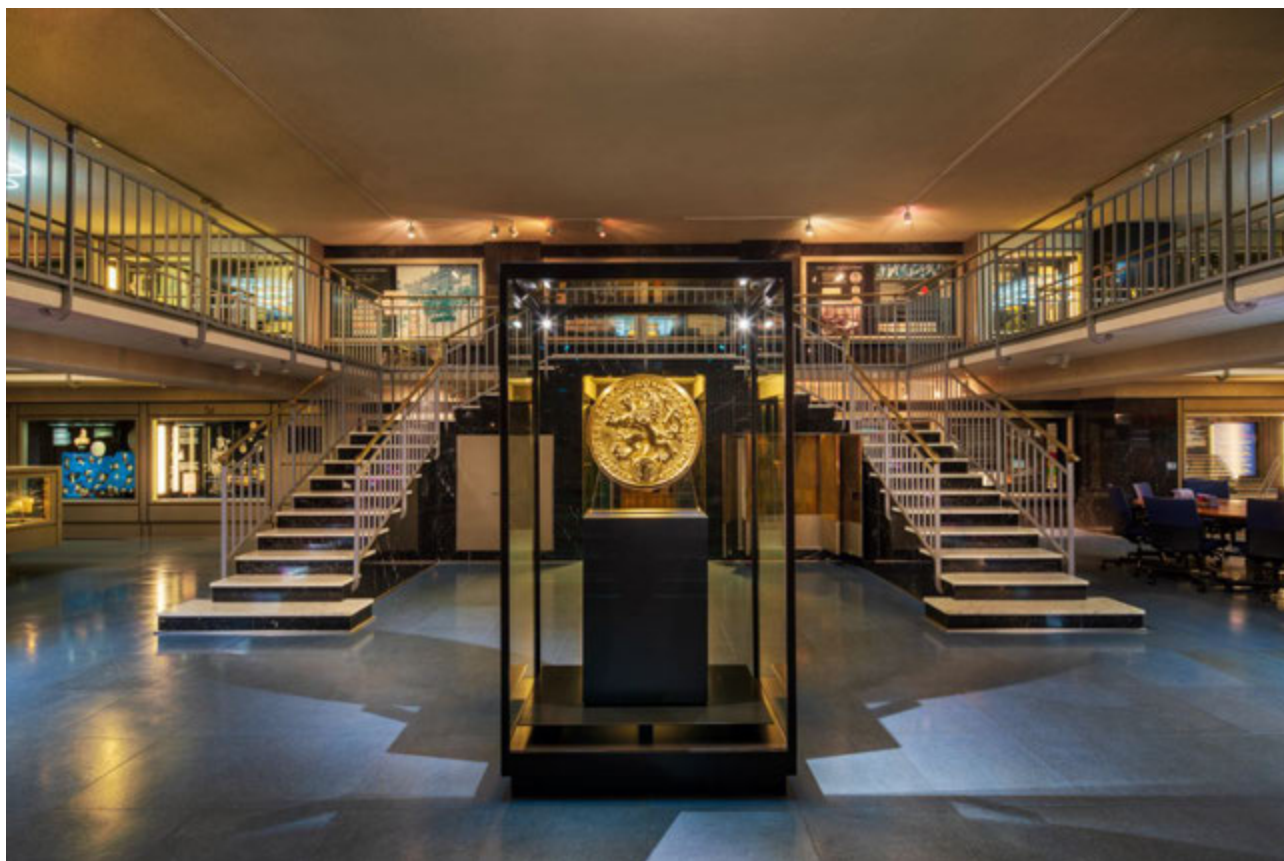
The applications pertained to a broad range of information. The queries concerned, for example, statistics (interest rates, reporting), the circulation of banknotes and coins, legislation, and the CNB's organisation structure. A large proportion of the applications consisted of queries relating to the CNB's supervisory work in all financial market segments, including queries about licensing and enforcement activities.

## IV.3 EXHIBITION

The CNB offers the public the opportunity to visit the [People and Money exhibitions](#) in Prague and Brno. Both exhibitions provide visitors with information about the history of money in the Czech Republic, with the Brno exhibition accentuating the specificities of this subject in Moravia. In addition to banknotes and coins,

there are exhibits demonstrating the production of banknotes and coins and the history of money and the financial system in the Czech lands. The Brno exhibition is also partly dedicated to Jiří Harcuba, a major Czech medal maker and graphic designer who designed, among other things, the current CZK 5 coin and numerous commemorative coins.

The heavyweight CZK 100,000,000 gold coin which the CNB had made to mark the 100th anniversary of the introduction of the Czechoslovak koruna was moved to the exhibition in Prague in May 2019. As in previous years, both exhibitions participated in the Museum Night Festival in 2019. The exhibition in Prague was also accessible during the CNB Open Day in September, which ended the CNB's celebrations of the 100th anniversary of the Czech and Slovak koruna.



#### IV.4 SPECIAL LIBRARY

The primary mission of the [CNB's special library](#) is to provide CNB staff and outside specialists with lending, advisory, reference, bibliographic 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 86,000 publications, 700 periodicals and a large number of research reports and annual reports.



The CNB special library offers the public a wealth of economic and other specialised literature

The library uses the Verbis information system with the Portaro search engine for all library and lending processes. The system offers user-friendly search of relevant documents, including the option of creating and managing user accounts via a web interface. The library's electronic catalogue is also being built up in the Verbis system; records are regularly sent to the Union Catalogue of the Czech Republic. Since 2019, users have been able to borrow from a collection of economic and legal e-books.



The library is located on the first floor of the Hypšman extension of the Commodity Exchange, Senovážné náměstí 29, Prague 1. It is open Monday to Thursday from 9 a.m. to 5 p.m. and Friday from 9 a.m. to 3 p.m.

#### IV.5 ARCHIVE

The [Archive](#) is one of the most important memory institutions at the CNB. It cares for the archive documents produced by the CNB and its legal predecessors. All year round, the Archive's research room provides those interested in studying with an opportunity to view documents more than 30 years old giving an economic perspective on the history of the Czech lands and Central Europe. The documents are part of 65 archive collections produced mostly by financial institutions.

The CNB Archive aims to make its archive collections as accessible to the general public as possible, primarily through thematic short-term exhibitions. In connection with the celebrations of the 100th anniversary of the Czech and Slovak koruna, it participated in the preparations for the *100 years of the koruna* exhibition and put together an exhibition *The koruna or the franc* to commemorate the events relating to the introduction of the Czechoslovak koruna in 1919.

#### IV.6 CONGRESS CENTRE

The [CNB Congress Centre](#) is located in the listed building of the former Commodity Exchange. In 2019, it hosted meetings between the CNB's top management and representatives of central banks of other states, financial market representatives, staff associations and trade unions, analysts and journalists. The CNB's specialised units held conferences, lectures, presentations, seminars, European Central Bank (ECB) committee and working group meetings and various training sessions there.





The Congress Centre's flexible spaces and modern technology make it one of Prague's most popular venues. External partners organised about 50 professional and social events there in 2019. The Congress Centre's clients include public and private institutions – both domestic and foreign – from various fields of activity.

#### IV.7 VISITOR CENTRE

The CNB has long been promoting financial and economic literacy among the general public. It unveiled its new project – the Visitor Centre – to the public and the media during the CNB Open Day in September. The aim of the Centre, which is being built in the former bank hall at CNB headquarters, is to present the central bank's activities and their impacts on all of us to the public.

The Visitor Centre will feature a new interactive exhibition showcasing the CNB's individual roles, along with hosting workshops, seminars and short-term exhibitions. It will also house the popular *People and Money* exhibition charting the history of central banking. This combination will give visitors a comprehensive view of the Czech currency and the institution that takes care of it. Although the CNB is targeting the content and form of the exhibition primarily at schoolchildren aged 12–16 years, the planned supporting programme will not overlook other target groups, such as younger children, teachers and senior citizens. The Visitor Centre is planning to welcome its first visitors in autumn 2021.



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The strongroom was the crowning glory of Živnostenská banka. It was used for the safekeeping of customers' valuables. Its two floors housed 20,000 boxes of various sizes, the largest being used to store valuable paintings and other artwork.

The strongroom was constructed by Tresoria as uniquely safe not only against robbery, but also, given the Nazi threat, against aerial bombardment. The walls of the strongroom were constructed from concrete and were almost one meter thick, with fittings made of armour plates. Since the 1930s, the entrance to the strongroom has been protected by an armoured door with a complex system of special locks weighing 8 tonnes.



**V.**

**FINANCIAL  
REPORT**

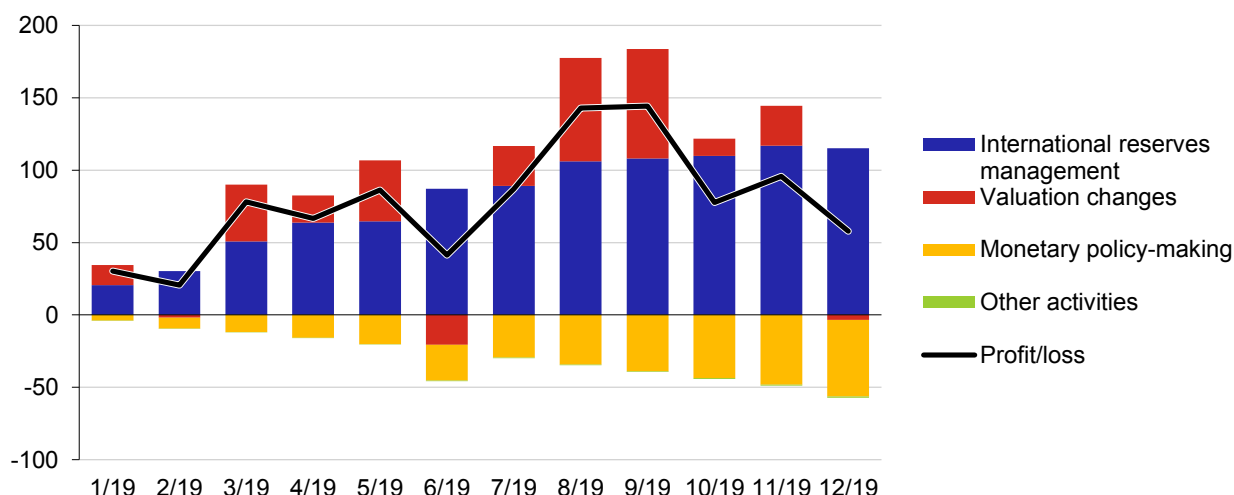


## V. FINANCIAL REPORT

The section on the CNB's performance is based on the financial statements, which, in accordance with the Czech accounting standards for financial institutions, comprise the central bank's profit and loss account and balance sheet. However, the internal structure and breakdown of the income and expense categories presented in this section is different. This is intended to clarify the links between the different categories and the activities carried on by the central bank and their impact on its profit/loss. The CNB's financial statements as of 31 December 2019 are appended to the Annual Report.

### The CNB's income and expenses in 2019

(in CZK millions)



The CNB recorded a profit of CZK 57.9 billion in 2019. This was due primarily to returns on international reserves management, which eliminated both an overall drop in the koruna value of foreign currency assets and liabilities caused by movements of the koruna exchange rate, and a significant rise in the costs of monetary policy operations.

### The CNB's income and expenses

(in CZK millions)

	Income and expenses in 2019	Income and expenses in 2018	Y-o-y change
<b>Monetary area</b>	<b>60,270</b>	<b>3,978</b>	<b>56,292</b>
Monetary policy-making	-53,053	-27,716	-25,337
International reserves management	115,146	-11,930	127,076
Valuation changes	-3,341	42,262	-45,603
Client operations	1,513	1,270	243
Other operations	5	92	-87
<b>Currency issuance and management</b>	<b>-24</b>	<b>-50</b>	<b>26</b>
<b>Operations</b>	<b>-2,348</b>	<b>-2,138</b>	<b>-210</b>
<b>Total</b>	<b>57,898</b>	<b>1,790</b>	<b>56,108</b>

The CNB uses monetary policy instruments in the pursuit of its primary objective. It steers interest rates in the domestic economy by means of open market operations, which mostly take the form of repo operations. Automatic facilities provide a standing option for depositing liquidity at the central bank or borrowing liquidity

from it, and therefore create the corridor in which short-term money market rates move. The CNB applies monetary policy rates to these operations. Owing to the systemic liquidity surplus in the Czech banking sector, its profit/loss is burdened mostly by interest expenses. Tightening monetary conditions by raising interest rates worsens its financial performance. Conversely, easing monetary conditions has a positive effect. However, it is important to emphasise in this context that the CNB takes specific monetary policy decisions in line with its primary objective, namely to maintain price stability, regardless of the impact on its profit/loss.

After the exchange rate commitment was discontinued in April 2017, domestic monetary conditions gradually tightened. Key monetary policy interest rates were increased eight times in all between April 2017 and the end of 2019. Domestic inflation pressures and inflation in the upper half of the tolerance band around the CNB's inflation target caused interest rates to move upwards in 2019. In early May, the Bank Board unanimously decided to increase the two-week repo rate by 25 basis points to 2%. At the same time, it increased the Lombard rate to 3% and the discount rate to 1%. It then left interest rates unchanged until the end of the year.

The CNB's interest expenses for repo operations and the deposit facility totalled CZK 51.4 billion. This year-on-year increase to about double the previous level was due mainly to the different levels of interest rates in periods under comparison. The banking sector deposited its liquidity mainly through liquidity-absorbing two-week repo operations, which are remunerated at a higher rate (the two-week repo rate). The CNB sterilised CZK 2,640 billion on average using this type of instrument, at a total annual cost of CZK 51.2 billion. The average value of the deposit facility declined to CZK 18 billion, with total incurred costs of CZK 0.2 billion. The portfolio of monetary policy instruments also includes the minimum reserves of banks, foreign bank branches and credit unions, on which the CNB paid interest totalling CZK 1.7 billion in 2019.

The CNB's income derives mainly from its international reserves, which are invested mostly on foreign financial markets. The income thus depends on current conditions in those markets. Like 2018, the year 2019 was rather atypical in terms of the results achieved. The overall income of CZK 115.1 billion excluding valuation changes benefited mainly from a recovery across all major stock markets. Growth in the value of the stock indices represented, coupled with their dividend component, contributed aggregate annual income on the equity portfolio of CZK 68.7 billion. The bond portfolios, in which the largest proportion of the international reserves is deposited, contributed net income of CZK 52 billion, due largely to the capital component, stemming from a decline in yield curves, complemented by the interest rate component. Money market investments have long showed very weak performance due to the expansionary policies of the ECB and the Riksbank, which are resulting in negative nominal yields on the instruments available in this market. The loss on the euro money market was outweighed by investment on the dollar money market.

International reserves are divided internally into two parts. The liquidity tranche of the portfolio accounted for 47% of the total market value of the international reserves at the year-end. The return measured in reserve currencies was 0.21% p.a. (see the table in the section *International reserves management*). The portfolio comprises fixed-income investment instruments in euros and dollars with a maturity of up to one year. Its weaker performance was due to negative interest rates in the euro area. The investment tranche of the international reserves accounted for 53%, and the weighted average of the returns on the portfolios in foreign currencies was 7.14% p.a. The higher return was due to a recovery in foreign stock markets combined with capital returns on the bond tranche of the portfolio.

The domestic currency was very stable against the euro. With only very brief exceptions, the koruna fluctuated in a very narrow band, ending the year at CZK 25.410 to the euro. This represented a year-on-year appreciation of CZK 0.315, or 1.2%. The CZK/USD currency pair was more volatile. The koruna gradually depreciated against the dollar in the first half of the year. The domestic currency appreciated quickly in June in response to statements made by the Fed and the ECB regarding possible monetary policy easing. This lasted only briefly, since the dollar started to appreciate again on world markets as the global economic risks to future economic growth increased. The koruna maintained stronger positions against the

dollar at the end of the year, probably due to progress in resolving trade wars and avoiding a hard Brexit, which was a positive signal for international trade and improved the prospects for open European economies. In addition, the Czech koruna was supported by relatively high domestic interest rates. The koruna ended 2019 at CZK 22.621 to the dollar. This represented a slight year-on-year appreciation of CZK 0.155, or 0.7%.

Taking into account all the foreign currencies held by the CNB at the end of 2019, the CNB reported an exchange rate loss of CZK 3.3 billion. A large proportion of this loss stemmed from unrealised foreign exchange gains and losses arising as a result of exchange rate movements on foreign currency assets and liabilities held in the central bank's balance sheet until the end of the calendar year. An unrealised exchange rate profit was recorded with respect to the US dollar, the Canadian dollar, the pound sterling, the yen and the Australian dollar. An unrealised exchange rate loss was recorded for euro- and Swedish krona-denominated foreign currency funds.

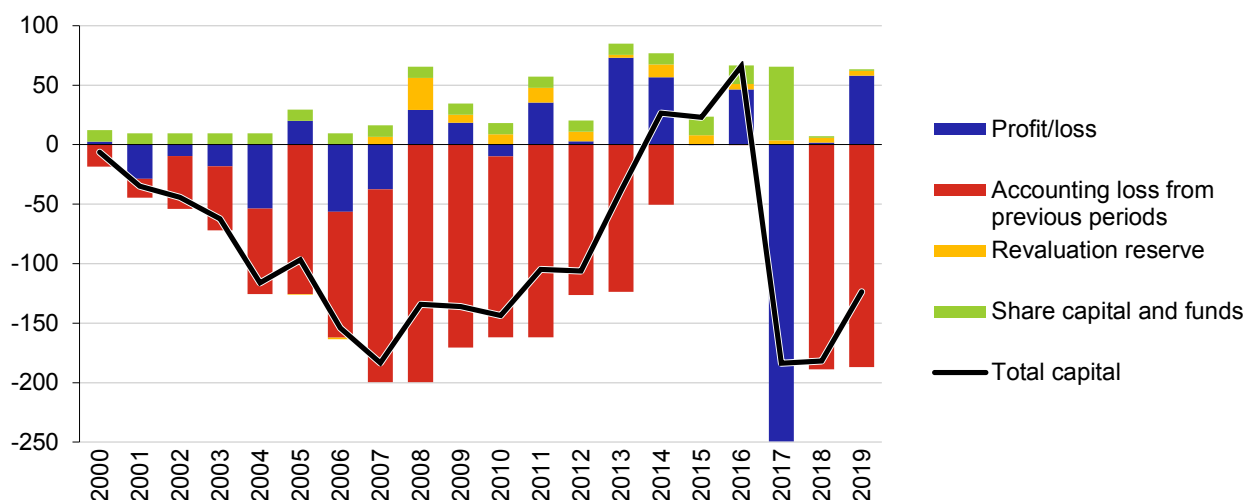
Banking services provided to the state and the public sector had the usual positive impact on profit/loss. The fees charged for maintaining accounts and providing payment and other services are set with regard to the coverage of operating costs and investments incurred in this segment. The bulk of the income was generated by conversions of foreign currency funds that the CNB as the bank of the state carried out in line with clients' orders. In this regard, the most important partner is the Ministry of Finance, which draws down EU funds and pays the Czech Republic's contributions to the European Commission's budget.

Although the CNB aims to spend efficiently and effectively, its total operating expenses have increased by 6% on average over the last five years. 2019 was no different in this respect. Operating costs totalled CZK 2.5 billion, up by 7.5% on a year earlier. Wages and mandatory insurance contributions accounted for the largest share. The ongoing growth in wages was due to an increase in the number of employees and also reflected the current labour market situation. Wages are expected to rise gradually in the years ahead as well, though at a much slower pace. Wage growth in the coming years will also be the determining factor for total operating expenses.

Efficiency is emphasised mainly in the area of operation of premises. As part of its energy strategy, the CNB has long and systemically been taking measures to reduce the energy consumption of its installed technology. It is thus contributing in no small measure to reducing the impact of its activities on the environment. For example, electricity consumption at CNB headquarters has been reduced by 32% since 2010. This represents a saving of 2.3 MWh. In accordance with the law, all buildings have energy performance certificates with ratings of "very efficient" and "efficient".

### The CNB's capital

(in CZK billions)



At the end of 2019, the CNB recorded capital with a total negative value of CZK 123.8 billion on its balance sheet. The return to negative figures relates to April 2017, when the CNB discontinued its exchange rate commitment. As the domestic currency subsequently appreciated, the koruna value of foreign currency funds declined and the bank's profit/loss was hit by unrealised exchange rate losses. They resulted in an accounting loss at the year-end and the CNB did not have a sufficient buffer to eliminate it fully. The negative value of capital decreased in the following years, as the profits for 2018 and 2019 were used to cover the 2017 accounting loss. As regards the internal structure of capital at the end of 2019, accumulated losses accounted for the largest share (CZK 187.1 billion), while the profit for 2019 accounted for CZK 57.9 billion, the revaluation reserve arising from equity and member shares in international institutions for CZK 4 billion and the statutory fund for CZK 1.4 billion. The negative capital does not pose a problem for any of the CNB's statutory activities and will be covered by future profits.

More comprehensive information about the CNB's performance in 2019 is available in the [Financial Report](#) on the CNB website.





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The CNB's current complex of buildings in Prague also incorporates the original building of the Prague Commodity Exchange, built in the Neo-Renaissance style in 1894. The palace was used for conducting exchange trades in grain and other agricultural commodities. Its heyday was in the 1920s, when it was rebuilt according to a design by Bohumil Hübschmann.

During the construction of the new Živnostenská banka palace, an underground passage linking the two buildings was created. The link between the two was formalised in 1947 when the Commodity Exchange was purchased by Živnostenská banka, which had been short of space. After the establishment of the State Bank of Czechoslovakia, however, the Commodity Exchange building was used by various entities and ultimately served – almost in its entirety – the needs of the Czechoslovak Television. It was purchased by the CNB in 1994, which reconstructed it and restored it to its original state.

Today the building is used mainly for the purposes of the CNB Congress Centre, where numerous conferences, seminars, meetings and other professional and social events are held every year.

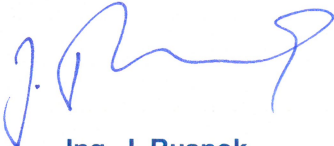

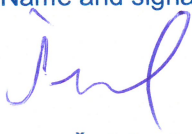
**FINANCIAL  
STATEMENTS  
AND AUDITOR'S  
REPORT AS OF  
31 DECEMBER 2019**







FINANCIAL STATEMENTS OF  
THE CZECH NATIONAL BANK  
FOR THE YEAR ENDED  
31 DECEMBER 2019

Date of preparation:	Signature of the Governor	Person responsible for accounting Name and signature	Person responsible for the financial statements Name and signature
12 March 2020	 Ing. J. Rusnok	 Ing. M. Mayer, LL.M.	 Ing. D. Šafránek, MBA

The financial statements and notes to the financial statements were approved by the CNB's Bank Board on 19 March 2020.

ASSETS		Note	2019 CZK million	2018 CZK million
1.	Gold	3.1.	493	546
2.	Receivables from the International Monetary Fund	3.2.	83 184	82 840
3.	Receivables from abroad, including securities	3.3.	3 356 214	3 167 269
3.1.	Deposits at foreign banks and financial institutions		1 335 973	1 279 864
3.2.	Securities		1 988 495	1 835 353
3.3.	Other receivables from abroad		31 746	52 052
4.	Receivables from domestic banks	3.4.	0	0
5.	Fixed assets	3.5.	3 118	3 237
5.1.	Tangible fixed assets		2 954	3 096
5.2.	Intangible assets		164	141
6.	Other assets	3.6.	6 889	6 741
6.1.	Other financial assets		4 633	4 496
6.2.	Other		2 256	2 245
TOTAL ASSETS			3 449 898	3 260 633

LIABILITIES		Note	2019 CZK million	2018 CZK million
1.	Notes and coins in circulation	3.7.	644 367	618 629
2.	Liabilities to the International Monetary Fund	3.2.	79 692	79 643
3.	Liabilities abroad	3.8.	138 795	144 299
3.1.	Loans from foreign banks		24 883	0
3.2.	Other liabilities abroad		113 912	144 299
4.	Liabilities to domestic banks	3.9.	2 408 337	2 303 096
4.1.	Loans received		2 255 227	2 130 901
4.2.	Bank monetary reserves		43 240	98 039
4.3.	Other liabilities to banks		109 870	74 156
5.	Liabilities to the state and other public institutions	3.10.	291 684	282 275
6.	Other liabilities	3.11.	10 811	14 255
7.	Provisions	3.12.	0	258
8.	Revaluation reserve	3.13.	4 029	3 893
9.	Share capital	3.13.	1 400	1 400
10.	Funds	3.13.	0	0
11.	Accumulated loss brought forward	3.13.	-187 115	-188 905
12.	Profit or loss for the period	3.13.	57 898	1 790
TOTAL LIABILITIES			3 449 898	3 260 633

OFF BALANCE SHEET		Note	2019 CZK million	2018 CZK million
1.	Guarantees issued	3.17.	804	1 062
2.	Issued loan commitments	3.2.	38 115	38 588
3.	Receivables from spot, term and futures transactions	3.17.	588 328	433 069
4.	Liabilities from spot, term and futures transactions	3.17.	587 618	433 407
5.	Guarantees received	3.17.	38 115	38 588
6.	Collateral received	3.17.	49 206	61 093



INCOME STATEMENT		Note	2019 CZK million	2018 CZK million
<b>1.</b>	<b>Interest income and similar income</b>	3.14.	<b>24 004</b>	<b>18 783</b>
1.1.	Interest from fixed income securities		22 276	18 132
1.2.	Other		1 728	651
<b>2.</b>	<b>Interest expense and similar expense</b>	3.14.	<b>-61 391</b>	<b>-36 805</b>
<b>3.</b>	<b>Income from shares and interests</b>		<b>9 213</b>	<b>7 499</b>
<b>4.</b>	<b>Fee and commission income</b>		<b>655</b>	<b>718</b>
<b>5.</b>	<b>Fee and commission expense</b>		<b>-178</b>	<b>-170</b>
<b>6.</b>	<b>Gains less losses from financial operations</b>	3.15.	<b>87 712</b>	<b>13 871</b>
6.1.	Net foreign exchange gains/(losses) and foreign exchange spread		-2 443	43 131
6.2.	Other		90 155	-29 260
<b>7.</b>	<b>Other operating income</b>		<b>741</b>	<b>659</b>
7.1.	Income from money issue		552	437
7.2.	Other		189	222
<b>8.</b>	<b>Other operating expense</b>		<b>-653</b>	<b>-566</b>
8.1.	Expenses for production of notes and coins		-591	-508
8.2.	Other		-62	-58
<b>9.</b>	<b>Administration expense</b>	3.16.	<b>-2 177</b>	<b>-2 040</b>
9.1.	Personnel expenses		-1 793	-1 692
9.1.1.	Wages and salaries		-1 242	-1 171
9.1.2.	Social and health security		-414	-387
9.1.3.	Training and employee benefits		-137	-134
9.2.	Other administration expenses		-384	-348
<b>10.</b>	<b>Depreciation and amortisation of fixed assets</b>	3.5.	<b>-284</b>	<b>-246</b>
<b>11.</b>	<b>Reversal of provisions for receivables and guarantees, income from receivables already written off</b>	3.12.	<b>265</b>	<b>993</b>
<b>12.</b>	<b>Write offs, additions and utilisation of provisions for receivables and guarantees</b>	3.12.	<b>-9</b>	<b>-906</b>
<b>13.</b>	<b>Profit or loss for the period</b>		<b>57 898</b>	<b>1 790</b>

## 1. GENERAL INFORMATION

The Czech National Bank ("the Bank" or "the CNB") is the central bank of the Czech Republic ("the CR"), and an authority exercising supervision over the financial market and tasked with resolving financial market crises. The Bank was established by the Constitution of the Czech Republic on 1 January 1993 following the dissolution of the State Bank of Czechoslovakia to form the Czech National Bank and the National Bank of Slovakia. The Bank conducts its activities in line with Act No. 6/1993 Coll., on the Czech National Bank, as amended ("the CNB Act") and other legal regulations. Its registered office is at Na Příkopě 28, Prague 1, Czech Republic, and its identification number is 48136450. The Bank has seven regional offices: in Prague, Ústí nad Labem, Plzeň, České Budějovice, Hradec Králové, Brno and Ostrava.

The primary objective of the Bank is to maintain price stability. In addition, the Bank ensures the financial stability and safe functioning of the financial system in the CR. Without prejudice to its primary objective, the Bank also aims to support the general economic policies of the Government which lead to sustainable economic growth as well as the general economic policies of the European Union in line with the objectives of the European Union. The Bank acts in accordance with the principle of an open market economy.

The Bank sets the monetary policy, issues bank notes and coins, manages the circulation of currency and inter-bank clearing and the settlement system of banks and foreign bank branches, including the maintenance of this system to ensure its fluency and efficiency, supervises the institutions operating on the financial market (banks, credit unions, securities traders, issuers of securities, collective investment undertakings, insurance companies, pension funds, consumer loan providers) and supervises a specific area of client protection with entities operating on the financial market which are subject to the CNB's supervision pursuant to other legal regulations. As a central bank, it provides banking services to the state and the public sector and maintains the accounts of organisations and entities connected to the state budget. Based on an agreement with the Ministry of Finance of the Czech Republic (the "MF") and in accordance with budgetary rules, the Bank performs transactions related to the issuing of government bonds and to financial market investments. In addition, it manages foreign currency reserves and performs other activities as defined by the CNB Act and by other legislation.

When pursuing its objectives, the Bank cooperates with the central banks of other countries, the authorities supervising the banks and financial markets of other countries, and with international financial institutions and international authorities involved in the supervision of the financial market and negotiates relevant agreements.

The Bank is a part of the European Central Banks System and contributes to the achievement of its objectives and tasks. It is also a part of the European System of Financial Supervision and cooperates with the European Systemic Risk Board and with European supervisory authorities.

When carrying out its business, the Bank is independent of any instructions given by the President of the CR, the Czech Parliament, the Czech Government, administrative authorities, European Union authorities, Governments of other European Union member states or other authorities. Disclosure obligations of the Bank to the Chamber of Deputies of the Czech Parliament, Senate, Government and the public are defined by law. The Bank and the Government communicate with each other about the principles and measures of monetary, macroprudential and general economic policy.

The Bank uses its income to cover the necessary costs of its operations. The generated profit is allocated to its reserve fund and to other funds created from this profit, and for other uses within the Bank's budget. Any remaining profit is transferred by the CNB to the state budget. The CNB submits an annual report on its operations to the Chamber of Deputies of the Czech Parliament within three months of the calendar year-end.

The supreme management body of the Bank is the Bank Board of the CNB. The members include the Governor of the Bank, two Vice-Governors of the Bank, and four other Bank Board members. The members of the Bank Board are appointed and recalled by the President of the CR. The members of the Bank Board are appointed for a period of six years for a maximum of two terms of office. The Bank Board, among others, sets monetary and macroprudential policies, including instruments for their implementation, and decides about measures concerning the supervision of financial markets.

As at 31 December 2019, the members of the Bank Board and their office termination dates were as follows:

**Ing. Jiří Rusnok**

- Governor, until 30 June 2022

**Ing. Marek Mora M.E.**

- Vice-Governor, until 12 February 2023

**Ing. Tomáš Nidetzký**

- Vice-Governor, until 30 June 2022

**Ing. Vojtěch Benda**

- Member of the Bank Board, until 30 June 2022

**prof. Ing. Oldřich Dědek, CSc.**

- Member of the Bank Board, until 12 February 2023

**doc. Mgr. Tomáš Holub, Ph.D.**

- Member of the Bank Board, until 30 November 2024

**Ing. Aleš Michl**

- Member of the Bank Board, until 30 November 2024

The statutory representative of the Bank is the Governor. A Vice-Governor is appointed by the Governor to represent him in full extent.

## 2. ACCOUNTING POLICIES

### 2.1. BASIS OF PREPARATION

The financial statements are prepared in accordance with the Act on Accounting, Decree No. 501/2002 Coll. issued by the Ministry of Finance of the CR and Czech Accounting Standards for financial institutions. The financial statements of the CNB are prepared to give a true and fair view of its financial position, financial transactions and the results of its operations. The financial statements are prepared in compliance with the going concern assumption and the historical cost convention as modified by the revaluation of derivatives, shares and securities to fair values.

The financial statements comprise a balance sheet, income statement and accompanying notes including also a statement of changes in equity.

When preparing the financial statements and creating the structure of the financial statements, taking into account the comparability of data between the Eurosystem and the national regime, the Bank proceeds in line with the recommended rules set by the European Central Bank for accounting and financial reporting in the European System of Central Banks as much as possible.

The financial statements are presented in millions of Czech Crowns ("CZK million") unless stated otherwise. As they have been rounded off, the total sums presented in the tables (totals and sub-totals) may not correspond to the sum of the partial amounts.

### 2.2. FOREIGN CURRENCIES AND SPECIAL DRAWING RIGHTS

Transactions in foreign currencies are translated into CZK at the foreign exchange rate effective at the transaction date. Assets and liabilities denominated in foreign currencies are translated to CZK at the exchange rate effective at the balance sheet date.

Exchange rates	Quantity	31 Dec 2019	31 Dec 2018
EUR	1	25.410	25.725
USD	1	22.621	22.466
JPY	100	20.844	20.447
GBP	1	29.866	28.762
CHF	1	23.416	22.827
CAD	1	17.413	16.484
AUD	1	15.885	15.860
SEK	1	2.432	2.508
SDR	1	31.281	31.246

All resulting realised and unrealised foreign exchange gains and losses are recognised in the income statement in the gains less losses from financial operations, except for foreign exchange gains and losses from capital instruments in portfolios measured through equity which are recognised in equity (refer to Note 2.4.).

### 2.3. GOLD AND OTHER PRECIOUS METALS

For accounting and revaluation purposes, the Bank divides its precious metal inventory into four groups:

- **Long-term reserve** – gold placed abroad (marketable bars) and precious metals held at the Bank in the long term (bars, coins, medals).
- **Operating reserve** – precious metals held for the production of coins (bars, semi-finished products for the production of coins – “blanks”, demonetised coins etc.). Precious metals are either purchased for the reserve or transferred to it from the long-term reserve or from the cash reserve.
- **Collections reserve** – collections of coins, medals, counterfeits, legal tender specimens etc. The inventory includes precious metals recorded as other assets of the Bank rather than as gold and other precious metals.
- **Cash reserve** – valid coins made of precious metals. They are not recorded as gold and other precious metals on the face of the balance sheet – they are recorded off balance sheet as valid currency in circulation in their nominal value.

Gold and other precious metals are valued at average cost. Long-term reserves are valued at original cost, with the actual cost applied upon purchases.

### 2.4. SECURITIES

Foreign debt securities and shares held as part of the foreign currency reserves administration are reported as part of receivables from abroad. These include securities traded on the money and capital market. Most of debt securities are managed by the banking transactions section. The portfolio of Mortgage Backed Securities (“MBS”) is managed by an external manager. The shares are also managed by external managers within the passive investment strategy consisting of maximum achievable replication of selected share indexes of advanced economies.

The Bank reports shares and interests representing participation in international institutions, and other shares and interests held in the long term, in other financial assets. The Bank holds no equity investments in subsidiaries or associates.

The Bank classifies all debt securities held in its portfolio as measured at fair value through profit or loss. The Bank also included the shares managed by external managers in the portfolio measured at fair value through profit or loss. The Bank accounts for all externally managed portfolios on an aggregate basis based on information from external managers.

The fair value of bonds administered internally is taken over as the bid price (“BID”) from the system operated by Bloomberg. In exceptional cases (e.g. when prices are not available), the Bank uses prices calculated using internal models based on straight-line accruals of the cost or fixed “spread” in respect of government bonds. Fair values of securities (shares and the MBS) of externally administered portfolios are taken over from the securities account manager (Bank of New York) or external managers.

Shares and interests representing participation in international institutions are included in the portfolio

measured through equity. The shares in the Bank for International Settlements ("BIS"), the share in Society for Worldwide Interbank Financial Telecommunication ("SWIFT") and in the European Central Bank ("ECB") are non-marketable and their holding results from the membership of the CNB in these institutions. The shares in the ECB and SWIFT are measured at cost. The share in BIS is measured as a share of the CNB in the paid-up part of net assets (or capital) of the BIS decreased by 30% which corresponds to the method used by the BIS to determine the value of shares.

Securities and interests are initially recognised at cost which includes direct transaction costs. In respect of bonds, receivables/payables arising from the security are reported off balance sheet as at the spot trade date of the purchase/sale of the security and subsequently revalued due to movements in market prices. Gains and losses from the revaluation of unsettled transactions are recognised in income statement line item 6.2. The moment the transaction is realised, the security is derecognised off balance sheet and is accounted for through on-balance sheet securities. The price of the bond is gradually increased (or decreased) using the effective interest rate method to include interest income (interest expense). In respect of floating interest rate securities, interest income from coupons is calculated using the straight-line method. In respect of inflation linked bonds, interest income changes depending on changes in inflation coefficients. Interest from bonds is reported in income statement line item 1.1. Gains and losses realised upon the sale of the security are recognised as the difference between the selling price and the current value of the security in the accounting books as at the sale date. Gains and losses from sales are recognised in income statement line item 6.2.

Gains and losses arising from changes in the fair value of bonds and shares measured at fair value through profit or loss are reported in income statement line item 6.2. Gains and losses arising from changes in the fair value of shares representing the participations are recognised directly in equity. The Bank typically measures the interests at cost (refer to Note 3.6.).

Dividends on shares measured through equity and dividends on shares measured at fair value through profit or loss are recognised in income statement line item 3.

## 2.5. REPO TRANSACTIONS AND SECURITIES LENDING

Securities borrowed or purchased under the purchase and resell agreements are not recognised on the balance sheet. Securities lent or sold under those agreements are retained in their original portfolio. The underlying cash flows are recorded as received or provided loans and borrowings, respectively, on a settlement date basis. The value of securities received under reverse repo transactions or under securities lending contracts is reported off balance sheet in collateral received.

Foreign securities deposited with foreign depositories may be used pursuant to an agreement in a lending scheme ("securities lending") operated by a depository performing the role of an agent or a direct borrower.

As part of the agent-type lending scheme, securities are lent to third parties and the Bank receives other securities as collateral in exchange. Received collateral is recorded

off balance sheet, securities at fair value remain in the balance sheet.

As for the automatic lending scheme, the Bank does not receive collateral, but the depository guarantees that the lent securities are returned or reimbursed for in cash.

With both of the lending schemes, securities continue to be carried on the Bank's balance sheet at the original carrying amount; income from these operations is recognised in income statement line item 4.

## 2.6. NOTES AND COINS IN CIRCULATION

Notes and coins in circulation represent the liability of the Bank from the issue of currency. The expenses for the production of notes and coins are expensed as incurred.

## 2.7. RECEIVABLES FROM AND LIABILITIES TO THE INTERNATIONAL MONETARY FUND

Receivables from and payables to the International Monetary Fund ("IMF") are recorded on a gross basis, i.e. receivables and payables do not balance out. The membership quota at the IMF comprises a membership deposit and reserve position. The membership deposit represents a share of the IMF quota paid in CZK, while the reserve position is a share of the quota paid in foreign currency and forms part of foreign exchange reserves. The quota is denominated in SDR but expressed in the local currency. Translation into Czech Crowns is performed using the exchange rate promulgated by the IMF.

## 2.8. ISSUED SECURITIES

The amount of treasury bills issued by the Bank is presented in the balance sheet after offsetting against treasury bills repurchased by the Bank. The Bank records the whole issued amount of treasury bills and uses the treasury bills only as collateral in repo transactions with domestic banks (refer to Note 3.9.).

## 2.9. DERIVATIVE FINANCIAL INSTRUMENTS

In terms of the types of derivatives, the Bank performs fixed term transactions (forwards, swaps and futures), which it further classifies based on the underlying instruments into interest rate, currency and equity derivatives. Derivatives are accounted for off balance sheet as well as on the balance sheet.

Off balance sheet, receivables and payables from these derivatives are recognised from the derivative trade date to the final settlement date in the amount of the underlying asset. The receivables and payables are subsequently remeasured to reflect changes in foreign exchange rates.

On the balance sheet, derivatives are recognised at their fair values in CZK, while the fair values of interest rate derivatives are recognised in foreign currencies (in the currency of the underlying instrument).

Fair values of futures are obtained from quoted market prices, in other cases the fair value is derived from discounted future cash-flow models (for swap and forward transactions) using the ruling foreign exchange rates. Fair values of derivatives are presented in other assets or in other liabilities when they are positive or negative, respectively. Changes in the fair value of derivatives are



included in the gains less losses from financial operations. The Bank recognises all derivatives as available-for-sale derivatives and does not use hedge accounting.

## 2.10. INTEREST INCOME AND EXPENSE

Interest income and interest expense on all interest-bearing instruments are accrued. Negative interest rates on assets, if any, are recognised as interest expense. Negative interest rates on liabilities are recognised as interest income. For loans, and deposits and available-for-sale coupon bonds with a floating interest rate ("floaters") using the straight-line method, for available-for-sale zero coupon and coupon bonds with a fixed interest rate interest is accrued using the effective interest rate method derived from acquisition cost. Accrued interest is recorded together with the underlying assets and liabilities.

Interest income on non-performing loans is also accrued and included in the related loan balance. Such amounts are considered in estimating the specific provisions for non-performing loans. No interest is paid on receivables in case of a debtor's bankruptcy. Non-interest earning assets, such as long-term receivables, are not discounted.

## 2.11. FEE INCOME

Fee income from the maintenance of current accounts and effected transactions are recognised to clients in accordance with the CNB's Schedule of Charges for Financial and Business Services on an accrual basis, at the end of the month. One-off fees are recognised immediately in the income statement when the service is provided.

## 2.12. PAYABLES TO AND RECEIVABLES FROM DOMESTIC BANKS

Monetary reserves of banks, foreign bank branches and savings and credit societies ("domestic banks") include deposits with the CNB relating to mandatory minimum reserves ("MMR") and available reserves (i.e. funds above the determined amount of MMR) on accounts in the CERTIS payment system (payment system account), cash withdrawal and deposit accounts, or in special accounts reserved for the MMR.

The MMR requirement is 2% of payables to non-banking entities arising from received deposits, loans and issued non-trading and other debt securities with maturity up to 2 years. The above deposits bear interest equal to the current CZK two-week repo interest rate up to the pre-specified volume of minimum reserves, while the domestic banks are required to maintain the average MMR balance over the relevant maintenance period rather than on a daily basis. Available reserve bear the interest of 0 %.

Liabilities to domestic banks from repo transactions (loans received) include the banks' surplus liquidity deposited with the CNB through monetary policy repo tenders. The CNB provides CNB treasury bills as collateral in these transactions. The basic duration of these operations is 14 days, while repos with shorter/longer maturities are executed from time to time depending on the interbank money market liquidity changes.

Domestic banks also have an option to make overnight deposits of surplus liquidity with the CNB (deposit facility for deposit rates) or borrow overnight liquidity from the

CNB against collateral (Lombard repo lending facility for Lombard rates).

A list of acceptable financial instruments (collateral) to secure such operations (repo tenders, Lombard repo transactions) is published on the CNB's website.

## 2.13. OTHER RECEIVABLES

Receivables originated by the Bank are stated at nominal value less specific provisions for impairment, if any. Irrecoverable receivables are generally written off upon completion of bankruptcy proceedings against the debtor or on the debtor's liquidation.

## 2.14. PAYABLES TO THE STATE

The Bank maintains a system of income and expense accounts and other accounts for the state and its organisational units and other entities pursuant to Section 3(h) of Act No. 218/2000 Coll., on Budgetary Rules. The Bank also provides selected banking services on these accounts. Account balances in CZK and EUR are reflected in the balance of the Single Treasury Account. Accordingly, these liabilities represent state funds deposited with the CNB.

## 2.15. PROVISIONS

Provisions are created when the Bank has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Additions to provisions are recognised in the income statement, their utilisation is recognised together with expenses or losses, for which purpose they were created in the income statement. Reversal of provisions in case they are no longer necessary is recognised in income. Movements in provision accounts denominated in foreign currencies arising from revaluations to exchange rates prevailing at the balance sheet date are recognised or charged, as appropriate, to exchange rate differences.

## 2.16. SPECIFIC PROVISIONS

Specific provisions are deducted from the nominal value of each receivable originated by the Bank. The amount of specific provisions for classified receivables and assets at risk is based on appraisals of these assets at the balance sheet date after taking into consideration the present forced sale value of collateral.

Specific provisions and provisions are not discounted for the effects of expected timing of cash flows.

When a receivable is deemed to be not collectable, it is written off and the related specific provision for impairment is reversed. Subsequent recoveries are credited to the current period income statement if previously written off.

Specific provisions against expected credit losses on other than classified receivables and other risk assets are recognised based on the historical cumulative probability of the debtor's default.

The Bank monitors and regularly reviews the level of the credit risk taken (refer to Note 3.18).



The Bank introduced a new calculation model of financial asset impairment based on expected credit losses, under which the provision is reported before the credit loss originates.

In applying this approach, the Bank performed an analysis of all groups of financial assets. Given that the amount of the required specific provision mentioned above is negligible with respect to the volume of the CNB's assets (CZK 1.42 million), it is not recognised.

## 2.17. TANGIBLE AND INTANGIBLE FIXED ASSETS

Tangible and intangible fixed assets are recorded at cost, which includes value added tax ("VAT") unless the VAT is fully recoverable and are depreciated/amortised by applying the straight-line basis of depreciation over the estimated useful lives.

If usage of intangible fixed assets is limited by contract, the intangible fixed assets are amortised over the contractual period. Low-value tangible assets with a unit cost not exceeding CZK 40,000, as well as low-value intangible assets with a unit cost not exceeding CZK 60,000, are fully depreciated/amortised upon the inception of use. Land, art and art collections are not depreciated.

In the case of a change in the annual depreciation or amortisation rate or classification or valuation of the property, the depreciation charge is modified in the month of the change; the depreciation or amortisation charged before that date is not adjusted.

Estimated useful lives of assets in years	
Buildings and structures	20 – 50
Machinery and equipment	
motor vehicles	4 – 5
office equipment and computers	3 – 4
banknote processing systems	10
Furniture and fittings	5 – 10
Software	3 – 4
Other intangible assets	6

Repairs and maintenance expenditures are charged to expenses as incurred. Technical improvements exceeding CZK 40,000 for the year are included in the cost of the asset.

## 2.18. VALUE ADDED TAX

The Bank is registered for VAT. In accordance with the VAT Act, the CNB claims the full amount of input VAT in respect of received taxable supplies used only for taxable supplies liable to VAT, where the input VAT is fully recoverable.

## 2.19. INCOME TAX AND PROFIT TRANSFER TO THE STATE BUDGET

The Bank is exempt from income tax in accordance with Section 17(2) of Act No. 586/92 Coll. on Income Taxes, as

amended. As a result, the Bank does not account for current or deferred tax. The Bank uses its income to cover the costs of its operations. The profit is allocated to funds and other usage (e.g. settlement of accumulated losses from previous periods) in the budgeted amount. Any remaining profit is transferred to the state budget.

## 2.20. STAFF COSTS AND EMPLOYEE BENEFITS

Staff costs, including costs of the Bank Board members, are included in administration expenses. The Bank does not administer any transformed pension fund or participation fund as a pension company. However, the Bank provides contributions to its employees for additional pension insurance or supplementary pension insurance administered by pension companies, and also provides contributions for capital pension schemes and life and casualty insurance. Employee benefits are accounted for directly as an expense.

## 2.21. CASH FLOW STATEMENT

In accordance with the Act on Accounting (No. 563/1991 Coll.), the CNB is not obliged to prepare a cash flow statement as part of its financial statements. As the Bank is the central bank, the presentation of a cash flow statement would not provide further significant information to the users of these financial statements. The cash flow statement is therefore not prepared.

## 2.22. ACCOUNTING TRANSACTION DATE

Accounting transactions are recognised or charged into income for the period to which they relate. Purchases and sales of foreign currencies and securities are accounted for at the trade date off balance sheet; they are recognised on the balance sheet at the settlement date. Credit transactions, including repo transactions, are accounted for at the settlement date.

## 2.23. OFF BALANCE SHEET ITEMS

In compliance with accounting procedures for banks, the CNB records other off-balance sheet assets and liabilities in an off-balance sheet account. Off-balance-sheet items are carried at face value or estimated value. The carrying amount is used if neither face value nor estimated value can be determined.

In the off-balance sheet the Bank recognises other assets taken into custody from clients and banks, assets in own custody and other carrying amounts including money supply (refer to Note 3.17.).

## 2.24. SUBSEQUENT EVENTS

The effects of events which occur between the balance sheet date and the date of compilation of the financial statements are reflected in the financial statements. This happens in the case that these events provide further evidence of conditions which existed at the balance sheet date.

Where significant events reflecting post balance sheet facts occur subsequent to the balance sheet date but prior to the compilation of the financial statements, the effects of these events are disclosed in the notes, but are not reported in the financial statements.

## Off Balance Sheet and Income Statement

## 3. ADDITIONAL INFORMATION

## 3.1. GOLD

	2019	2018
<b>Gold (CZK million)</b>	<b>493</b>	<b>546</b>
Long-term reserve	456	468
Operating reserve	37	78
<b>Gold (thousand Troy ounces)</b>	<b>257</b>	<b>282</b>
Long-term reserve	239	245
Operating reserve	18	37
<b>Gold (tonnes)</b>	<b>8.0</b>	<b>8.8</b>
Long-term reserve	7.4	7.7
Operating reserve	0.6	1.1
<b>Gold (market value – CZK million)</b>	<b>8 841</b>	<b>8 117</b>
Long-term reserve	8 232	7 075
Operating reserve	609	1 042

The Bank records other gold reserves reported separately as Collections reserve (part of other assets) and Cash reserve (off balance sheet records).

	2019	2018
<b>Collections reserve</b>		
Carrying amount – CZK million	20	11
Troy ounces – thousands	8	4
Tonnes	0.2	0.1
Market value – CZK million	227	105
<b>Cash reserve – carrying amount</b>	<b>10</b>	<b>10</b>

As at 31 December 2019, a foreign bank deposit denominated in gold amounted to CZK 337 million (5.5 t). As at 31 December 2018: CZK 337 million (5.5 t).

## 3.2. RECEIVABLES FROM AND PAYABLES TO THE INTERNATIONAL MONETARY FUND

CZK million	2019	2018
Membership quota at the IMF	68 702	68 345
Membership deposit	55 287	55 221
Reserve position	13 415	13 124
Long-term loan provided to the IMF	177	177
Deposits in the IMF	14 305	14 318
<b>Total receivables from the IMF</b>	<b>83 184</b>	<b>82 840</b>
Payable from the SDR allocation	24 405	24 422
Payable to the IMF from the bill of exchange	45 869	45 584
Current account with the IMF	9 418	9 637
<b>Total payables to the IMF</b>	<b>79 692</b>	<b>79 643</b>

Receivables from the IMF result from the membership of the Czech Republic in this organisation. They include membership deposit, reserve position, bank funds in SDR, an interest-free loan provided within the IMF programme

for the support of less developed countries and the credit facility provided to the IMF. The reserve position of the CNB at the IMF represents a part of membership quota paid in foreign currency and is denominated in SDR. Payables to the IMF include IMF deposits in the CNB, reflecting the sum of CZK held by the IMF, an interest-free bill of exchange (outstanding portion of the deposit in CZK) and SDR allocation.

On 13 October 2017, the CNB concluded a new bilateral agreement with the IMF on a loan to the fund (the third agreement of this type) which took effect on 12 September 2018. As of 31 December 2019, the credit facility amounted to EUR 1,500 million, i.e. CZK 38,115 million (31 December 2018: EUR 1,500 million, i.e. CZK 38,588 million). The loan collateral is disclosed in Note 3.17.

## 3.3. RECEIVABLES FROM ABROAD INCLUDING SECURITIES

CZK million	2019	2018
<b>Deposits at foreign banks and financial institutions</b>	<b>1 335 973</b>	<b>1 279 864</b>
Current account balances	1 075 196	1 134 594
Deposits	260 777	145 270
<b>Securities</b>	<b>1 988 495</b>	<b>1 835 353</b>
Zero-coupon bonds	112 435	83 478
Government	106 437	81 233
Other	5 998	2 245
Coupon bonds	1 525 614	1 511 031
Government	1 180 944	1 094 902
Other	344 670	416 129
MBS	11 324	0
Shares	339 122	240 844
MSCI euro (in EUR)	207 194	159 054
of which financial institutions	37 479	30 141
S&P 500 (in USD)	68 537	39 019
of which financial institutions	8 887	5 210
FTSE 100 (in GBP)	9 767	5 141
of which financial institutions	1 978	1 050
Nikkei 225 (in JPY)	14 474	7 799
of which financial institutions	341	208
S&P TSX (in CAD)	25 430	18 739
of which financial institutions	8 331	6 282
S&P ASX 200 (in AUD)	13 720	11 092
of which financial institutions	4 093	3 602
<b>Other receivables from abroad</b>	<b>31 746</b>	<b>52 052</b>
Funds from reverse repo transactions	31 546	51 846
Foreign currencies	200	206
<b>Receivables from abroad including securities</b>	<b>3 356 214</b>	<b>3 167 269</b>

Foreign currency reserves are used to conduct the Bank's own independent currency policy and as a source of liquidity for performing transactions of the CNB's clients.

## Off Balance Sheet and Income Statement

Foreign currency reserves are invested in compliance with its policy regulating foreign currency reserves management. The bonds portfolio is managed actively. The shares portfolio represents approximately 10% of the invested foreign currency reserves and is managed by two external managers.

Foreign banks are banks with registered offices abroad. Foreign banks do not include branches of foreign banks with the registered office in the Czech Republic.

Other receivables from foreign banks are particularly represented by reverse repo transactions for which collateral was received in the amount of CZK 31,404 million as at 31 December 2019 (31 December 2018: CZK 50,911 million) (refer to Note 3.18.).

Deposits also include provided collateral in the form of cash placed in foreign banks in the total amount of CZK 2,711 million (31 December 2018: CZK 1,157 million) provided based on the framework agreements on derivatives transactions (ISDA Master Agreement, ISDA Credit Support Annex).

Collateral was additionally provided in the form of bonds and shares.

CZK million	2019	2018
<b>Bonds</b>		
Collateral for transactions concluded with the counterparty (refer to Note 3.8.)	340	314
Automated lending scheme	745 638	296 549
<b>Shares</b>		
Lending scheme	13 486	9 425
Collateral in the form of other assets (refer to Note 3.17.)	14 476	10 102

## 3.4. RECEIVABLES FROM DOMESTIC BANKS

During the year, the CNB concludes reverse repo transactions with domestic banks in the form of:

- Provided loans – as at 31 December 2019 and 2018, no transactions were concluded; and
- Securities (collateral switch) – as at 31 December 2019 and 2018, no transactions were concluded.

## 3.5. TANGIBLE AND INTANGIBLE FIXED ASSETS

The Bank did not provide any tangible or intangible fixed assets as collateral and does not hold any fixed assets under finance lease contracts. Other tangible assets include the collection of coins and medals made of precious metals in the amount of CZK 20 million as at 31 December 2019 (31 December 2018: CZK 11 million).

CZK million	Land	Buildings	Machinery, furniture and fittings and other tangible assets	Acquisition of assets and prepayments made	Total
Cost at 31 December 2018	164	6 942	2 747	27	9 880
Accumulated depreciation at 31 December 2018	0	4 195	2 589	0	6 784
<b>Net book value at 31 December 2018</b>	<b>164</b>	<b>2 747</b>	<b>158</b>	<b>27</b>	<b>3 096</b>
Additions	0	4	46	79	129
Disposals	0	0	15	48	63
Depreciation	0	174	34	0	208
<b>Net book value at 31 December 2019</b>	<b>164</b>	<b>2 577</b>	<b>155</b>	<b>58</b>	<b>2 954</b>
Cost at 31 December 2019	164	6 946	2 778	58	9 946
Accumulated depreciation at 31 December 2019	0	4 369	2 623	0	6 992

CZK million	Software	Other intangible assets	Acquisition of intangible assets and prepayments made	Total
Cost at 31 December 2018	825	18	29	872
Accumulated amortisation at 31 December 2018	719	12	0	731
<b>Net book value at 31 December 2018</b>	<b>106</b>	<b>6</b>	<b>29</b>	<b>141</b>
Additions	110	3	116	229
Disposals	9	0	145	154
Amortisation	51	1	0	52
<b>Net book value at 31 December 2019</b>	<b>156</b>	<b>8</b>	<b>0</b>	<b>164</b>
Cost at 31 December 2019	926	21	0	947
Accumulated amortisation at 31 December 2019	770	13	0	783

## Off Balance Sheet and Income Statement

## 3.6. OTHER ASSETS

Other financial assets include the Bank's share in the ECB, BIS and the SWIFT. The share of the Czech Republic in the ECB's capital as at 31 December 2019 amounts to 1.6075% totalling EUR 6.6 million (as at 31 December 2018 it amounted to 1.6075% totalling EUR 6.5 million). The share was calculated in line with Article 29 of the Statute using the population number and gross domestic product.

CZK million	2019	2018
<b>Other financial assets</b>	<b>4 633</b>	<b>4 496</b>
Share in the ECB	167	168
BIS and SWIFT shares	4 466	4 328
<b>Receivables from former banks</b>	<b>0</b>	<b>0</b>
Loss-making loans provided to former banks	1 358	1 358
Specific provision for loss-making loans provided to former banks (refer to Note 3.12.)	-1 358	-1 358
<b>Other</b>	<b>2 256</b>	<b>2 245</b>
Deferred expenses	20	19
Other precious metals	19	25
Positive fair value of interest rate swaps (refer to Note 3.17.)	90	1 275
Positive fair value of currency forwards (refer to Note 3.17.)	794	34
Margin account including profit/(loss) from change in fair value of futures (refer to Note 3.17.)	646	299
Loans to employees	231	186
Other operating receivables	466	425
Specific provisions against other operating receivables (refer to Note 3.12.)	-10	-18
<b>Other assets</b>	<b>6 889</b>	<b>6 741</b>

## 3.7. NOTES AND COINS IN CIRCULATION

The Bank has the exclusive right to issue Czech notes and coins (including commemorative notes and coins) to be put into circulation and to manage circulation. The Bank withdraws from circulation worn-out and damaged notes and coins, or those unsuitable for further circulation. The Bank additionally supervises processors of notes and coins (banks, security agencies, etc.) to make sure that the determined rules of cash circulation are adhered to (Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins).

	million pieces		CZK million	
	2019	2018	2019	2018
<b>Notes in circulation</b>	<b>489</b>	<b>474</b>	<b>624 240</b>	<b>599 811</b>
CZK 5,000	32	32	159 344	158 833
CZK 2,000	141	129	281 894	258 481
CZK 1,000	141	141	141 139	141 176
CZK 500	45	44	22 384	22 074
CZK 200	65	65	12 920	12 917
CZK 100	65	63	6 557	6 330

Commemorative notes	0	0	2	0
	million pieces		CZK million	
	2019	2018	2019	2018
<b>Coins in circulation</b>	<b>2 064</b>	<b>1 969</b>	<b>20 127</b>	<b>18 818</b>
CZK 50	149	137	7 441	6 866
CZK 20	223	211	4 466	4 215
CZK 10	250	238	2 498	2 378
CZK 5	293	280	1 466	1 400
CZK 2	521	499	1 041	998
CZK 1	625	601	625	601
Commemorative coins	3	3	2 590	2 360
<b>Notes and coins in circulation</b>	<b>2 553</b>	<b>2 443</b>	<b>644 367</b>	<b>618 629</b>

## 3.8. LIABILITIES ABROAD

CZK million	2019	2018
Funds from repo transactions	24 883	0
Other liabilities abroad	113 912	144 299
<b>Liabilities abroad</b>	<b>138 795</b>	<b>144 299</b>

As of 31 December 2019, collaterals were provided as part of repo transactions and derivative transactions in the form of debt securities totalling CZK 340 million (31 December 2018: CZK 314 million) (refer to Note 3.3.).

In addition, foreign banks made deposits amounting to CZK 113,217 million (31 December 2018: CZK 143,455 million) and provided collaterals in the form of cash deposits of CZK 695 million (31 December 2018: CZK 844 million) in accordance with master agreements on derivative transactions (ISDA Master Agreement, ISDA Credit Support Annex).

## 3.9. PAYABLES TO DOMESTIC BANKS

CZK million	2019	2018
<b>Loans received - repo transactions</b>	<b>2 255 227</b>	<b>2 130 901</b>
<b>Domestic bank reserves</b>	<b>43 240</b>	<b>98 039</b>
Payment system accounts	35 369	90 612
Balances on cash withdrawal and deposit accounts	7 863	7 419
Special MMR accounts	8	8
<b>Other liabilities to domestic banks</b>	<b>109 870</b>	<b>74 156</b>
Short-term deposits received	109 797	74 065
Other liabilities	73	91
<b>Liabilities to domestic banks</b>	<b>2 408 337</b>	<b>2 303 096</b>

The CNB concludes reverse repo transactions with domestic banks in the form of received loans (collateral of the CNB's treasury bills) – in the amount of CZK 2,239,277 million as at 31 December 2019 (as at 31 December 2018: CZK 2,117,197 million).



## Off Balance Sheet and Income Statement

For more information refer to Note 2.8 of Accounting Policies.

## 3.10. PAYABLES TO THE STATE AND OTHER PUBLIC INSTITUTIONS

CZK million	2019	2018
<b>CZK funds</b>	<b>289 591</b>	<b>280 090</b>
Single Treasury Account and other state funds in CZK (refer to Note 2.14.)	244 657	241 449
Other deposits in CZK	44 934	38 641
<b>Foreign currency funds</b>	<b>2 093</b>	<b>2 185</b>
Single Treasury Account in EUR	106	219
Other deposits in foreign currencies	1 987	1 966
<b>State and public institution deposits</b>	<b>291 684</b>	<b>282 275</b>

## 3.11. OTHER LIABILITIES

CZK million	2019	2018
Negative fair value of foreign currency forwards (refer to Note 3.17.)	93	1 006
Negative fair value of interest rate swaps (refer to Note 3.17.)	1 702	554
Payables to the European Commission	6 224	8 625
Employee accounts	2 035	1 636
Other payables	757	2 434
<b>Other liabilities</b>	<b>10 811</b>	<b>14 255</b>

Payables to the European Commission include funds from the EU budget to be used by the Czech Republic.

Other liabilities totalling CZK 757 million include liabilities of CZK 95 million owing to social security and health insurance premiums as at 31 December 2019 (2018: CZK 92 million). The Bank has no liabilities related to social security and health insurance that would be overdue.

## 3.12. PROVISIONS, SPECIFIC PROVISIONS AND WRITE-OFFS OF ASSETS

CZK million	1 Jan 2018	Additions	Write-offs	Release	31 Dec 2018	Additions	Write-offs	Release	31 Dec 2019
<b>Specific provisions</b>	<b>2 364</b>	<b>0</b>	<b>-985</b>	<b>-3</b>	<b>1 376</b>	<b>0</b>	<b>0</b>	<b>-8</b>	<b>1 368</b>
Classified loans of former banks (refer to Note 3.6.)	2 343	0	-985	0	1 358	0	0	0	1 358
Other operating receivables (refer to Note 3.6.)	21	0	0	-3	18	0	0	-8	10

CZK million	1 Jan 2018	Additions	Release	FX differences	31 Dec 2018	Additions	Release	FX differences	31 Dec 2019
<b>Provisions</b>	<b>245</b>	<b>5</b>	<b>-5</b>	<b>13</b>	<b>258</b>	<b>0</b>	<b>-257</b>	<b>-1</b>	<b>0</b>
Guarantees for clients (refer to Note 3.17)	245	5	-5	13	258	0	-257	-1	0

## Off Balance Sheet and Income Statement

## 3.13. EQUITY

CZK million	Revaluation reserve	Share capital	Funds	Accumulated losses	Profit/loss for the reporting period	Total equity
Balance as at 1 January 2018	3 699	1 400	60 389	0	-249 294	-183 806
Profit distribution for 2017	0	0	0	-249 294	249 294	0
Decrease in accumulated loss	0	0	-60 389	60 389	0	0
Revaluation reserve not included in profit	194	0	0	0	0	194
Profit for 2018	0	0	0	0	1 790	1 790
<b>Balance as at 31 December 2018</b>	<b>3 893</b>	<b>1 400</b>	<b>0</b>	<b>-188 905</b>	<b>1 790</b>	<b>-181 822</b>
Profit distribution for 2018	0	0	0	1 790	-1 790	0
Revaluation reserve not included in profit	136	0	0	0	0	136
Profit/loss for 2019	0	0	0	0	57 898	57 898
<b>Balance as at 31 December 2019</b>	<b>4 029</b>	<b>1 400</b>	<b>0</b>	<b>-187 115</b>	<b>57 898</b>	<b>-123 788</b>

The revaluation reserve represents the change in the fair value of shares and interests representing participations remeasured through equity (participations in international institutions) until the time of sale or permanent impairment (refer to Note 2.4.).

The Bank's only fund is the general reserve fund which has been created from profit and is restricted to cover accumulated losses, increase in the share capital or for any other purpose approved by the Bank Board of the CNB. Based on the decision of the CNB's Bank Board, the general reserve fund was used in full to decrease the accumulated loss of prior years.

## 3.14. NET INTEREST INCOME

CZK million	2019	2018
<b>Interest income and similar income</b>	<b>24 004</b>	<b>18 783</b>
Interest on securities	22 276	18 132
Interest on zero-coupon bonds	65	129
Interest on coupon bonds	22 155	18 003
Interest on MBS	56	0
Other interest income	1 728	651
Interest on inter-bank deposits	1 726	648
Interest on employees loans	2	3
<b>Interest expense and similar expense</b>	<b>61 391</b>	<b>36 805</b>
Interest on liabilities to banks	61 313	36 766
Interest on liabilities to employees and other clients	78	39
<b>Net interest income</b>	<b>-37 387</b>	<b>-18 022</b>

Net interest income represents the difference between interest received and interest paid on securities and deposits.

## 3.15. GAINS LESS LOSSES FROM FINANCIAL OPERATIONS

CZK million	2019	2018
<b>Foreign exchange gains or losses and foreign exchange spread</b>	<b>-2 443</b>	<b>43 131</b>
Foreign exchange gains/losses	898	42 263
Foreign exchange spread	-3 341	868
<b>Other</b>	<b>90 155</b>	<b>-29 260</b>
Gains/losses from revaluation and sale of bonds	31 675	-4 504
Gains/losses from revaluation and sale of MBS	-16	0
Gains/losses from revaluation and sale of shares	59 044	-26 794
Net gains/(losses) from currency forwards	1 708	2 062
Net gains/(losses) from interest rate futures	-120	-62
Net gains/(losses) from interest rate swaps	-2 640	278
Net gains/(losses) from share futures	504	-240
<b>Gains/losses from financial operations</b>	<b>87 712</b>	<b>13 871</b>

The foreign exchange spread represents the difference between the ask or bid foreign exchange rate and the mid foreign exchange rate used for purchases and sales of the cash and non-cash transactions of the Bank's clients.

## Off Balance Sheet and Income Statement

## 3.16. OTHER EXPENSES

CZK million	2019	2018
<b>Personnel costs</b>	<b>1 793</b>	<b>1 692</b>
Salaries	1 242	1 171
Social security and health insurance	414	387
Cost of personnel training	14	14
Employee benefits	123	120
<b>Other administrative expense</b>	<b>384</b>	<b>348</b>
Rental	4	3
Other	380	345
<b>Total administration expenses</b>	<b>2 177</b>	<b>2 040</b>

As at 31 December 2019, the average recalculated headcount including the Bank Board amounted to 1,439 employees (as at 31 December 2018: 1,419 employees).

## 3.17. OFF-BALANCE SHEET ITEMS

## GUARANTEES

CZK million	2019	2018
<b>Issued guarantees</b>	<b>804</b>	<b>1 062</b>
To clients (refer to Note 3.12.)	0	258
For deposits held by IPB	4	4
Consolidation of the banking sector – sale of part of the business of Agrobanka Praha a. s.	800	800
<b>Guarantees received</b>	<b>38 115</b>	<b>38 588</b>
State guarantee to secure the loan to the IMF	38 115	38 588

During 2019, provisions for potential losses from issued guarantees were released. As of 31 December 2019, provisions amounted to CZK 0 (31 December 2018: CZK 258 million) (refer to Note 3.12.).

The Bank has not recognised a provision for claims for the guarantees provided in connection with the sale of part of the business of Agrobanka Praha, a.s. because it considers the claim-related risk to be insignificant based on the available information.

For the purposes of providing a state guarantee of the Czech Republic to secure the CNB's loan to the IMF, Act No. 179/2018 Coll., on Provision of State Guarantee of the Czech Republic to Secure the Czech National Bank's loan to the International Monetary Fund, was adopted.

## COLLATERAL RECEIVED

CZK million	2019	2018
Repo transactions	31 404	50 911
Automated lending scheme (securities lending) (refer to Note 3.3.)	14 476	10 102
Derivatives and additional collateral	623	80
Swap transactions	2 703	0
<b>Collateral received</b>	<b>49 206</b>	<b>61 093</b>

## SPOT TRANSACTIONS AND FINANCIAL DERIVATIVES

The receivables and payables arising from spot, forward, swap and futures transactions can be analysed as follows:

CZK million	2019	2018
<b>Off-balance sheet receivables</b>	<b>588 328</b>	<b>433 069</b>
from currency forward transactions	462 907	389 630
from interest rate swap transactions	37 098	38 027
from interest rate futures transactions	629	2 646
from share futures transactions	2 395	2 005
from unsettled interest rate spot transactions	70 334	759
from unsettled currency spot transactions	7 320	2
from interest forward transactions	7 645	0
<b>Off-balance sheet payables</b>	<b>587 618</b>	<b>433 407</b>
from currency forward transactions	462 212	389 968
from interest rate swap transactions	37 098	38 027
from interest rate futures transactions	629	2 646
from share futures transactions	2 395	2 005
from unsettled interest rate spot transactions	70 334	759
from unsettled currency spot transactions	7 305	2
from interest forward transactions	7 645	0

At the balance sheet date, the Bank records contracts for the following currency forwards hedging the movement of foreign exchange rates:

CZK million	2019	2018
Off-balance sheet receivables from forward transactions	462 907	389 630
Off-balance sheet payables from forward transactions	462 212	389 968
Positive fair value (refer to Note 3.6.)	794	34
Negative fair value (refer to Note 3.11.)	93	1 006

All currency forwards will mature in 2020.

The foreign currency forwards do not qualify for hedge accounting as defined by Czech accounting regulations and, accordingly, are treated as derivatives held for trading. Gains and losses from the change in the fair value of these foreign currency forwards are reported in gains less losses from financial operations. Gains and losses from revaluation arising from changes in foreign exchange rates are reported under net foreign exchange gains/(losses) and foreign exchange spread (refer to Note 3.15.).

### Off Balance Sheet and Income Statement

The Bank records contracts for the following swap transactions at the balance sheet date:

CZK million	2019	2018
Off-balance sheet receivables from interest rate swap transactions	37 098	38 027
Off-balance sheet payables from interest rate swap transactions	37 098	38 027
Positive fair value (refer to Note 3.6.)	90	1 275
Negative fair value (refer to Note 3.11.)	1 702	554

The interest rate swaps also do not qualify for hedge accounting as defined by Czech accounting regulations and, accordingly, are treated as derivatives held for trading. Gains and losses from the change in the fair value are recorded in gains less losses from financial operations (refer to Note 3.15.). The gold received as part of swap transactions is measured at market price and reported off balance sheet as received collateral.

The Bank records contracts for the following futures transactions at the balance sheet date:

CZK million	2019	2018
Off-balance sheet receivables from interest rate futures transactions	629	2 646
Off-balance sheet payables from interest rate futures transactions	629	2 646
Net gain/(loss) from change in fair values of interest rate futures transactions for the reporting period (refer to Note 3.15.)	-120	-62
Off-balance sheet receivables from share futures transactions	2 395	2 005
Off-balance sheet payables from share futures transactions	2 395	2 005
Net gain/(loss) from change in fair values of futures transactions for the reporting period (refer to Note 3.15.)	504	-240
Net gain/(loss) from change in fair values of futures transactions for the reporting period	384	-302
Cash on margin account	262	601
Margin account including settled change in fair value of interest rate futures transactions (refer to Note 3.6.)	646	299

Gains or losses from change in fair values of futures transactions are settled on an ongoing basis against cash on margin account reported within other assets.

The interest rate and share futures transactions also do not qualify for hedge accounting as defined by Czech accounting regulations and, accordingly, are treated as derivatives held for trading. Gains and losses from the change in the fair value are recorded in gains less losses from financial operations (refer to Note 3.15.).

#### Assets held in custody

The Bank did not receive any financially significant assets from third parties to be held in custody in 2019 and 2018.

### 3.18. FINANCIAL RISKS

#### Liquidity risk

The Bank monitors and manages the structure and duration of its foreign currency reserves in compliance with its missions.

#### Interest rate risk

The Bank takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Changes in interest rates result in a change in the market value of securities held in the portfolio of the Bank.

#### Currency risk

The Bank takes on exposure resulting from fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. Most of the assets and liabilities denominated in foreign currency are made up of foreign currency reserves, support the CNB's ability to perform intervention and insure against a Balance of Payments crisis, and result from performing the Bank's currency policy. Due to the necessity to keep foreign currency reserves and subordinate their development to the primary statutory target of monetary stability, the CNB cannot reduce the risk of the strengthening of the Czech currency against major foreign currencies.

#### Credit risk and the concentration of liabilities

The Bank manages the levels of credit risk it undertakes during the management of foreign currency reserves by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers and to geographical segments. Such risks are monitored on an ongoing basis and are subject to review at least once per year.

## Off Balance Sheet and Income Statement

## LIQUIDITY RISK

CZK million		Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Unspecified	Total
Gold	2019	0	0	0	0	0	493	<b>493</b>
	2018	0	0	0	0	0	546	546
Receivables from the IMF	2019	0	0	0	0	0	83 184	<b>83 184</b>
	2018	0	0	0	0	0	82 840	82 840
Zero-coupon bonds	2019	32 846	36 979	11 342	30 227	1 041	0	<b>112 435</b>
	2018	13 623	8 749	24 766	36 100	240	0	83 478
Coupon bonds	2019	7 328	9 215	93 047	905 413	510 611	0	<b>1 525 614</b>
	2018	3 625	18 715	78 990	956 777	452 924	0	1 511 031
MBS	2019	396	0	0	0	10 928	0	<b>11 324</b>
	2018	0	0	0	0	0	0	0
Shares	2019	0	0	0	0	0	339 122	<b>339 122</b>
	2018	0	0	0	0	0	240 844	240 844
Deposits, loans and other receivables from abroad	2019	1 367 719	0	0	0	0	0	<b>1 367 719</b>
	2018	1 331 916	0	0	0	0	0	1 331 916
Receivables from domestic banks	2019	0	0	0	0	0	0	<b>0</b>
	2018	0	0	0	0	0	0	0
Tangible and intangible assets	2019	0	0	0	0	0	3 118	<b>3 118</b>
	2018	0	0	0	0	0	3 237	3 237
Other assets	2019	2 006	0	20	38	191	4 634	<b>6 889</b>
	2018	2 041	0	19	26	159	4 496	6 741
<b>Total assets</b>	2019	<b>1 410 295</b>	<b>46 194</b>	<b>104 409</b>	<b>935 678</b>	<b>522 771</b>	<b>430 551</b>	<b>3 449 898</b>
	2018	1 351 205	27 464	103 775	992 903	453 323	331 963	3 260 633
Notes and coins in circulation	2019	0	0	0	0	0	644 367	<b>644 367</b>
	2018	0	0	0	0	0	618 629	618 629
Liabilities to the IMF	2019	0	0	0	0	0	79 692	<b>79 692</b>
	2018	0	0	0	0	0	79 643	79 643
Liabilities abroad	2019	138 719	0	76	0	0	0	<b>138 795</b>
	2018	144 224	0	75	0	0	0	144 299
Liabilities to domestic banks	2019	2 408 337	0	0	0	0	0	<b>2 408 337</b>
	2018	2 303 096	0	0	0	0	0	2 303 096
Liabilities to the state	2019	291 684	0	0	0	0	0	<b>291 684</b>
	2018	282 275	0	0	0	0	0	282 275
Other liabilities	2019	10 811	0	0	0	0	0	<b>10 811</b>
	2018	14 253	0	1	1	0	0	14 255
Provisions	2019	0	0	0	0	0	0	<b>0</b>
	2018	0	0	0	0	0	258	258
Equity	2019	0	0	0	0	0	-123 788	<b>-123 788</b>
	2018	0	0	0	0	0	-181 822	-181 822
<b>Total liabilities</b>	2019	<b>2 849 551</b>	<b>0</b>	<b>76</b>	<b>0</b>	<b>0</b>	<b>600 271</b>	<b>3 449 898</b>
	2018	2 743 848	0	76	1	0	516 708	3 260 633
<b>Net liquidity gap</b>	2019	<b>-1 439 256</b>	<b>46 194</b>	<b>104 333</b>	<b>935 678</b>	<b>522 771</b>	<b>-169 720</b>	<b>0</b>
	2018	-1 392 643	27 464	103 699	992 902	453 323	-184 745	0



## Off Balance Sheet and Income Statement

## INTEREST RATE RISK

CZK million		Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Not sensitive to the interest rate	Total
Gold	2019	0	0	0	0	0	493	<b>493</b>
	2018	0	0	0	0	0	546	546
Receivables from the IMF	2019	0	0	0	0	0	83 184	<b>83 184</b>
	2018	0	0	0	0	0	82 840	82 840
Zero-coupon bonds	2019	32 846	36 979	11 342	30 227	1 041	0	<b>112 435</b>
	2018	13 623	8 749	24 766	36 100	240	0	83 478
Coupon bonds	2019	27 793	30 546	92 061	869 735	505 479	0	<b>1 525 614</b>
	2018	11 516	36 381	97 954	912 485	452 695	0	1 511 031
MBS	2019	395	0	0	0	10 929	0	<b>11 324</b>
	2018	0	0	0	0	0	0	0
Shares	2019	0	0	0	0	0	339 122	<b>339 122</b>
	2018	0	0	0	0	0	240 844	240 844
Deposits, loans and other receivables from abroad	2019	1 367 719	0	0	0	0	0	<b>1 367 719</b>
	2018	1 331 916	0	0	0	0	0	1 331 916
Receivables from domestic banks	2019	0	0	0	0	0	0	<b>0</b>
	2018	0	0	0	0	0	0	0
Tangible and intangible assets	2019	0	0	0	0	0	3 118	<b>3 118</b>
	2018	0	0	0	0	0	3 237	3 237
Other assets	2019	2 026	0	0	38	191	4 634	<b>6 889</b>
	2018	2 060	0	0	26	159	4 496	6 741
<b>Total assets</b>	2019	<b>1 430 779</b>	<b>67 525</b>	<b>103 403</b>	<b>900 000</b>	<b>517 640</b>	<b>430 551</b>	<b>3 449 898</b>
	2018	1 359 115	45 130	122 720	948 611	453 094	331 963	3 260 633
Notes and coins in circulation	2019	0	0	0	0	0	644 367	<b>644 367</b>
	2018	0	0	0	0	0	618 629	618 629
Liabilities to the IMF	2019	0	0	0	0	0	79 692	<b>79 692</b>
	2018	0	0	0	0	0	79 643	79 643
Liabilities abroad	2019	138 795	0	0	0	0	0	<b>138 795</b>
	2018	144 299	0	0	0	0	0	144 299
Liabilities to domestic banks	2019	2 408 337	0	0	0	0	0	<b>2 408 337</b>
	2018	2 303 096	0	0	0	0	0	2 303 096
Liabilities to the state	2019	291 684	0	0	0	0	0	<b>291 684</b>
	2018	282 275	0	0	0	0	0	282 275
Other liabilities	2019	10 811	0	0	0	0	0	<b>10 811</b>
	2018	14 253	0	1	1	0	0	14 255
Provisions	2019	0	0	0	0	0	0	<b>0</b>
	2018	0	0	0	0	0	258	258
Equity	2019	0	0	0	0	0	-123 788	<b>-123 788</b>
	2018	0	0	0	0	0	-181 822	-181 822
<b>Total liabilities</b>	2019	<b>2 849 627</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>600 271</b>	<b>3 449 898</b>
	2018	2 743 923	0	1	1	0	516 708	3 260 633
<b>Net interest sensitivity gap</b>	2019	<b>-1 418 848</b>	<b>67 525</b>	<b>103 403</b>	<b>900 000</b>	<b>517 640</b>	<b>-169 720</b>	<b>0</b>
	2018	-1 384 808	45 130	122 719	948 610	453 094	-184 745	0

## Off Balance Sheet and Income Statement

## CURRENCY RISK

CZK million		CZK	EUR	USD	JPY	GBP	CAD	AUD	SEK	Other	Total
Gold	2019	0	0	0	0	0	0	0	0	493	<b>493</b>
	2018	0	0	0	0	0	0	0	0	546	546
Receivables from the IMF	2019	55 287	0	0	0	0	0	0	0	27 897	<b>83 184</b>
	2018	55 221	0	0	0	0	0	0	0	27 619	82 840
Zero-coupon bonds	2019	0	44 042	5 998	54 462	0	0	0	279	7 654	<b>112 435</b>
	2018	0	53 930	2 246	24 544	0	0	0	0	2 758	83 478
Coupon bonds	2019	0	563 715	624 363	0	0	207 546	106 589	22 955	446	<b>1 525 614</b>
	2018	0	562 788	626 373	0	0	195 931	99 704	23 499	2 736	1 511 031
MBS	2019	0	0	11 324	0	0	0	0	0	0	<b>11 324</b>
	2018	0	0	0	0	0	0	0	0	0	0
Shares	2019	0	207 194	68 537	14 474	9 767	25 430	13 720	0	0	<b>339 122</b>
	2018	0	159 054	39 019	7 799	5 141	18 739	11 092	0	0	240 844
Deposits, loans and other receivables from abroad	2019	0	1 106 684	77 311	62 652	210	99	191	15 143	105 429	<b>1 367 719</b>
	2018	0	1 125 483	29 228	61 479	83	295	131	12 437	102 780	1 331 916
Receivables from domestic banks	2019	0	0	0	0	0	0	0	0	0	<b>0</b>
	2018	0	0	0	0	0	0	0	0	0	0
Tangible and intangible assets	2019	3 097	0	0	0	0	0	0	0	21	<b>3 118</b>
	2018	3 226	0	0	0	0	0	0	0	11	3 237
Other assets	2019	1 153	710	286	66	63	68	59	0	4 484	<b>6 889</b>
	2018	338	526	1 369	33	39	53	31	0	4 352	6 741
<b>Total assets</b>	2019	<b>59 537</b>	<b>1 922 345</b>	<b>787 819</b>	<b>131 654</b>	<b>10 040</b>	<b>233 143</b>	<b>120 559</b>	<b>38 377</b>	<b>146 424</b>	<b>3 449 898</b>
	2018	58 785	1 901 781	698 235	93 855	5 263	215 018	110 958	35 936	140 802	3 260 633
Notes and coins in circulation	2019	644 367	0	0	0	0	0	0	0	0	<b>644 367</b>
	2018	618 629	0	0	0	0	0	0	0	0	618 629
Liabilities to the IMF	2019	55 287	0	0	0	0	0	0	0	24 405	<b>79 692</b>
	2018	55 221	0	0	0	0	0	0	0	24 422	79 643
Liabilities abroad	2019	113 217	531	8 107	0	0	13 553	0	3 387	0	<b>138 795</b>
	2018	143 455	635	209	0	0	0	0	0	0	144 299
Liabilities to domestic banks	2019	2 408 337	0	0	0	0	0	0	0	0	<b>2 408 337</b>
	2018	2 303 096	0	0	0	0	0	0	0	0	2 303 096
Liabilities to the state	2019	289 591	106	1 986	0	1	0	0	0	0	<b>291 684</b>
	2018	280 090	219	1 965	0	1	0	0	0	0	282 275
Other liabilities	2019	8 559	530	1 720	0	1	0	0	0	1	<b>10 811</b>
	2018	11 904	866	1 483	0	0	0	0	2	0	14 255
Provisions	2019	0	0	0	0	0	0	0	0	0	<b>0</b>
	2018	0	0	258	0	0	0	0	0	0	258
Equity	2019	-127 894	0	0	0	0	0	0	0	4 106	<b>-123 788</b>
	2018	-185 791	0	0	0	0	0	0	0	3 969	-181 822
<b>Total liabilities</b>	2019	<b>3 391 464</b>	<b>1 167</b>	<b>11 813</b>	<b>0</b>	<b>2</b>	<b>13 553</b>	<b>0</b>	<b>3 387</b>	<b>28 512</b>	<b>3 449 898</b>
	2018	3 226 604	1 720	3 915	0	1	0	0	2	28 391	3 260 633
<b>Net assets/liabilities (-)</b>	2019	<b>-3 331 927</b>	<b>1 921 178</b>	<b>776 006</b>	<b>131 654</b>	<b>10 038</b>	<b>219 590</b>	<b>120 559</b>	<b>34 990</b>	<b>117 912</b>	<b>0</b>
	2018	-3 167 819	1 900 061	694 320	93 855	5 262	215 018	110 958	35 934	112 411	0
Net off-balance sheet assets	2019	0	116 249	271 901	97 014	95 510	7 460	194	0	0	<b>588 328</b>
	2018	0	28 444	236 937	86 877	80 558	119	132	2	0	433 069
Net off-balance sheet liabilities	2019	0	-106 394	-233 189	-126 748	-267	-7 463	-194	0	-113 363	<b>-587 618</b>
	2018	0	-17 233	-199 772	-91 212	-111	-16 955	-132	0	-107 992	-433 407
<b>Net foreign exchange position</b>	2019	<b>-3 331 927</b>	<b>1 931 033</b>	<b>814 718</b>	<b>101 920</b>	<b>105 281</b>	<b>219 587</b>	<b>120 559</b>	<b>34 990</b>	<b>4 549</b>	<b>710</b>
	2018	-3 167 819	1 911 272	731 485	89 520	85 709	198 182	110 958	35 936	4 419	-338

## Off Balance Sheet and Income Statement

**CREDIT RISK AND CONCENTRATION OF LIABILITIES****ASSETS**

<b>CZK million</b>	<b>2019</b>	<b>2018</b>
Czech Republic	5 083	5 598
Germany	950 964	909 810
France	288 298	348 113
Netherlands	122 870	59 500
Austria	8 713	14 827
Slovakia	546 366	550 134
Luxembourg	22 104	45 645
Spain	19 104	16 337
Other Eurozone countries	53 452	53 079
Switzerland	115 418	111 356
Sweden	46 130	40 829
Denmark	8 101	5 495
United Kingdom	43 695	28 589
Norway	12 634	9 707
Other European countries	40	28
USA	735 912	661 409
Canada	245 595	220 938
Australia	93 657	85 318
Japan	131 336	93 679
Other countries	426	242
<b>Geographical concentration of assets</b>	<b>3 449 898</b>	<b>3 260 633</b>
Of which deposits and bonds:		
Central governments and central banks	2 595 934	2 450 630
Government agencies	303 899	385 498
Commercial banks	4 485	51 543
BIS	22 900	3 951
Securities secured with other assets	45 396	29 102
<b>Total deposits and bonds</b>	<b>2 972 614</b>	<b>2 920 724</b>

**LIABILITIES**

Czech Republic	3 225 187	3 028 066
USA	79 813	79 831
Eurozone countries	119 152	120 055
Other European countries	25 532	10 001
Other countries	214	22 680
<b>Geographical concentration of liabilities</b>	<b>3 449 898</b>	<b>3 260 633</b>

## Off Balance Sheet and Income Statement

## 3.19. CONTINGENT LIABILITIES

In accordance with the Agreement on the payment of operating costs and losses related to assumed assets that are incurred in connection with the fulfilment of the Consolidation Programme concluded on 29 June 2000, as amended, the CNB charges against income the amounts it pays for the acknowledged reasonable operating costs of the Ministry of Finance of the Czech Republic (until 31 December 2007 the costs of Česká konsolidační agentura a.s.). In 2019 these costs amounted to CZK 0.1 million (2018: CZK 0.1 million). The Bank does not recognise any provisions for these contingencies as they are immaterial.

**Ongoing lawsuits**

As a result of the transactions the CNB conducted in the past pursuant to its role in supporting and maintaining the stability of the banking sector, the CNB or third parties are defendants in several court proceedings. Based on consultation with external lawyers and internal analyses, the CNB does not consider it probable that the outcome of these legal cases will result in any material outflow of the CNB's resources and, therefore, has not recognised any provisions. Similarly, the Bank evaluates the contingencies and commitments from legal cases which relate to the activities of the former authorities of financial market supervision and which the Bank keeps on the basis of Act No. 57/2006 Col., on the Amendment of Acts Connected with the Unification of Financial Market Supervision. According to this Act, any financial liabilities arising from these legal cases would be reimbursed by the state.

## 3.20. RELATED PARTY TRANSACTIONS

Related parties and parties with special relations to the Bank are members of the Bank Board, senior management at the top level and their relatives.

In accordance with internal rules the CNB provides the members of the Bank Board and senior management with services consisting of maintaining current and deposit accounts and special purpose loans, especially for housing. The loans to the members of the Bank Board and senior management are provided under the same conditions as loans to other employees of the Bank.

## 3.21. SUBSEQUENT EVENTS

The CNB's management is not aware of any other subsequent events that would have a material impact on the financial statements for the year ended 31 December 2019.

## 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

### Opinion

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 at 31 December 2019, and the income statement and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the assets and liabilities of the Czech National Bank as at 31 December 2019, 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.

### Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Czech National Bank in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Bank Board of the Czech National Bank is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Czech National Bank obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.



## Responsibilities of the Bank Board of the Czech National Bank for the Financial Statements

The Bank Board of the Czech National Bank is responsible for the preparation and fair presentation of the financial statements in accordance with accounting regulations applicable in the Czech Republic and for such internal control as the Bank Board of the Czech National Bank determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank Board of the Czech National Bank is responsible for assessing the Czech National Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Bank Board of the Czech National Bank either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Czech National Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank Board of the Czech National Bank.
- Conclude on the appropriateness of the Bank Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Czech National Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Czech National Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Bank Board of the Czech National Bank regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

In Prague on 20 March 2020

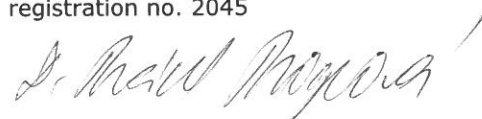
Audit firm:

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



Statutory auditor:

Diana Rádí Rogerová  
registration no. 2045



# Abbreviations

ABO	Automated Banking Operations
AML/CFT	anti-money laundering/combating the financing of terrorism
AnaCredit	Analytical Credit Datasets
BCBS	Basel Committee on Banking Supervision
BCG	Basel Consultative Group
BICC	budgetary instrument for convergence and competitiveness
BIS	Bank for International Settlements
BRRD	Bank Recovery and Resolution Directive
BSCEE	Banking Supervisors from Central and Eastern Europe
CERTIS	Czech Express Real Time Interbank Gross Settlement System
CNB	Czech National Bank
CRD	Capital Requirements Directive
CRI	Convergence and Reform Instrument
CRR	Capital Requirements Regulation
CZ	Czech Republic
CZK	Czech koruna
DSTI	debt service-to-income
DTI	debt-to-income
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECOFIN Council	EU Council in the composition of the ministers of economy and finance
EFC	Economic and Financial Committee
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	European Market Infrastructure Regulation
EPC	Economic Policy Committee
ERM II	Exchange Rate Mechanism II
ESAs	European Supervisory Authorities
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESG	environmental, social and governance framework
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EUR	euro
FinTech	financial technology
FSB	Financial Stability Board
FSI	Financial Stability Institute
FTSE 100	benchmark index for the UK stock market
GDP	gross domestic product

IFD	Investment Firm Directive
IFR	Investment Firm Regulation
IFRS	International accounting standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
JVI	Joint Vienna Institute
LTV	loan-to-value
MAR	Market Abuse Regulation
MBS	Mortgage Backed Securities
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MONEYVAL	the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
MREL	minimum requirement for own funds and eligible liabilities
MSCI Euro	benchmark index for the European stock market
NAB	the IMF's New Arrangements to Borrow
Nikkei 225	benchmark index for the Japanese stock market
OECD	Organisation for Economic Cooperation and Development
p.a.	per annum
PEPP	Pan-European Personal Pension Product
PR	Prospectus Regulation
PRIBOR	Prague Interbank Offered Rate
PRIIP	a regulation on key information documents for packaged retail investment products
PSE	Prague Stock Exchange
RCGE	FSB Regional Consultative Group for Europe
S&P 500	benchmark index for the US stock market
S&P ASX 200	benchmark index for the Australian stock market
S&P TSX	benchmark index for the Canadian stock market
SDAT	the CNB's data collection system
SDR	special drawing rights
SKD	Short-Term Bond System
SMEs	small and medium-sized enterprises
Solvency II	Directive on Insurance and Reinsurance
SRB	Single Resolution Board
SRF	Single Resolution Fund
TLAC	total loss-absorbing capacity
USD	US dollar

Issued by:  
Czech National Bank  
Na Příkopě 28  
115 03 Praha 1  
Czech Republic

Contact:  
COMMUNICATIONS DIVISION  
GENERAL SECRETARIAT  
Tel.: +420 224 413 112  
Fax: +420 224 412 179  
[www.cnb.cz](http://www.cnb.cz)

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