

Annual Report — 2020



Czech National Bank — Annual Report — 2020

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.
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- Through monetary policy we seek to preserve price stability, i.e. low and stable inflation. Through macroprudential policy we foster financial stability and resilience of the financial system, which are necessary conditions for the maintenance of price stability. Through the joint action of monetary policy and macroprudential policy, we contribute to maintaining confidence in the value of the Czech koruna and safeguarding the stability of the macroeconomic environment.
 - By supervising the financial market and creating prudential rules and rules of conduct towards clients we protect the clients of persons and institutions carrying on business on the financial market.
 - By exercising powers in the area of resolution of banks, credit unions and some investment firms, we create conditions for the smoothest possible resolution without recourse to public funds.
 - 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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2020 at a glance

- The global economic and monetary situation was significantly affected by the coronavirus pandemic. Anti-epidemic measures affected international trade and had a negative impact on the economy in virtually every country, including the Czech Republic.
- The Bank Board reacted to the adverse economic developments by cutting interest rates sharply. The CNB's key interest rate was lowered by two percentage points to 0.25% in three steps during March and May.
- At the beginning of the year, the CNB started to publish attributed arguments of the individual Bank Board members in the minutes of monetary policy meetings. This further enhanced the transparency of monetary policy.
- The domestic financial sector remained stable during the coronavirus crisis. At the beginning of the crisis, the CNB supported the liquidity of financial institutions and markets as a precautionary measure. A marked reduction in the countercyclical capital buffer rate supported banks' ability to lend smoothly to non-financial corporations and households. The recommendations for the assessment of new mortgage loans were relaxed, making it possible for the high level of activity in this important market segment to be maintained even under the worse economic conditions.
- The extension of liquidity-providing operations and use of the options provided for by a temporary amendment to the Act on the CNB (broadening the range of eligible collateral in standard operations and making liquidity-providing operations available to some non-bank entities) contributed significantly to calming the financial markets during the spring outbreak of the coronavirus crisis.
- The coronavirus pandemic and the financial market situation led to the CNB having to substantially adjust its supervisory priorities and the way it conducted supervision. It appropriately adapted its supervisory work to the situation in order to ensure continued proper compliance with its statutory duties.
- For the first time ever, the CNB set a minimum requirement for own funds and eligible liabilities (MREL) for banks. The MREL is another important requirement, alongside the capital requirement, aimed at increasing banks' ability to withstand shocks and, where necessary, resolving crises in banks without recourse to public funds.
- Despite growth in payments made in various cashless forms – due in part to the pandemic – the value of currency in circulation rose significantly compared with the previous year.
- In their *Assessment of the Fulfilment of the Maastricht Convergence Criteria and the Degree of Economic Alignment of the Czech Republic with the Euro Area*, the CNB and the Ministry of Finance recommended not to set a target date for adopting the euro yet and thus not to attempt to enter ERM II during 2021.
- A new Human Resources Department was established on 1 September.

Governor's foreword



Dear Readers,

Following several years of constant economic growth and – looking back – almost carefree prosperity, the Czech and global economies were hit by an unprecedented shock in 2020. The coronavirus pandemic and the related drastic restrictions on social and economic life completely obscured and drowned out the risks we had rightly considered significant before the pandemic. The new situation presented us with challenges that economic textbooks have nothing to say about. Overnight, policymakers were forced to deal with problems that neither they nor their predecessors had faced during the previous financial and debt crisis, problems that were much larger in various respects than those seen back then.

Things were still looking quite promising at the beginning of the year. Although the Czech economy was slowing cyclically as a result of weakening external demand, the labour market remained overheated and inflation pressures were still high. This was partly because the process of normalising monetary policy, i.e. raising interest rates to their equilibrium levels, had not yet been completed and monetary policy remained

accommodative. The inflation forecast published in early February indicated a risk of overshooting the inflation target, and the CNB correspondingly increased its key interest rates. The pandemic shock struck with full force in March, bringing to an abrupt end a period when monetary policy considerations and decisions had been made at the usual six-week frequency and when – metaphorically speaking – various economic and price factors had been weighed on an apothecary's scales.

Fortunately, the coronavirus crisis caught the Czech economy in good initial condition with its adjustment mechanisms ready. The first such mechanism was a spontaneous weakening of the koruna, which brought about the desired monetary easing even before economic policymakers reached for discretionary measures. Three policy rates cuts also helped ease the monetary conditions. In mid-March, the Bank Board even took the step of lowering rates outside its regular meetings. By the beginning of May, it had reduced interest rates in another two steps. Rates were cut by a long-unseen two percentage points in less than two months. Reducing rates was the “second zone of defence” against the negative exogenous shock. It is worth noting that the possibility of stimulating the economy like this had been opened up by the previously launched process of monetary policy normalisation, which had yet to start in many other advanced economies in the period following the financial crisis. In other words, while in the euro area, for example, monetary easing was achieved by re-using previous unconventional instruments and introducing new ones, we delivered the necessary easing exclusively through conventional instruments. For the rest of 2020, our monetary policy rates remained at their early May levels.

Another important adjustment mechanism in our remit was the domestic banking sector, which entered the crisis extremely well capitalised and highly shock resistant. It shouldered part of the burden of mitigating the effects of the extremely fast progress of the crisis, while the CNB took additional action shortly after the

outbreak to ensure that the financial sector had enough liquidity. Of course, public finances bore the brunt of alleviating the crisis, as was the case worldwide. Without active and targeted fiscal support for the worst affected sectors and occupations, the economy would have declined much more dramatically and unemployment would have soared. Although the economic contraction recorded in 2020 was the largest since the establishment of the independent Czech Republic, it would no doubt have been far deeper and more painful without the above adjustment mechanisms.

Inflation fluctuated at relatively high and long-unrecorded levels in 2020. For most of the year, it was even above the upper boundary of the tolerance band around our inflation target for the first time since 2013. It was not until the end of the year that it approached our 2% target as a labour market cooling, a downturn in domestic demand and a gradual, albeit highly volatile, appreciation of the koruna began to emerge with a lag. Inflation therefore eventually slowed in 2020, though later than we had anticipated after the pandemic broke out.

The economic situation was characterised by three noteworthy features in 2020. The first was the asymmetry between the scale of the disease and the economic impact of the anti-pandemic measures. While the epidemic was relatively moderate in the spring, the extremely hard shutdowns of many sectors and industries caused an unprecedented economic downturn in the second quarter. By contrast, the incomparably more serious epidemic situation in the fourth quarter (and at the start of 2021) was associated with much lower economic costs. The second feature was a marked rapid change in supply and demand shocks during the year as anti-epidemic constraints were tightened or eased. The third feature was an increase in the double-track nature of our economy, especially during the autumn wave of the pandemic: the services sector was affected almost fatally by the shutdowns in some segments, while industry as a whole remained the driving force of the economy, owing among other things to our close trade links with other countries.

The CNB's systematic drive for greater monetary policy transparency and predictability has been very visible over the almost 25-year history of our inflation targeting regime. Although we have long been highly rated in this regard by many renowned international institutions, we made further progress along this road in 2020. We began to publish the individual Bank Board members' opinions and stances in the monetary policy decision-making process (attributed minutes). This is based on our long-standing conviction that the more predictable our policy is, the more effective it will be and the more it will benefit our economy.

I have already briefly mentioned the role of financial market supervision in the present situation of deep economic decline and extreme uncertainty. At this point, I would like to return to the topic in more detail. To start with, the government used various stabilising and support programmes to provide businesses with much-needed liquidity in the critical stages of the pandemic, thereby preventing a precipitous wave of credit defaults. Measures taken in cooperation between the government and the CNB (a credit moratorium in particular) then stabilised the debt service of those worst affected and safeguarded the smooth operation of financial institutions. Although the domestic banking sector's capital position was robust thanks to large capital buffers and to significant capital surpluses in excess of the regulatory requirements, the CNB released the countercyclical capital buffer for banks in June. Together with the postponement of dividend payments, this made it possible to keep bank funding available. At the same time, we declared that we stood ready to release the buffer fully if necessary. In the area of house purchase loans, the CNB took a countercyclical stance, increasing the loan-to-value (LTV) cap from 80% to 90% and cancelling the debt-to-income (DTI) and debt service-to-income (DSTI) limits. Thanks in part to these measures, mortgage lending remained strong and genuinely new mortgages reached an all-time high in the second half of 2020.

During 2020, the Chamber of Deputies continued to debate an amendment to the Act on the CNB that would give the central bank the power to set binding upper LTV, DTI and DSTI limits for all mortgage lenders on the Czech market and would expand the range of monetary policy operations executed by the central bank. The CNB has been pushing for this change since 2016. However, the previous Chamber of Deputies did not find time to approve the amendment during its parliamentary term. During 2020, a partial amendment governing

monetary policy instruments was approved in a state of legislative emergency, but only with limited validity until the end of 2021. The debate on the full amendment was postponed until 2021. I would like to assure you that the prohibition of monetary financing of the government by the central bank will continue to apply. It has not been called into question by anyone or anything, nor has it been interfered with in any way during the debate.

To sum up, 2020 was the worst year in the history of the independent Czech Republic in economic terms, and a tragic and bleak one from the health and social perspectives. Vaccination will be crucial in the fight against the coronavirus and offers the greatest hope of a sustainable recovery in 2021. It is likely that even when the recovery does come, the scars in our society will continue to heal long after we have reached the pre-pandemic economic level. I believe that on the rocky road through 2020, the CNB passed the test well and did everything in its power to mitigate the pandemic's negative effects on the economy and other areas of our lives.



Jiří Rusnok, Governor

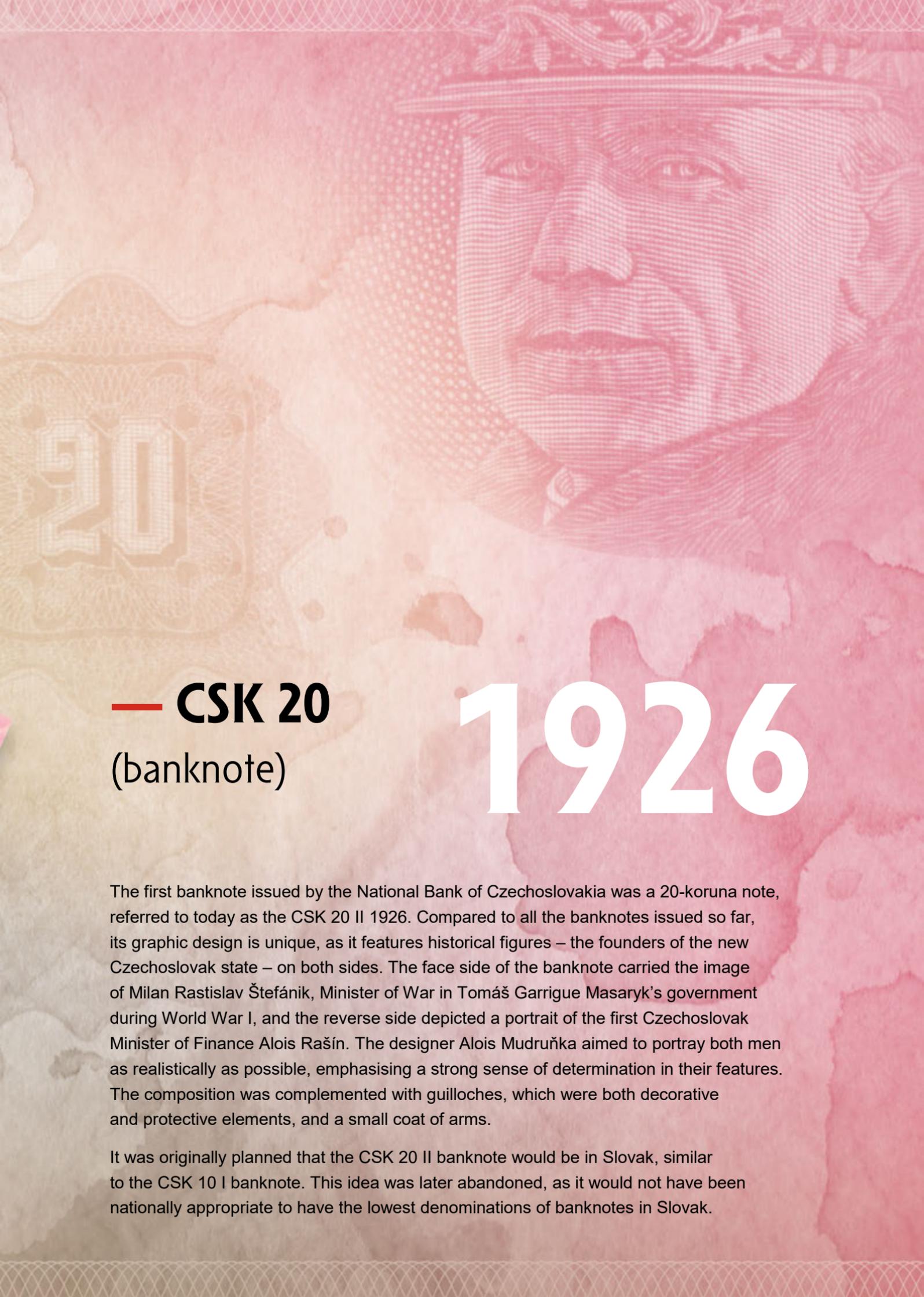


I.

Bank Board



NARODNI BANKA CESKOSLOVENSKA



— **CSK 20**
(banknote)

1926

The first banknote issued by the National Bank of Czechoslovakia was a 20-koruna note, referred to today as the CSK 20 II 1926. Compared to all the banknotes issued so far, its graphic design is unique, as it features historical figures – the founders of the new Czechoslovak state – on both sides. The face side of the banknote carried the image of Milan Rastislav Štefánik, Minister of War in Tomáš Garrigue Masaryk's government during World War I, and the reverse side depicted a portrait of the first Czechoslovak Minister of Finance Alois Rašín. The designer Alois Mudruňka aimed to portray both men as realistically as possible, emphasising a strong sense of determination in their features. The composition was complemented with guilloches, which were both decorative and protective elements, and a small coat of arms.

It was originally planned that the CSK 20 II banknote would be in Slovak, similar to the CSK 10 I banknote. This idea was later abandoned, as it would not have been nationally appropriate to have the lowest denominations of banknotes in Slovak.

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 Czech central bank'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 2020.



The Bank Board as of 31 December 2020

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

II.

The CNB in 2020





— **CSK 20**
(treasury note)

1945

Only two paper 20-koruna notes were printed abroad, both during World War II. One was printed in the Soviet Union (1944 koruna voucher) and the other one in the United Kingdom (CSK 20 A 1945 version). The “London issue” was initiated by the Minister of Finance of the government in exile Ladislav Feierabend at the turn of 1942 and 1943.

Like the CSK 50 A note, the London firm Waterlow was commissioned to print the CSK 20 A note. It worked on the commission in its studio based on resource materials provided by the Ministry of Finance in exile. The materials were very limited, though. The 20-koruna note featured a portrait of Karel Havlíček Borovský, or rather its reproduction, which was published in a period compendium for the general public entitled *Československá vlastivěda*. However, Waterlow significantly altered Havlíček’s image, turning it slightly to the side and refining his features and “combative” appearance. The composition was adorned with folk ornaments on both the face and reverse sides. The treasury note was put into circulation on 1 October 1945 during the currency reform.

II. THE CNB IN 2020

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 target has been set in the form of 2% year-on-year growth in the consumer price index with a tolerance band of ± 1 percentage point. This target is in line with the practice in advanced economies.

The global economic and monetary situation was significantly affected by the coronavirus pandemic in 2020. Anti-epidemic measures affected international trade and had a negative impact on the economy in virtually every country. The result was a deep decline in the global economy. The CNB reacted to the adverse domestic economic developments by cutting interest rates sharply. A significant weakening of the koruna after the spring outbreak of the pandemic also helped ease monetary conditions. Inflation was above the upper boundary of the tolerance band for most of 2020 owing to the fading effect of the previous significant overheating of the domestic economy and labour market, but declined close to the inflation target in the last quarter of the year.



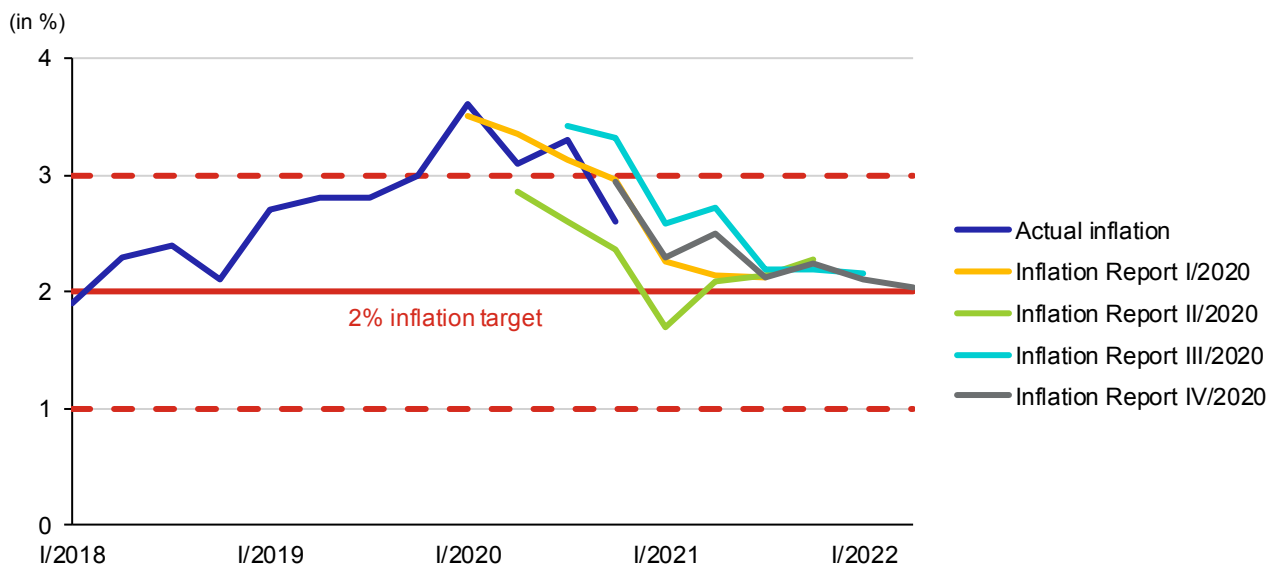
Fulfilment of the inflation target

(in %)



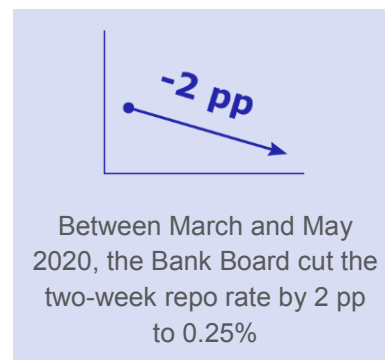
The key input to the Bank Board's decision-making are the forecasts of future economic developments drawn up by the Monetary Department. The forecasts were published together with a description and assessment of economic and monetary developments in quarterly [Inflation Reports](#). The February forecast, which was prepared before the coronavirus pandemic broke out, signalled an increase in inflation clearly above the upper boundary of the tolerance band around the target. This was mainly due to the price effects of changes to indirect taxes in a situation of persisting strong inflation pressures in the domestic economy. However, these pressures were expected to start weakening gradually as a result of slowing wage growth amid moderating growth in administered prices and food prices. After strengthening in early 2020, the koruna exchange rate was expected to remain stable for the rest of the year and thus have a neutral effect on prices. The growth of the Czech economy was forecasted to accelerate gradually, owing to a gradual recovery in the previously somewhat subdued external demand. Consistent with the February forecast was a rise in domestic market interest rates initially, followed by a decline in the second half of 2020. In line with the forecast, the Bank Board raised interest rates by 0.25 percentage point in February.

Headline inflation forecasts

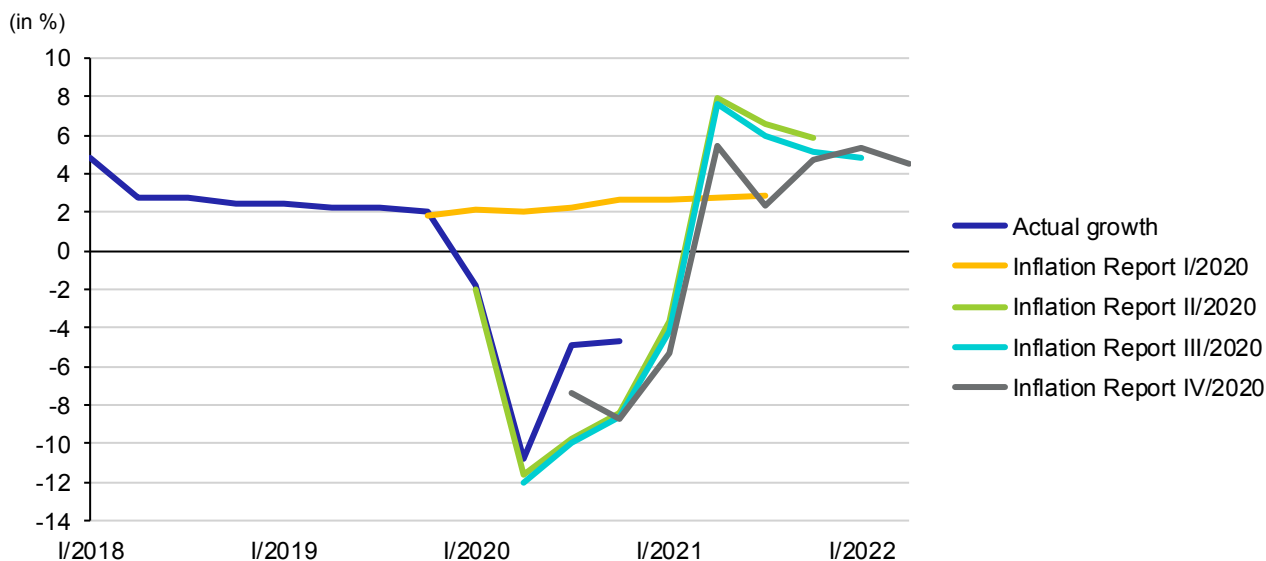


The outbreak of the coronavirus pandemic in the spring dramatically changed the outlooks for the world and Czech economy. The global scale of the pandemic and the associated epidemiological measures seriously disrupted international trade and economic activity in virtually every country. Part of the Czech economy was also shut down during the spring months due to measures to combat the pandemic. The negative economic impact of the pandemic was reduced by government budgetary policy over the course of the year. In order to mitigate the pandemic's impact on Czech firms and households, the CNB Bank Board decided at an extraordinary meeting in mid-March to lower monetary policy interest rates by 0.5 percentage point. It also adopted measures to support liquidity in the financial sector. The Bank Board made an even sharper interest rate cut of 0.75 percentage point at its regular meeting at the end of March. The key rate thus fell to 1%.

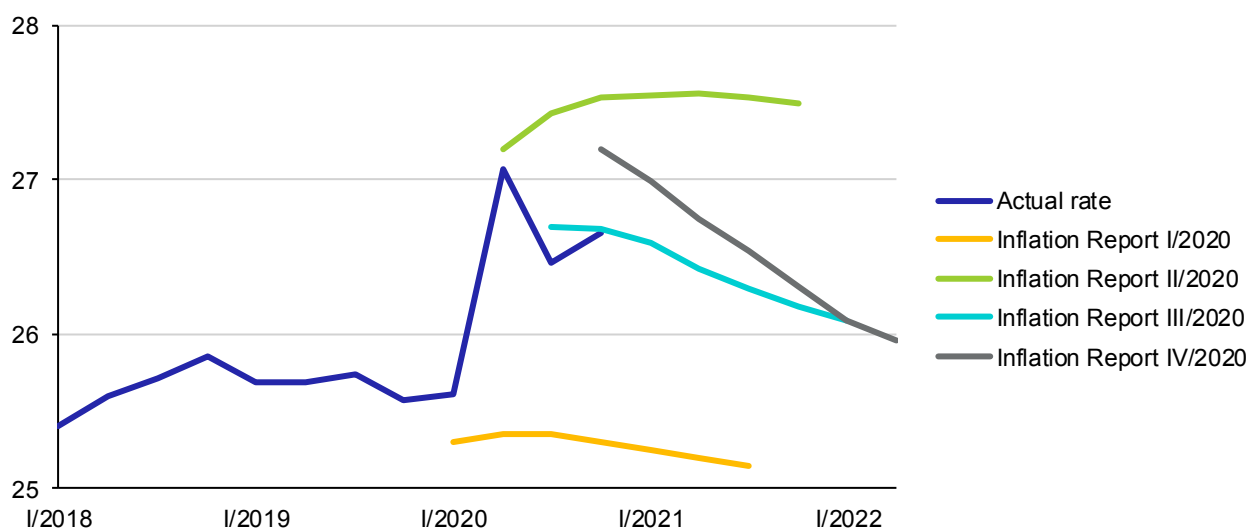
The May forecast took into account the onset of the pandemic, the closure of part of the Czech economy and the other measures taken to counter the epidemic. As a result, the CNB forecasted a significant decline in domestic economic activity in 2020. The inflation forecast was returning relatively quickly into the tolerance band around the 2% target and was close to the target for the subsequent year. Following a significant weakening of the koruna at the end of the first quarter due to the pandemic, the exchange rate was expected to stabilise. After the sharp fall in domestic market interest rates recorded in March, consistent with the forecast was a further decline in the second quarter of 2020 followed by broad stability. In line with the forecast, the Bank Board lowered interest rates sharply again in early May, to 0.25% in the case of the key two-week repo rate.

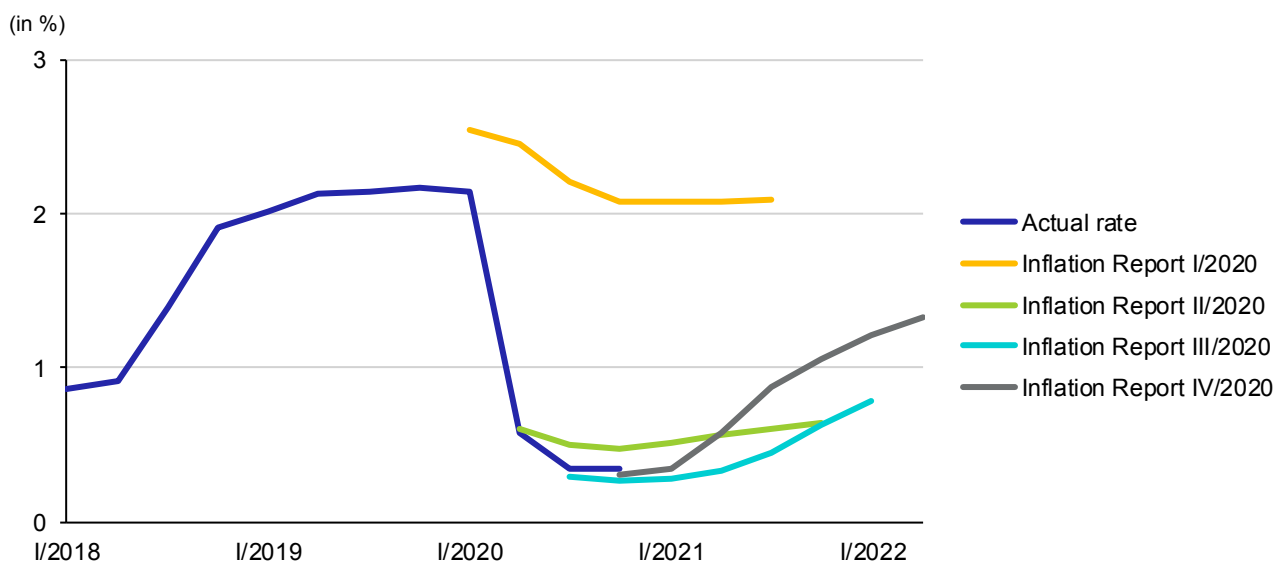


An improvement in the coronavirus situation over the summer led to an easing of most anti-epidemic measures. According to the August forecast, however, reduced external demand, a marked rise in unemployment and worse overall perceptions of the economic situation among Czech firms and households would still have an adverse effect on the economy in the months ahead. While the expected path of GDP was unchanged compared with the May forecast, the inflation forecast increased significantly in the summer. Inflation was therefore expected to stay above the upper boundary of the tolerance band around the 2% target for the rest of the year, mainly on account of still buoyant core inflation and peaking growth in food prices. On the other hand, inflation was expected to be dampened by the koruna, which strengthened due to a turnaround in global sentiment at the end of May and was expected to appreciate gradually in the subsequent period. Inflation was not expected to return close to the 2% target until the second half of 2021. Consistent with the August forecast was stability of domestic market interest rates until mid-2021, followed by a gradual rise in rates.

Real GDP growth forecasts

The autumn second wave of the pandemic, though more dramatic and more tragic than the spring first wave from the epidemiological perspective, had less negative effects on the economy. This was because industry was less affected by the autumn anti-epidemic measures than in the spring. However, worse overall perceptions of the economic situation among firms were expected to continue to be reflected in a decline in private investment. In the November forecast, this led to a decrease in expected economic growth in 2021. The estimated anti-inflationary effects of the second wave fostered a decrease in the inflation forecast. Inflation was expected to return close to the 2% target in the second half of 2021. Following an autumn weakening of the koruna, gradual appreciation was expected to resume in 2021. Consistent with the November forecast was stability of market interest rates initially, followed by a gradual rise in rates in the course of 2021. In line with the August and November forecasts, the Bank Board kept interest rates unchanged in the second half of 2020.

Koruna-euro exchange rate forecasts

3M PRIBOR interest rate forecasts

In 2020, the Bank Board repeatedly assessed the uncertainties and risks of the forecasts as being very substantial. The unpredictable course of the coronavirus pandemic and the fact that its impact on the Czech economy was difficult to quantify complicated the preparation of the forecasts and the Bank Board's decisions based on them in 2020. Uncertainty was also connected with the domestic fiscal policy response, internal policy developments in the USA, the manner of Brexit and with the structure of the supply and demand factors underlying domestic and foreign inflation.

At the beginning of 2020, the CNB started to publish the arguments of the individual Bank Board members in attributed form in the minutes of the monetary policy meetings. The publication of attributed arguments further enhances the information value of the minutes and gives the public a better understanding of the individual Bank Board members' thinking and the reasons for their voting. This has further enhanced the transparency of monetary policy.

At the end of 2020, the CNB in cooperation with the Ministry of Finance prepared for the Government the regular *Assessment of the Fulfilment of the Maastricht Convergence Criteria and the Degree of Economic Alignment of the Czech Republic with the Euro Area*. The document recommended not to set a target date for adopting the euro yet and thus not to attempt to enter ERM II during 2021. This recommendation was based on a whole range of factors. The preparedness of the Czech Republic to adopt the euro still had its weak points, especially the unfinished process of real economic convergence of the Czech economy, where the gaps in most key indicators – the price and wage levels in particular – remained significant. The structure of the Czech economy still differed considerably from the euro area, and public finance stability remained an issue due to population ageing. Moreover, debt and structural issues persisted in a number of euro area countries.

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 on its website.

The CNB informs the public about financial stability developments mainly in its [Financial Stability Report](#). It publishes this report in June and also provides information about the results of the analyses at a special seminar for the professional public and a press conference. In accordance with the law, it submits the report

to the Chamber of Deputies as well. 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 that the financial sector had maintained a high level of resilience to adverse shocks. [Macro stress tests](#) demonstrated the ability of the supervised financial institutions to withstand even the very adverse economic developments the economy was going through in 2020. The government's stabilisation and support programmes provided liquidity to the real economy and prevented a precipitous wave of credit defaults. The CNB's measures stabilised the debt service of real sectors and safeguarded the smooth operation of financial institutions.

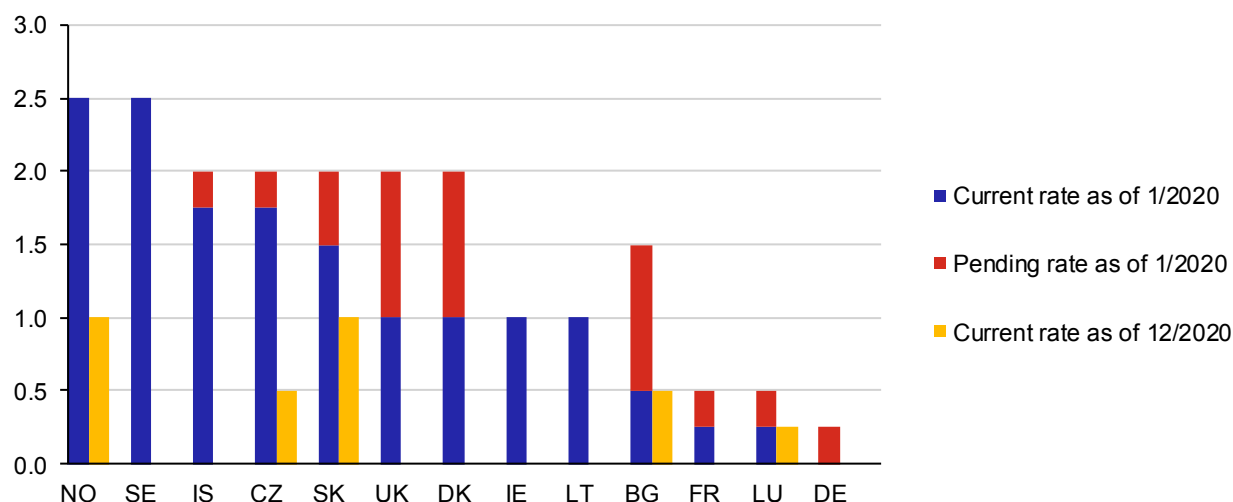
The capital position of the domestic banking sector was robust at the onset of the coronavirus crisis thanks to capital buffers and capital surpluses in excess of the regulatory requirements. The CNB was therefore able to relax the countercyclical capital buffer for banks. Together with the postponement of dividend payments, this made it possible to maintain the availability of bank financing. The Bank Board lowered the buffer rate to 0.5% in June and confirmed this rate at the subsequent two quarterly meetings. At the same time, it declared that it stood ready to release the buffer fully if necessary.



The CNB responded to the coronavirus crisis by significantly lowering the countercyclical capital buffer rate

Countercyclical capital buffer rates in European countries

(in % of total risk exposure; data as of December 2020)

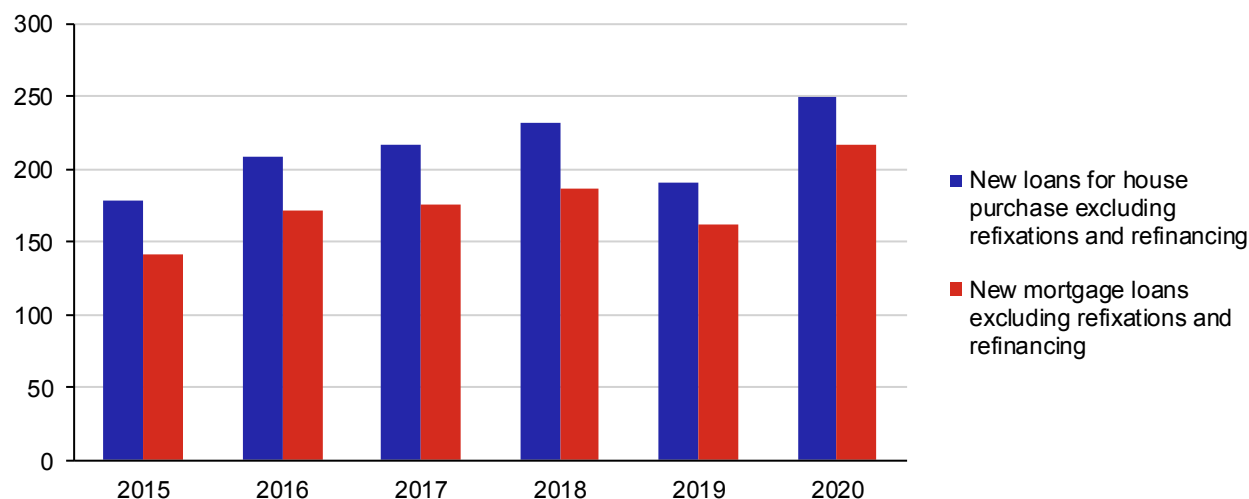


The CNB supported the introduction of a statutory loan moratorium as well as individual credit institutions' own initiatives allowing clients to postpone their loan payments in the event of a temporary loss of income due to the coronavirus crisis. Roughly 370,000 firms and households, with loans totalling around CZK 480 billion, made use of this option. This prevented a precipitous wave of credit defaults and helped keep the share of non-performing bank loans low (the NPL ratio increased from 2.5% at the end of 2019 to 2.7% at the end of 2020). After the statutory moratorium ended at the close of October 2020, most debtors returned to standard repayment. Some clients took advantage of the possibility of asking banks for a further postponement of instalments if their adverse income situation persisted as a result of the pandemic. This allowed clients' needs to be met and the impact of the pandemic on the financial condition of banks to be accurately represented. The volume of loans with such relief was initially low and increased only gradually.

In recent years, the CNB has focused intensively on risks associated with the relationship between property prices and house purchase loans. It has gradually introduced caps on the LTV (loan-to-value), DTI (debt-to-income) and DSTI (debt service-to-income) ratios. In line with its previous communications, the Bank Board's response to the coronavirus crisis was countercyclical in this area as well – the LTV cap was increased to 90% and the DTI and DSTI limits were removed. Thanks in part to these measures, mortgage lending remained strong and genuinely new mortgages reached an all-time high in the second half of 2020.

Genuinely new mortgage loans and loans for house purchase

(annual totals in CZK billions)



During 2020, the Chamber of Deputies continued to debate an amendment to the Act on the CNB that would give the central bank the power to set binding upper LTV, DTI and DSTI limits for all mortgage lenders. The OECD, the IMF and the ESRB have repeatedly highlighted the need for such legislation. At its meeting on financial stability issues in November, the Bank Board told mortgage lenders that, above certain DTI and DSTI limits, mortgage loans can usually be regarded as very risky and should therefore be provided with great caution. This is particularly true in a situation where continued strong growth in property prices in the Czech Republic has led to a deterioration in housing affordability and to an increase in the potential overvaluation of residential property prices.

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 a number of 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 regulations. On its website, it regularly updated a [complete list](#) of its valid decrees, provisions of a general nature, official information and opinions relating to the financial market.

Following the launch of its FinTech contact point in November 2019, the CNB in January and June 2020 organised two round tables for financial market participants and those interested in introducing innovative technologies on the financial market. The first round table focused on the development of innovation on the financial market in general, while the second dealt with the licensing of innovative payment service providers.

In the area of credit institutions, a draft law amending the Act on Banks and some other laws was discussed in 2020. This draft law, submitted by the government to the Chamber of Deputies for debate in June 2020, mostly transposes the Capital Requirements Directive (CRD V). In accordance with the directive, a date of effect of 29 December 2020 was proposed. However, the Chamber of Deputies did not discuss the draft law in 2020. It is now expected to be debated in the first half of 2021.

By contrast, an amendment to the Act on Banks and the Act on Credit Unions was adopted. It lays down rules for the conversion of banks into foreign bank branches, some instruments for more effective supervision, and measures benefiting clients. This amendment took effect on 1 October 2020.

The CNB was also involved in the preparation of a parliamentary proposal for a banking identity (BankID) for bank clients, through which they will be able to use electronic services provided by the state and the private sector. Related amendments, in particular an amendment to the Act on Banks and the Act on Certain Measures against Money Laundering and Terrorist Financing, took effect on 1 January 2021.

The legislative process of amending the Recovery and Resolution Act following the adoption of an amendment to the relevant EU directive (BRRD 2) also continued during the year. The draft 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 (MREL).

An amendment to the Act on Certain Measures against Money Laundering and Terrorist Financing was adopted, introducing among other things an explicit duty to carry out enhanced vetting of clients in higher-

risk situations, new possibilities for electronic identification of clients and tighter sanctions for breaches of the law. A large majority of the amendment took effect on 1 January 2021.

Over the course of the year, the CNB was very actively involved in the preparation of a law on some measures in the area of loan repayment in connection with the coronavirus pandemic. The law allowed consumers and businesses to use, for a specified time frame, a protective period of up to six months during which the discharge of their debts was postponed. The CNB subsequently published several explanatory opinions on the application of this law.



The CNB helped draft a law allowing loan repayment to be postponed by up to six months during the pandemic

In the area of capital market regulation, a law amending certain laws in the area of regulation of the pursuit of business on the financial market took effect on 1 April 2020. Specifically, a total of nine laws were amended; besides the Capital Market Undertakings Act, they included the Act on Bonds, the Act on Administrative Fees, the Insolvency Act, the Supplementary Pension Savings Act and the Act on Management Companies and Investment Funds. The Capital Market Undertakings Act was adapted to the new Prospectus Regulation and was subject to further changes, for example in the distribution area. In the amendment to the Act on Management Companies and Investment Funds, a number of minor shortcomings were corrected, for example as regards promoters, meetings of unit-holders, investment shares, depositaries of below-limit funds for qualified investors, and outsourcing. The amendment to the Act on Bonds enhanced issuers' transparency owing to concerns about corporate bonds.

Following up on the government's capital market development strategy, a draft law amending certain laws in connection with the development of the capital market was submitted to the legislative process in 2020. Its main objectives include introducing a discounted account for long-term investments and raising investor awareness as regards offers of bonds (especially corporate ones).

Furthermore, the Ministry of Finance forwarded to the legislative process a draft law amending certain laws in connection with the implementation of EU legal acts relating to the capital markets union. This draft law aims primarily to implement new prudential rules for investment firms, harmonise the regulation of covered bonds and the cross-border marketing of investment funds, and support markets for the growth of small and medium-sized enterprises. It also adapts Czech law to regulations in the area of green finances, a regulation on crowdfunding and a regulation amending the Insurance Distribution Directive.

During 2020, the CNB was involved in the preparation of a law on the Pan-European Personal Pension Product (PEPP), which aims to adapt Czech law to the PEPP regulation. The law under preparation will regulate the areas necessary for the functioning of the regulation in practice, in particular the CNB's areas of competence, infringements connected with a directly applicable EU legal act, details of the application for PEPP registration, the use of some discretions, and certain rights and obligations of PEPP providers, distributors and participants. It is expected to take effect at the same time as the PEPP Regulation becomes applicable at the beginning of 2022.

In the context of a new EU regulation on cooperation between national authorities responsible for the enforcement of consumer protection laws, the CNB participated in preparing an amendment to the Consumer Protection Act modifying cross-border cooperation between consumer protection supervisors, which was relevant to the CNB mainly because of a new framework for interference in banking secrecy.

The CNB was also involved in the preparation of an amendment to the Act on Insurance and Reinsurance Distribution, as there was a risk that the professional examinations required by law at the end of the transitional period (1 December 2020) would not be carried out in a large part of the market because of government pandemic measures. A change to a transitional provision postponed the deadline for passing the examinations by six months and also addressed the extension of the existing authorisations of the entities concerned, which had been due to expire at the end of 2020. In the meantime, the CNB also

published information on its supervisory approach in this area until the amendment is passed in order to strengthen the predictability of its actions for the market.

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:

- an amendment to the regulation on prudential requirements for credit institutions (CRR) adjusting some prudential requirements in response to the coronavirus pandemic;
- an amendment to the securitisation regulation and an amendment to CRR adjusting some rules regarding, for example, non-performing loans;
- amendments to directives and regulations to mitigate the economic impacts of the pandemic. The package contains targeted adjustments to the prospectus regulation, the markets in financial instruments directive (MiFID II) and the securitisation rules;
- a regulation on crowdfunding, which aims to harmonise the crowdfunding legislation and foster cross-border crowdfunding services. The regulation introduces a new, licensed category of crowdfunding service providers and lays down the conditions under which crowdfunding services may be provided;
- a regulation on digital operational resilience, which aims to put in place a detailed and comprehensive framework on digital operational resilience for EU financial institutions. The regulation contains rules for the management of information and communication technology (ICT) risk and security incidents in this area, for the testing of institutions' digital operational resilience and for the management of risks arising from their relationships with critical ICT service providers;
- a regulation on markets in crypto-assets, which aims to ensure that EU Member States apply a common approach to crypto-assets. This regulation is to cover crypto-assets that are not covered by existing EU legislation and crypto-asset-related activities of service providers.

In the insurance area, the CNB was actively involved in the review of the European regulatory framework for the taking-up and pursuit of the business of insurance and reinsurance (Solvency II). It took part in the preparation of EIOPA's technical advice to the Commission, which was published on 17 December 2020, and contributed suggestions to the Commission's public consultation on selected issues related to this review. The CNB advocated that the proposed changes should be balanced without causing an unjustified relaxation of the prudential rules or unnecessary growth in the administrative burden. It also sought to maintain the protection of policyholders and beneficiaries as the primary aim of the framework and to ensure that national authorities continue to hold sufficient powers to exercise supervision effectively.

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 regulatory rules. Moreover, the CNB contributed to EIOPA's successful peer reviews, which allow supervisory authorities to exchange experience.

International cooperation on the financial market

In 2020, the European Supervisory Authorities (ESAs) started to implement changes related to a review of the regulations establishing the ESAs. In addition to implementing new mandates, the changes mainly concerned convergence of supervisory processes. In this regard, each of the ESAs identified two Union-wide strategic priorities, developed supervisory handbooks and conducted peer reviews, among other things. Within the relevant ESMA standing committees, the CNB, for example, took part in joint supervisory inspections conducted by national supervisory authorities to assess the application of rules governing

suitability tests in the area of investment services and liquidity management of funds for collective investment in transferable securities. The ESAs also implemented changes in governance. In this regard, ESA advisory committees on incorporating proportionality were set up and internal rules for the conduct of members of the ESAs' Boards of Supervisors, including conflict of interest rules, were adopted. The CNB promoted compliance of the internal rules with the regulations. In response to the pandemic, the ESAs published a series of statements, which the CNB was actively involved in preparing.

Given the interconnectedness of financial markets in Europe and globally, cooperation and exchange of information with partner supervisory authorities in other countries are also an integral part of CNB supervision. The CNB is actively involved in supervisory colleges, including newly established supervisory colleges in the area of combating money laundering and terrorism financing. In 2020, the CNB was involved in eight supervisory colleges for European banking groups. In one case, it acted as consolidating supervisory authority. In 2020, the colleges focused mainly on assessing the risk profiles of supervised entities in the context of the pandemic. National supervisory authorities chose a pragmatic approach to the Supervisory Review and Evaluation Process (SREP) and to evaluating group recovery plans, in line with the EBA's recommendations. In 2020, the CNB was also involved in the activities of 11 supervisory colleges for European insurance groups, which concentrated mainly on group internal models, compliance with the Solvency II requirements (capital requirements with regard to the consequences of the pandemic, among other things) and risk assessments of supervised insurance companies.

In the context of efforts to limit the impacts of a potential hard Brexit, the CNB also signed a multilateral memorandum of understanding between ESMA and its UK counterparts (the Financial Conduct Authority and the Bank of England) on exchange of information on settlement system participants and central depositories.

CNB representatives succeeded in getting elected to the ESAs' Management Boards. The Executive Director of the CNB's Financial Market Supervision Department Zuzana Silberová was re-elected as one of the seven members of EIOPA's Management Board on 26 November 2020. This will be her second term. The appointment took effect on 4 December 2020 and will last two and a half years. The Executive Director of the CNB's Financial Regulation and International Cooperation Department Vojtěch Belling was appointed as a member of the ESMA's Management Board on 16 December 2020. He started his two and a half year term in this position on 1 January 2021.

Last year, the CNB was also actively involved in the work of organisations publishing international standards in the area of financial market regulation and supervision (the IAIS, the IOPS and IOSCO). The activities of these organisations were strongly affected by the response to the coronavirus pandemic. In this connection, the CNB prepared numerous answers to questionnaires. Under a multilateral memorandum of understanding within the International Organization of Securities Commissions (IOSCO), the CNB worked actively with the other signatories on examining the activities of cross-border investors on the capital market.

Licensing, approval and authorisation activities in the financial market area

As a financial market supervisory authority, the CNB grants authorisations (licences, permits 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.

Numbers of selected supervised entities

Categories of financial entities ¹⁾	As of 31 December 2019	Entries in 2020	Exits in 2020	As of 31 December 2020
Credit institutions	58	0	2	56
Insurance sector (insurance and reinsurance companies, Czech Insurers' Bureau and Exportní garanční a pojišťovací společnost, a.s.)	48	1	4	45
Pension management companies and funds	46	2	0	48
Management companies and investment funds ²⁾	444	59	44	459
Investment firms	78	9	13	74
Payment institutions and electronic money	43	5	9	39
Payment account information administrators	2	1	0	3
Small-scale payment service providers and small-scale electronic money issuers	120	3	19	104
Processors of domestic banknotes and coins	5	0	0	5
Non-bank consumer credit providers	86	0	1	85
Issuers of securities admitted to trading on a regulated market in the Czech Republic	122	5	20	107
Market infrastructure ³⁾	10	0	0	10
Accredited entities ⁴⁾	61	11	1	71
Bureaux de change	951	26	95	882

1) Including branches of foreign companies.

2) Management companies, branches of foreign management companies, main administrators, investment funds with legal personality and mutual funds.

3) 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.

4) Entities accredited by the CNB to organise professional examinations to test expertise under four laws: the Insurance and Reinsurance Distribution Act, the Supplementary Pension Savings Act, the Consumer Credit Act and the Capital Market Undertakings Act. One accredited entity may hold one to four accreditations.

Listed below are the most important events from the licensing, approval and authorisation activities of the CNB in 2020, broken down by sector.

In the credit institutions sector, the CNB gave MONETA Money Bank a.s. consent to the acquisition of 100% of the shares in Wüstenrot hypoteční banka a.s. and Wüstenrot – stavební spořitelna a.s., followed by consent to the merger of MONETA Money Bank a.s. with Wüstenrot hypoteční banka a.s. As a result of the merger, the latter company ceased to exist, and Wüstenrot – stavební spořitelna a.s. became a wholly owned subsidiary of MONETA Money Bank a.s. České spořitelna a.s. was granted consent to the takeover of the Czech branch of Waldviertler Sparkasse Bank AG.

In the insurance sector, the transfer of a part of the insurance portfolio of Pojišťovna Patricie a.s. (originally Generali pojišťovna a.s.) and Česká pojišťovna ZDRAVÍ a.s. to Generali Česká pojišťovna a.s. (originally Česká pojišťovna a.s.) was approved. It followed an approval granted the previous year and involved the transfer of the remainder of the insurance portfolio with a foreign element. Approval was also granted to the acquisition of AXA pojišťovna a.s. and AXA životní pojišťovna a.s. by the UNIQA and Raiffeisenbank syndicate. Similar transactions were carried out in the management companies and investment funds sector (AXA investiční společnost a.s.) and the pension management companies sector (AXA penzijní společnost a.s.).

In the non-bank investment firm sector, the CNB granted an investment firm licence to REDSIDE Investments a.s..

In the payment system sector, the number of licence applications for payment institutions, electronic money institutions, small-scale payment institutions, small-scale electronic money issuers and payment account information administrators remained high in 2020. A total of 40 applications were received in 2020 and 59 proceedings were ongoing at the end of the year. Applicants had often problems describing their business plans, which are key to identifying the type and scope of authorisation, drafting realistic business plans and proving that funds entrusted for the performance of payment transactions are protected. In 2020, decisions were taken in proceedings on 47 applications (seven permits were issued, eight applications were rejected and 32 proceedings were discontinued). Such high numbers of rejected applications and discontinued proceedings did not occur in other financial market sectors.

In the management company and investment fund sector, the CNB granted licences to four management companies and two autonomous investment funds. One of them was Národní rozvojový fond SICAV a.s. The applicant was Českomoravská záruční a rozvojová banka, a.s. as the founder. The fund is to become one of the key instruments for the government's investment policy.

In 2020, Rentea penzijní společnost, a.s. was granted a pension management company licence under the Supplementary Pension Savings Act.

In the area of securities issues, 84 decisions on the approval of documents connected with securities issues (securities prospectuses and supplements thereto) were issued in 2020. They mostly involved bond prospectuses of issuers active in property development. Three share prospectuses for offers to the public using the START – veřejná nabídka system operated by the Prague Stock Exchange (PSE) and three prospectuses for the admission of shares to trading on the PSE's regulated market were also approved.

As every year, the CNB performed checks of issuers' reporting duties (checks of the annual and half-yearly reports of more than 70 issuers). Owing to the coronavirus pandemic, acceptance of the postponement of the publication of annual financial reports for 2019 by two months had been agreed within ESMA, an option which was exercised by 26% of issuers.

In the market infrastructure area, the CNB concluded proceedings with the PSE concerning an extension of its central securities depository licence to include settlements in euro and its registration as an administrator of PX indices used as benchmarks.

The CNB granted consent to the squeeze-out of minority shareholders of PFNonwovens a.s. Shares of five issuers (bonds in four cases and shares in one case) were newly admitted to trading on a regulated market in 2020. By contrast, securities of 20 issuers were excluded from trading (three of them were shares excluded at the decision of the issuer or regulated market operator and 17 were bonds excluded because of repayment). The number of issues traded on the regulated market thus declined year on year from 122 to 107.

In the market infrastructure area, 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 2020.

In the area of testing retail distributors' expertise, the CNB conducted a comprehensive update of all three sets of examination questions for testing the expertise of distributors in the insurance, investment and consumer credit areas last year. The examination sets are used to test expertise by entities authorised by

the CNB to examine financial service providers or intermediaries (accredited entities). The highest number of professional examinations was taken by insurance distributors in 2020.

In addition to the entities listed in the table *Numbers of selected supervised entities*, the CNB supervises tens of thousands of other entities. They mostly include intermediaries of financial products such as insurance, consumer credit and investment services. As regards intermediaries of financial products, the introduction of fees for extending authorisations played a positive role. The fees led to a drop in the number of intermediaries who do not perform or do not intend to perform intermediary activities. Intermediaries of financial products paid almost CZK 29.6 million in administrative fees in 2020.

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 anti-money laundering and combating the financing of terrorism 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. In 2020, however, the entire domestic financial market was fundamentally affected by the spread of the coronavirus pandemic, which also significantly influenced the CNB's supervisory activity. Given the extraordinary situation, the CNB modified its supervisory priorities and adopted measures reflecting current developments while taking into account the applicable legal framework.

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. In connection with the pandemic, the CNB adjusted its procedures and introduced numerous additional monitoring tools, which it used to closely monitor individual credit institutions in all main areas of activity, including business continuity, risk management and the impact of loan moratoria. In addition to imposing an extraordinary reporting requirement, the CNB put an emphasis on up-to-date assessment of the impacts of the pandemic-related crisis, and in particular on provisioning and capital planning (taking into account the expected short and longer-term impacts), including the stress scenarios and sensitivity analyses used by banks to predict the potential impacts of the crisis, in its ongoing communication with institutions.

In the conduct of business area, the CNB examined credit unions' compliance with rules of conduct relating to the provision of payment and investment services, communication with clients, including the settlement of complaints, and procedures for entering into, changing and terminating contractual relationships. The CNB also paid attention to the preparation and implementation of solutions for strong customer authentication in online card transactions. Supervisors also focused on compliance with the duties arising from EU legislation. The legislation extended the equality of charges for cross-border euro-denominated payments within the EU to charges for corresponding national payments in Czech koruna. It also introduced the duty to display transaction and currency conversion fees prior to the initiation of a cash withdrawal from an ATM or a standard electronic transaction.

In the area of investment service provision and the transparency and integrity of trading on the capital market, supervisors continued to examine the implementation of the requirements set out in the directive on markets in financial instruments (MiFID II) and the regulation on markets in financial instruments. As part of a joint supervisory action taken by the supervisory authorities of EU Member States, thematic surveys were conducted to assess expertise and experience, financial background and investment goals (the suitability test) in the provision of investment advice. Supervisors also examined compliance with the requirements for product governance and investment promotion by banks and the adequacy of investment firms' measures to prevent and detect market abuse.

In the area of risks associated with information systems and technology, supervisors focused on the information security of digital channels, the use of which by financial institutions increased significantly in 2020 owing to the pandemic, and also dealt with the resilience of financial institutions to cyber attacks.

In its supervisory work, the CNB also consistently focuses on the area of combating money laundering, which is now a part of the Supervisory Review and Evaluation Process (SREP). In the credit institutions sector, the CNB conducted an extensive survey focusing, among other topics, on the monitoring of cross-border payments and related risks. Supervisory information and the results of its analysis are subsequently being used to target follow-up supervisory activities, especially on-site inspections.

As a result of the pandemic, the CNB paid increased attention to monitoring and assessing its impacts on the insurance sector, especially as regards the capital and solvency needs of individual insurance companies and their potential vulnerability in light of their business models and capitalisation. In the second half of the year, the CNB focused on insurance companies' capital position and its management, among other things. Throughout the year, supervisors closely monitored financial market developments and assessed their impacts on the assets administered by the insurance companies it supervises. As regards the quantitative Solvency II requirements, supervisors also addressed the configuration of technical provisions and the method for determining the solvency capital requirement using both the standard formula and internal models. In the area of qualitative requirements, attention was paid to assessing the overall quality and robustness of risk management systems. A large part of supervisory capacity was also allocated to assessing the competence and integrity of key persons, outsourcing of important activities and insurance companies' IT infrastructure.

In the area of conduct of business and consumer protection, supervision of insurance companies was focused on compliance with the regulatory requirements for insurance distribution, product governance and configuration of governance systems (operational risk management), and in particular on the compliance of individual companies' procedures with legal requirements during the pandemic. Owing to the pandemic, a large part of the supervisory work involved examining business continuity in settlement of insurance claims, provision of sufficient and clear information to clients, maintenance/extension of insurance coverage (public promises) and approaches to the pandemic-induced needs of individual clients. Among insurance products, the CNB focused mainly on travel insurance and compliance with the statutory requirements for dealing with claims arising from insurance of guarantee against bankruptcy of travel agencies. Supervisors also paid increased attention to the distribution of fleet insurance and continued to monitor court judgements to assess the potential risks for insurance companies.

In the sector of pension management companies (PMCs) and the transformed and participation funds managed by them, the CNB assessed compliance with regulatory requirements. As a result of the pandemic, the CNB allocated increased supervisory capacity to monitoring and assessing its impact on PMCs' capital condition, profits, assets in managed funds and overall activities. As usual, supervisors monitored compliance with the rules for the management of transformed and participation funds' assets and follow-up control mechanisms.

In its supervisory work in the consumer credit area, the CNB focused mainly on conducting examinations of providers of micro-loans, i.e. consumer credit payable in one lump sum (sometimes referred to as payday loans), usually within 30 days. Given the overall social situation caused by the pandemic, the CNB also targeted its supervisory investigations on the postponement of loan instalments. The CNB examined both bank and non-bank providers during and after the statutory moratorium. It monitored conduct towards clients who were late with loan repayments and also focused on how consumer credit providers were dealing with complaints. It conducted repeated inspections to examine bank providers' approaches to billing for costs related to early repayment of consumer loans after some banks refused to accept an opinion issued in this matter by the CNB in March 2019. It also focused its attention on unauthorised lending (it investigated 31 consumer alerts) and dealt with a total of 529 submissions from the public in the consumer credit area.



In its consumer lending supervision, the CNB focused mainly on providers of micro-loans, which are the most risky type of consumer credit, and the postponement of loan payments under the statutory moratorium

As regards off-site surveillance of investment firms, the CNB paid particular attention to the preparations for new prudential regulation of this capital market sector in the form of a directive and a regulation on the prudential supervision of investment firms (IFD/IFR). Specifically, the CNB took part in questionnaires organised by the EBA, coordinated a broad survey on the preparedness of Czech investment firms and actively replied to questions relating to the new prudential regulation, which will enter into force in mid-2021. In the area of fund investment, special emphasis was put on liquidity management connected with redemptions in funds and the correct calculation of net assets after the onset of the pandemic and the related fall on financial markets. The CNB's examinations focused on representatives of foreign investment service providers and the cross-border provision of investment services, where very risky instruments are being offered to non-professional investors. In the area of fund investment, delegated activities and the related potential conflicts of interest were examined. The CNB investigated 135 capital market-related complaints from the public. As in 2019, most of them concerned foreign investment firms.

In its supervision of the payment services sector, the CNB focused mainly on problematic aspects of the activities of small-scale payment service providers. In its on-site inspections, it mainly examined the compliance of actual activities with declared business plans, providers' provable links to the domestic market and clients, and the proper configuration of and compliance with measures to combat money laundering and financing of terrorism. Off-site surveillance was focused mainly on compliance with protection of funds duties by the above entities and the phasing-in of strong customer authentication of payment institutions' and electronic money institutions' clients in electronic card transactions. In the payment services segment, the CNB investigated 36 complaints from the public.

In the area of bureaux de change activities, the CNB continued to conduct on-site inspections in bureaux de change offering disadvantageous exchange rates in tourist localities of the capital city, especially in the first two months of the year before the pandemic broke out. The inspections were focused, among other things, on compliance with new obligations applying to bureaux de change introduced by an amendment to the Act on Bureau de Change Activity with effect from 1 April 2019, when clients' rights were strengthened significantly by allowing exchange transactions to be cancelled within three hours of their execution and by banning exchange fees and the publication of VIP rates. Further to these examinations, the activities of problematic bureaux de change in this area were significantly restricted. The number of bureaux de change operators and bureau de change establishments was also negatively affected by the coronavirus pandemic. An important area on which the CNB continued to focus its supervision was the compliance of bureaux de change with obligations in the area of combating money laundering and financing of terrorism. As part of its supervisory work, the CNB investigated 41 complaints from the public drawing attention particularly to disadvantageous exchange rates.

In its supervision of retail distributors, the CNB conducted inspections focusing, for example, on product governance in the area of investment and insurance product distribution, measures adopted by distributors in connection with the coronavirus pandemic, adequacy and appropriateness in the area of distribution of investment instruments, and distributors' products. The CNB also focused its supervisory investigations on the activities of accredited entities organising distributors' examinations. In its on-site inspections in financial product distributors, the CNB paid particular attention to compliance with the rules of professional care in conduct towards clients and newly also the activities of policyholders offering the possibility of becoming an insured person. Examinations of accredited entities were focused mainly on professional examinations and their compliance with the declared examination rules. The CNB dealt with a total of 233 complaints from the public about the activities of financial product distributors and accredited entities.

Enforcement

In the enforcement area, the CNB mainly investigated petitions for the opening of ex officio proceedings and conducted proceedings, in which it imposed fines and remedial measures or revoked licences. Where the law so allows, the CNB also conducted proceedings with entities that had provided financial services without having the relevant licence (unauthorised business). In the areas of supervision where publication is prescribed by law, the CNB publishes [final decisions](#) on its website.

Statistics on administrative penalty proceedings

Legislation	No. of proceedings continuing from 2019	No. of proceedings opened in 2020	No. of proceedings closed in 2020	Total fines imposed (in CZK thousands)
Act on Banks	6	5	6	20,000
Insurance Act	5	9	12	1,140
Capital Market Undertakings Act	19	41	44	17,610
Bureau de Change Act	5	16	20	12,380
Consumer Protection Act	1	1	1	4,700
Payment System Act	27	38	43	835
Banknote and Coin Circulation Act	1	6	5	2,250
Consumer Credit Act	6	18	11	6,740
Act on Certain Measures against Money Laundering and Terrorist Financing	0	9	7	920
Act on the CNB	0	1	0	0
Financial market supervision, total	70	144	149	66,575

In 2020, the CNB issued a total of 173 decisions – 163 enforcement decisions regarding matters, seven decisions regarding preliminary measures, two decisions prohibiting the wind-up of a company and one decision revoking the prohibition of the wind-up of a company. Of these, 153 became final and conclusive. Appeals were lodged against decisions in matters in 30 cases. In 18 cases, decisions on the appeals had been issued by the end of 2020.

The highest number of decisions was issued in the payment system area in 2020 (48, of which 42 became final and conclusive). The second most strongly represented area was the bureau de change area, with 22 decisions issued (21 became final and conclusive). The disparity between the number of enforcement proceedings and the amount of fees imposed in them was due to the fact that fines were imposed in only 14 cases in the payment system area in 2020. In the other cases, licences were withdrawn, proceedings were discontinued or administrative penalties were waived.

The following passage lists selected important penalty decisions issued in 2020 (company names can be given only for decisions issued in areas where publication of decisions is permitted by law).

The highest fine – CZK 20 million – was imposed in the banking sector: on Expobank CZ a.s. for serious shortcomings in its governance system.

As part of supervision of the circulation of banknotes and coins, a fine of CZK 1.5 million was imposed on Československá obchodní banka, a.s. for failure to exchange banknotes damaged in a standard way and failure to ensure that persons assessing the authenticity of banknotes and coins hold a certificate of completion of a specialised course.

In the insurance area, the CNB opened three enforcement proceedings. It imposed remedial measures in two cases and fines in another two (CZK 150,000 in each case).

In the investment firm sector, a fine of CZK 2 million was imposed on Komerční banka a.s. for failure to store records of telephone communications with clients. Sberbank CZ a.s. was fined CZK 2.5 million for the same shortcoming and for violation of the Act on Bureau de Change Activity.

In the securities issuers sector, several fines were imposed for publicly offering bonds without publishing a securities prospectus. The highest of these fines were imposed on DRFG a.s. (CZK 5 million) and SMART Capital, a.s. (CZK 1 million).

In the consumer credit sector, the CNB's enforcement activities followed up on the first examinations of non-bank consumer credit providers. Creditstar Czech s.r.o. was fined CZK 4 million and Český Triangl, a.s. CZK 2 million. In all cases, the most serious violation of law concerned incorrect assessment of loan applicants' creditworthiness.

In the distributors sector, fines of several hundred thousand korunas were imposed on two investment intermediaries for shortcomings in the transmission of orders, the provision of investment services and work with clients.

In the area of bureaux de change activities, licences were withdrawn from and fines simultaneously imposed on seven entities, a licence was withdrawn in one case, fines were imposed in 11 cases and remedial measures together with fines were imposed in two cases. The highest fines coupled with licence revocations were imposed on PEMEX change s.r.o. (CZK 3 million), CHIVAS INVEST s.r.o. (CZK 2.5 million), Exclusive Change, s.r.o. (CZK 2 million), Lumex s.r.o. (CZK 1.5 million) and Changer s.r.o. (CZK 1.5 million). The most frequent shortcomings were the publication of non-compliant exchange rate lists, the publication of more advantageous exchange rates than those contained in exchange rate lists, and failure to return money received from clients without undue delay. Frequent shortcomings were also detected in the money laundering area.

In the area of unauthorised business, Investment Bureau s.r.o. was fined CZK 3 million for providing the investment service of acceptance and transmission of orders, asset management for a client and advice relating to investment instruments.

II.4 RESOLUTION PROCEDURES

For the first time ever, the CNB set a minimum requirement for own funds and eligible liabilities (MREL) for banks in 2020. The MREL is another important requirement, alongside the capital requirement, aimed at increasing banks' ability to withstand shocks and, where necessary, resolving crises in banks without recourse to public funds. The MREL allows clients and investors to compare individual banks and their evolution over time, and contributes significantly to the assessment of their stability and financial soundness.

Banks thus entered a four-year transition period during which they will be obliged to top up any shortfall in their capacity to meet the MREL, either by increasing the amount of capital instruments issued or by using eligible liabilities. The transition period ends on 1 January 2024. However, given the need to continuously increase resolvability, a binding intermediate objective has also been set for banks with effect from 1 January 2022. The CNB has been actively discussing the specific form and steps leading to compliance with the requirement with banks. In their plans for building up the MREL, banks have proposed levels for both the intermediate and final targets as of the start of 2022 and 2024 respectively and the instruments they will use to meet them.

In 2020, the CNB updated and gradually developed plans for the resolution of all large and medium-sized banks as well as simplified resolution plans for small and systemically less important credit institutions. In the case of banks which are members of cross-border banking groups, resolution colleges will be established for joint decision-making on plans and the relevant MREL. The CNB is a member of seven colleges chaired by the Single Resolution Board (SRB) and one which it chairs itself. The plans and MREL decisions for other banks are in the direct competence of the CNB. The annual planning cycle ends with the notification of banks of the main elements of the plan and the announcement of the updated MREL.

In the area of increasing resolvability and the feasibility of individual resolution strategies, the CNB mapped and assessed the conditions and rules of all the Czech financial market infrastructures (the Central Securities Depository, CERTIS and SKD). It agreed with the operators on changes to their rules of operation so that banks' approach to these critical infrastructures can be maintained in the event of resolution.

The CNB is not the only entity with resolution competences. In some cases, the approval of the Ministry of Finance is required for the application of resolution measures or the write-down and conversion of capital instruments. Such approval is required where funds from public budgets, a state guarantee, a bridge institution or an asset management vehicle would be used, or in the event of use of money from the Resolution Fund or the Deposit Insurance Fund exceeding 60% of the available assets in either of these funds. The CNB is therefore working with the Ministry of Finance to specify the details of cooperation in such potential situations.

In the area of resolution financing, the CNB prescribed another regular contribution of CZK 3.76 billion to the Resolution Fund in 2020. The fund currently has around CZK 17 billion in contributions and its target level for the end of 2024 is around CZK 35 billion.

The CNB also organises crisis simulation exercises. Their purpose is to increase the preparedness of the CNB and certain other institutions for the eventuality of resolution. In 2020, such a simulation exercise rounded off the Commission-funded *Crisis Management Manual* project, the main supplier of which was Ernst & Young. The purpose of the exercise was to test the applicability of the manual and simulate 400 procedural steps to be taken during a bank resolution over a single weekend.

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.

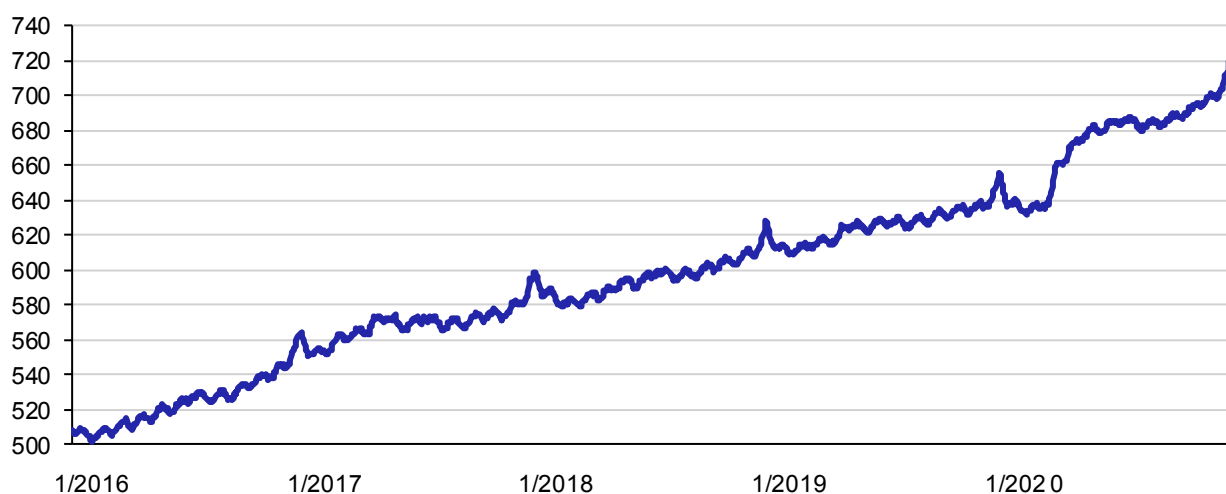
The value of currency in circulation rose by a significant CZK 67.5 billion in 2020. The sharpest growth was recorded in March in response to the government's measures to curb the spread of the coronavirus pandemic. As of 31 December 2020, currency in circulation amounted to CZK 711.9 billion, up by 10.5% compared with the end of 2019. The ratio of currency in circulation to nominal GDP rose from 11.4% in 2019 to 13.3% in 2020 (GDP fell by 5.6% in 2020).



The value of banknotes and coins in circulation exceeded CZK 700 billion

Currency in circulation – 1 January 2016 to 31 December 2020

(in CZK billions)



CZK 2,000 banknotes accounted for 46% of the value of currency in circulation. CZK 5,000, CZK 2,000 and CZK 1,000 banknotes together accounted for more than 91% of the value of currency in circulation.

Structure of banknotes and coins in circulation as of 31 December 2020

Denomination	CZK millions	Share	Millions of pieces	Share
CZK 5,000	170,206.9	23.9%	34.0	6.5%
CZK 2,000	327,723.5	46.0%	163.9	31.3%
CZK 1,000	151,583.3	21.3%	151.6	29.0%
CZK 500	21,987.1	3.1%	44.0	8.4%
CZK 200	12,877.3	1.8%	64.4	12.3%
CZK 100	6,505.0	0.9%	65.0	12.5%
Banknotes, total	690,883.1	97.0%	522.9	100.0%
CZK 50	7,851.9	1.1%	157.0	7.4%
CZK 20	4,637.4	0.7%	231.9	10.9%
CZK 10	2,548.5	0.4%	254.9	12.0%
CZK 5	1,515.8	0.2%	303.1	14.2%
CZK 2	1,084.9	0.1%	542.4	25.5%
CZK 1	641.7	0.1%	641.7	30.1%
Coins, total	18,280.2	2.6%	2,131.0	100.0%
Commemorative banknotes	2,722.4	0.4%	3.0	
Total	711,885.7	100.0%	2,656.9	

The numbers of banknotes and coins in circulation rose by 34.0 million and 70.2 million respectively in 2020. The CNB accepted 105.9 million circulating banknotes, 102.4 million circulating coins (including those for annual sets), 21,700 gold coins and 64,300 commemorative silver coins from producers.

The CNB destroyed 85.9 million banknotes accepted from circulation and evaluated as unfit for recirculation due to wear or damage. Only 2.2 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 1,002 counterfeit and altered Czech banknotes and coins were seized in the Czech Republic in 2020. 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. The value of the currency seized increased slightly to CZK 1.3 million. The two-thousand-crown note was the most frequently counterfeited Czech banknote.

Cash turnover in Czech currency at the CNB's cash offices amounted to CZK 1,206.3 billion in 2020, down by CZK 156.7 billion, or 11.5%, from a year earlier. The CNB received 554.5 million banknotes and 319.0 million coins from circulation and issued 588.6 million banknotes and 389 million coins into circulation.

The CNB issued new precious metal coins in 2020: five CZK 200 commemorative silver coins, one CZK 500 commemorative silver coin and two CZK 5,000 gold coins from the five-year *Castles* cycle.



Services for CNB clients and the public in the area of currency circulation and payment services were provided by seven CNB offices (four branches and three operational services divisions) in 2020. These offices also sold numismatic material to the CNB's contractual partners. The comprehensive replacement of banknote processing machines launched in 2019 continued in 2020 with the installation of new machines at the CNB's Ostrava branch.

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. In 2020, the CNB opened a total of 13 inspections focusing on compliance with the Act:

- two inspections of banks, during which it conducted on-site inspections in 20 branches and tested 33 banknote processing machines, 31 euro banknote processing machines and 20 deposit ATMs. It also conducted 90 mystery shopping inspections in banks focusing on the exchange of damaged banknotes;
- one inspection of a handler of domestic banknotes and coins, during which it examined the governance system for processing domestic banknotes and coins;
- four inspections of operators of anonymous devices, during which it tested six self-service payment machines in five shops;
- two inspections of persons authorised by the CNB to organise special courses, during which two special courses were inspected;
- four inspections of casino operators, including on-site inspections in 21 establishments and tests of 38 slot machines.

In 2020, the CNB completed 13 inspections (one commenced in 2019 and 12 in 2020).

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 CERTIS (Czech Express Real-Time Interbank Gross Settlement System), the Short-Term Bond System (SKD) and the Automated Banking Operations (ABO) System.

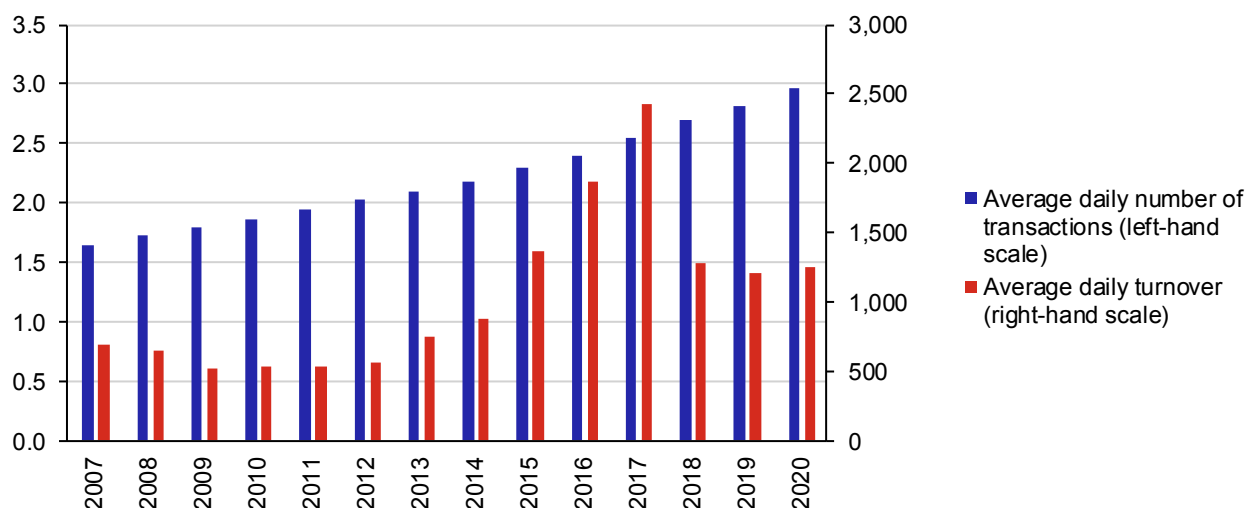
CERTIS – interbank payment system

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 31 December 2020, CERTIS had 48 direct participants with their own accounts and four third parties (card payment clearing houses and securities clearing and settlement institutions).

CERTIS processed 744.1 million transactions in 2020 (up by 5.3% year on year) with a total value of CZK 314,498 billion (up by 3.9%). The system processed a daily average of 2.96 million transactions. The average daily turnover was CZK 1,253 billion. Since the sharp decline in 2018, which was due to a change in the structure of monetary policy operations where banks switched from overnight deposits to two-week repo operations, the average daily turnover has remained broadly stable.

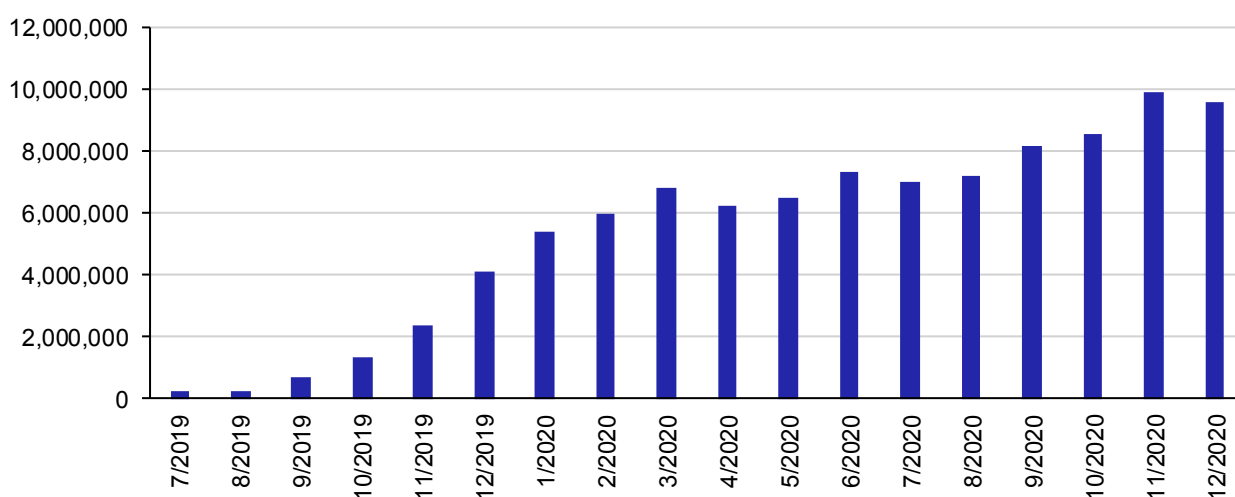
CERTIS – average daily number of items and average daily turnover

(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. Twelve entities joined the instant payment scheme between its launch and the end of 2020. Instant payments accounted for roughly 12% of all payments in 2020.

CERTIS – number of instant payment transactions



SKD – Short-Term Bond System

The CNB also operates the Short-Term Bond System (SKD), which is a separate register of securities with maturities of up to one year and is the settlement system for securities.

As of 31 December 2020, a total of 92 asset accounts – belonging to 56 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, 112 transactions a day were processed in SKD in 2020. The average daily turnover was CZK 806 billion.

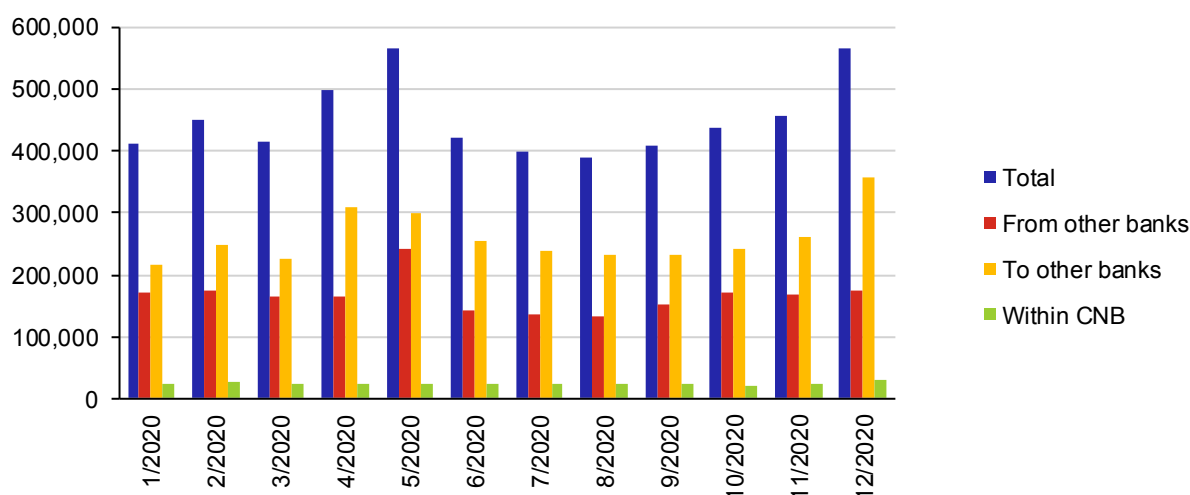
ABO – the CNB's accounting and payment system

The CNB keeps its internal accounts and the accounts of its clients in the ABO system. At the end of 2020, it was maintaining 23,670 accounts, of which 3,377 were internal accounts, 4,137 CNB employee accounts and 16,156 accounts of legal entities. The majority of the accounts of legal entities – 15,513 – are Treasury accounts in the Czech currency, along with 259 Treasury accounts in euro. Treasury accounts are used for state budget revenues and expenditure and other financial operations of the state. Detailed information about the involvement of the CNB in the Treasury accounts system is available in section II.7.2 of this Report.

Most clients use the CNB's internet banking to manage their accounts. In all, 21,458 users were registered in the system as of the end of 2020.

The ABO system processes over one million transactions a day on peak days. The total number of transactions increased by 1.6% and the number of client orders by 10.3% compared with 2019.

ABO – average daily number of transactions



Promotion of smooth and efficient payments and clearing

One of the CNB's tasks under the Act on the CNB is to promote smooth and efficient payments and clearing and to contribute to the safety, soundness and efficiency of payment and settlement systems and to the development thereof (oversight). In 2020, the CNB built on its activities in this area in previous years and focused mainly on the cyber-resilience of systemically important financial infrastructures, which, in the Czech Republic, are CERTIS, SKD and the Central Securities Depository. The CNB concluded that in the case of CERTIS and SKD, it had succeeded in increasing the level of cyber-resilience in compliance with the recommendations of the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO). The CNB also discussed issues related to the promotion of smooth and efficient payments and clearing within the ECB.

II.6 STATISTICS

The CNB compiles and publishes statistics for the purposes of safeguarding its main functions and objectives, especially in the areas of monetary policy, financial market supervision and financial stability. It also serves the needs of the European Central Bank (ECB), Eurostat, the Czech Statistical Office (CZSO), other domestic and international institutions, and experts and the general public.

In accordance with the Act on the Central Register of Accounts, the CNB has for three years been administering a register containing information on more than 37 million accounts maintained by credit institutions in the Czech Republic. Eligible applicants sent in over 814,000 applications for information on accounts to the system in 2020, up by 20% compared to 2019. Almost 90% of applications were submitted by the Customs Administration.

In the area of macroeconomic statistics, the CNB – in cooperation with the CZSO – conducted a fundamental review of the [external statistics](#) data and [quarterly financial accounts](#) data. This review, coordinated by the ECB and Eurostat, has resulted in data which are more consistent with the applicable international standards. The annual and quarterly financial accounts stock data were simultaneously harmonised with the CZSO. Following the United Kingdom's withdrawal from the EU, changes were made to the territorial breakdown of the relevant aggregate external statistics. As regards [government finance statistics](#), the CNB in cooperation with the CZSO participated in the statistical treatment of government measures related to the coronavirus pandemic.

As regards [monetary and financial statistics](#), the development of a system for compiling harmonised stock and flow pension fund statistics was completed. In 2020, the CNB started to regularly meet the quarterly and annual reporting duty to the ECB for these statistics. In the European System of Central Banks (ESCB), the CNB also continued to be involved in the preparation of the revised regulation on payment statistics, which was approved by the ECB Governing Council at the end of 2020, and the reworked regulation concerning the balance sheet of credit institutions and the monetary financial institutions sector. The CNB will collect data in accordance with both regulations from 2022 onwards.

In the area of [microdata statistics](#), the CNB continued to work in cooperation with banks and with the support of the Czech Banking Association on stabilising and improving the data quality of the regular collection of granular data on loans provided to legal entities and the related credit risk. The CNB also prepared to make this data available to end users and launched preparatory work on extending the data collected to include loans provided to self-employed persons. In addition to data collection for the AnaCredit project, 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.

Activities in the area of [supervisory statistics](#) were significantly affected by the launch of the new SDAT collection system the previous year. The CNB gave its expert opinions on legislative and methodological issues concerning reporting, especially on fundamental revisions of methodologies, in the working groups of the European supervisory authorities: the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA). In the areas of harmonised European reporting and national reporting, the CNB performed regular and one-off targeted data quality analyses. It provided the relevant data to the aforementioned supervisory authorities and to other EU supervisory bodies and international organisations to ensure the performance of their mandate. The CNB also focused its attention on European projects aimed at assessing the costs and benefits of regulatory reporting and data collection integration options.

The gradual transfer of the areas of reporting to the CNB from the old MtS statistical and supervisory data collection system to the new [SDAT](#) system continued in line with the relevant schedule during 2020. This process will continue in 2021, when the MtS system will start to be phased out. In 2020, preparations began for the transfer of information currently collected by the SIPRES system to the SDAT central data collection system. The CNB publishes the latest information on its website.

In April 2020, the CNB added independent intermediaries and tied agents to the [regulated institutions and registered financial market entities lists](#) on its website in accordance with the amended Supplementary Pension Savings Act. In this context, the list of persons authorised to intermediate supplementary pension savings schemes was also separated from the list of service intermediaries pursuant to the Capital Market Undertakings Act. At the same time, new applications for independent intermediary and tied agent licences were published in the information system for registration and licensing activities (REGIS).

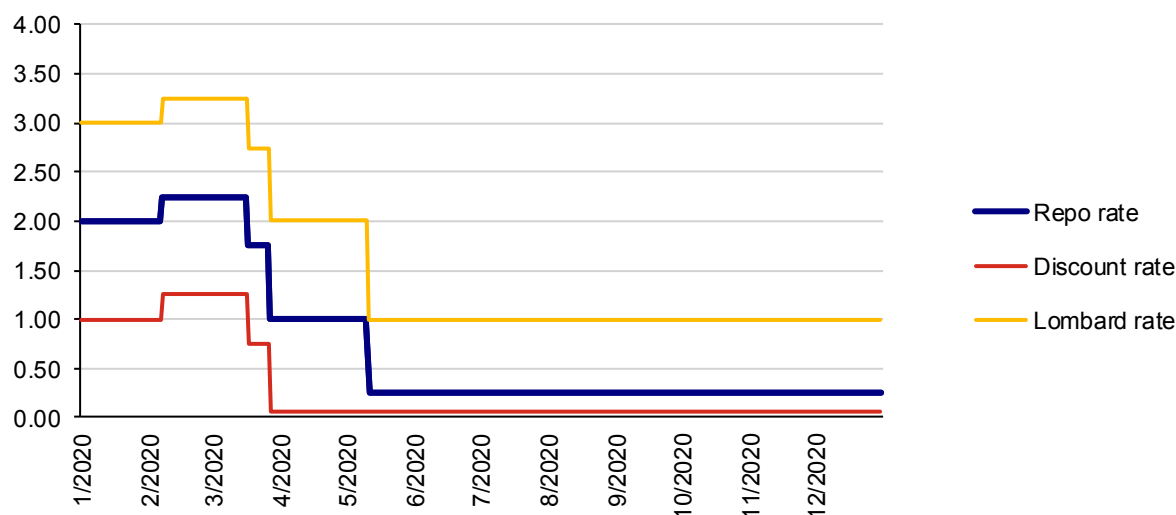
II.7 FINANCIAL MARKET OPERATIONS

In 2020, 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 2020, doing so by 0.25 percentage point at the Bank Board's monetary policy meeting in February. The two-week repo rate was thus raised from 2% to 2.25%. After the outbreak of the coronavirus pandemic, the CNB lowered interest rates a total of three times. The Bank Board lowered the repo rate for the first time at an extraordinary monetary policy meeting on 16 March 2020, from 2.25% to 1.75% (at the same time, the discount rate was lowered to 0.75% and the Lombard rate to 2.75%). At its regular meeting in March, it cut the repo rate further, this time by 0.75 percentage point to 1% (the discount rate was lowered to 0.05% and the Lombard rate to 2%). At the May meeting, the repo rate was reduced further to 0.25% (the discount rate was left unchanged and the Lombard rate was lowered to 1%). Interest rates remained at this level until the end of 2020.

The CNB's interest rates

(in %)

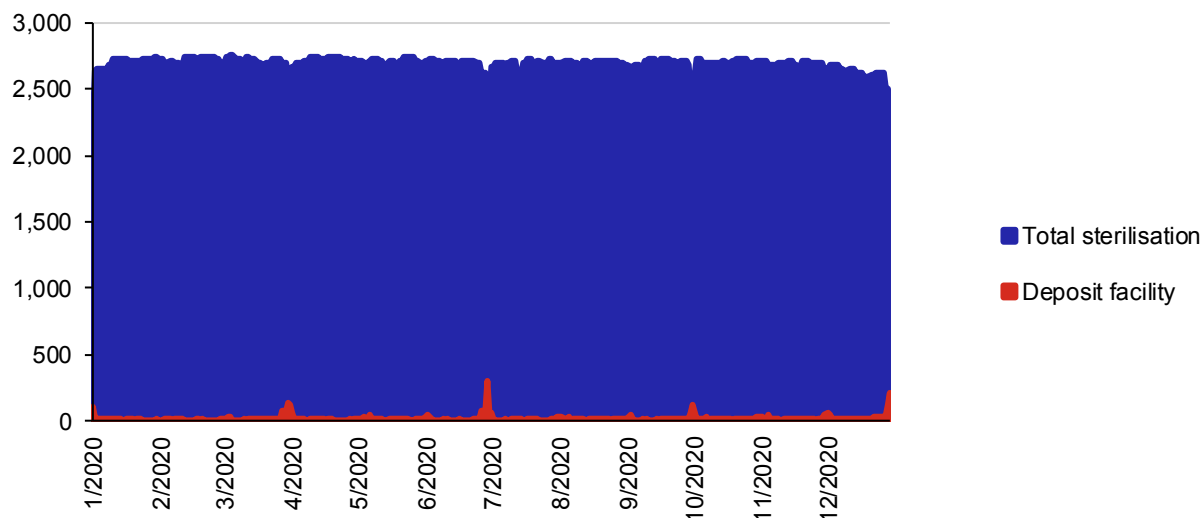


In addition to two-week repo operations, which are the largest in size, the CNB uses two automatic facilities – the marginal lending facility and the deposit facility – to implement monetary policy. Under the lending facility, the CNB lends funds to banks overnight in the form of a repo operation at the Lombard rate. The deposit facility gives banks the option of making overnight deposits with the CNB at the discount rate.

In 2020, 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 2,710 billion. Of this, 99.5% was absorbed through repo operations and 0.5% through the deposit facility.

Excess liquidity

(in CZK billions)



Another instrument used by the CNB is collateral exchanges. In these technical operations, the CNB usually exchanges securities settled in the Central Securities Depository for securities settled in the Short-term Bond System. These operations are used not to affect the banking sector's excess liquidity, but to provide liquid securities to banks, for instance for obtaining intraday credit. This instrument was not used by banks in 2020.

Since 18 March 2020, the CNB's two-week liquidity-providing repo operations have been announced three times a week (on Mondays, Wednesdays and Fridays) instead of the previous weekly frequency.

In May 2020, a time-limited amendment of the Act on the CNB made it possible to introduce a liquidity-providing instrument for some non-bank entities licensed by the CNB. These institutions were able to obtain liquidity in the form of short-term credit from the CNB secured by financial instruments. The instrument was introduced for precautionary reasons and was not used by non-bank institutions in 2020. Nonetheless, it was one of the factors which helped calm financial market sentiment after the outbreak of the coronavirus pandemic.

In addition, the CNB broadened the eligible collateral accepted from credit institutions in existing liquidity-providing repo operations to include mortgage bonds. Liquidity-providing operations with three-month maturity were introduced for credit institutions. The CNB launched liquidity-providing operations back 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 2020, 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 2020. The CNB publishes information about [foreign exchange trading](#) on its website.

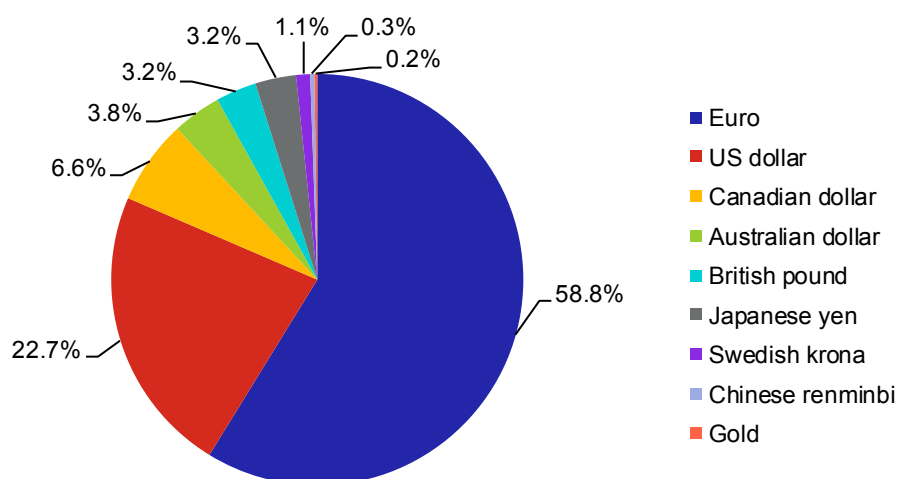
II.7.1 International reserves management

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 2020, the reserves totalled CZK 3,553 billion, equivalent to EUR 135.4 billion or USD 166.1 billion. International reserves form the bulk of the CNB's assets – they accounted for 98% of the total at the end of 2020. The CNB regularly publishes the size and structure of the reserves in the [Financial markets](#) section of its 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 principles for international reserves management take into account the function performed by the international reserves and pay due regard to security, liquidity and returns. The CNB manages most of its international reserves internally. 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 international institutions with the highest credit rating. 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 171.3 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. Changes in the exchange rate of the koruna against the reserve currencies had mixed impacts and had practically no effect on the change in the koruna value of the international reserves overall. The koruna appreciated against the US dollar, the Canadian dollar, the British pound, the Japanese yen and the Chinese renminbi, while depreciating against the most strongly represented reserve currency (the euro), the Australian dollar and the Swedish krona.

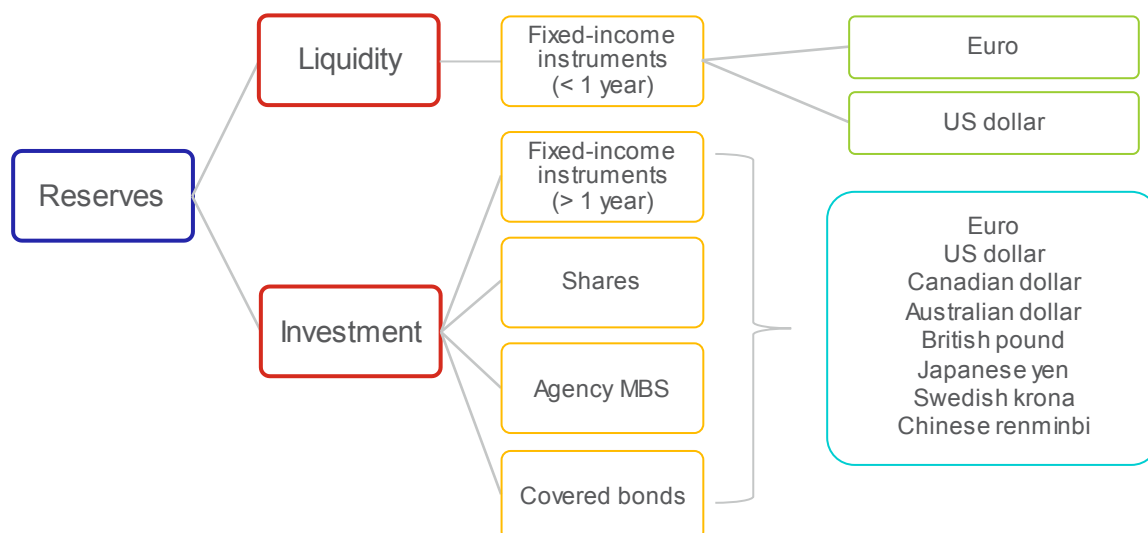
Currency structure of the actively managed portfolio (net of liabilities) as of 31 December 2020



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 managed with due regard to the IMF methodology used to estimate the appropriate size of international reserves. In 2020, the CNB decided to adjust the size of the tranches. The liquidity tranche was reduced from 47% to 36% of the international reserves during the year, while the investment tranche was increased from 53% to 64%. The liquidity tranche consists of 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 investment tranche 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 and specific mortgage-backed securities (MBS) guaranteed by selected US agencies, and shares. The target size of the equity portfolio was altered following the adjustment of the tranche parameters. The target size of the equity portfolio was changed to 20% of the investment tranche instead of 10% of international reserves. The CNB also extended the range of investment instruments held in the investment tranche to

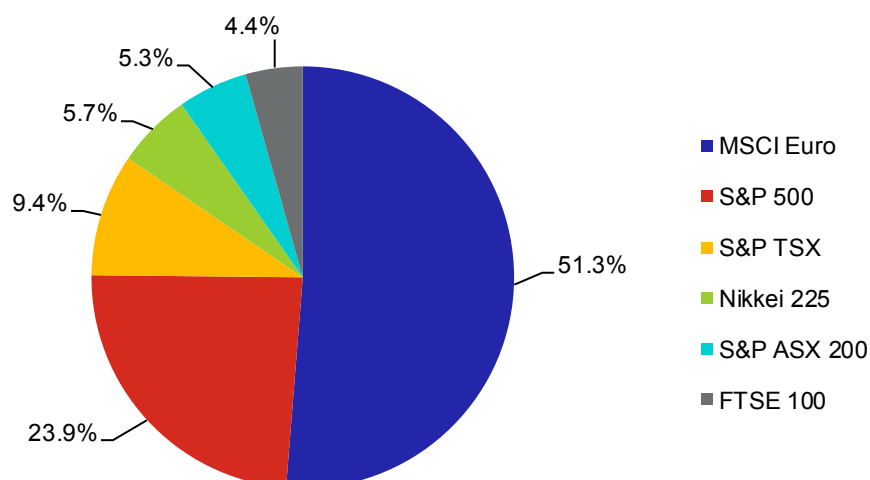
include a fixed-income sterling portfolio, which was created by converting the currency forward portfolio, and a relatively small “starter” portfolio of Chinese renminbi government bonds of a size equivalent to USD 500 million.

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



The equity and MBS portfolios are managed externally. The equity portfolios, which 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 equals almost 2% of the investment tranche, is managed by BlackRock, BNP Paribas, Goldman Sachs and UBS. All five external managers follow the Global Investment Performance Standards.

Structure of the equity portfolio as of 31 December 2020



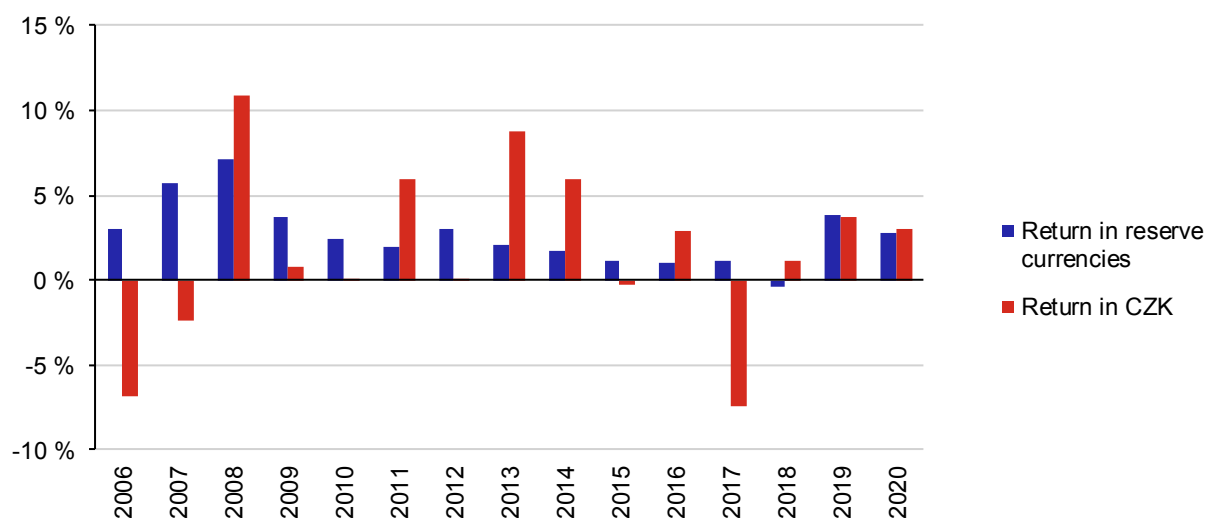
In 2020, the liquidity tranche recorded a loss of 0.33% and the investment tranche a return of 4.79% (in both cases, this is the weighted average of the returns and losses on the individual portfolios measured in their own currencies). The loss on the liquidity tranche was strongly affected by negative 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 a decline in yield curves, which resulted in capital gains on the bond portfolios, and to stock market growth. Gold and the MBS portfolio also contributed to the positive return.

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

Tranche	Euro	US dollar	Canadian dollar	Australian dollar	British pound	Japanese yen	Swedish krona	Chinese renminbi	Total
Liquidity	-0.50%	+0.83%	---	---	---	---	---	---	-0.33%
Investment	+0.13%	+9.67%	+8.26%	+4.93%	-2.15%	+1.43%	+0.52%	+0.52%	+4.79%

The total yield on the international reserves (the weighted average of the returns on the portfolios measured in their own currencies) was 2.74%. Combined with the changes in the exchange rate of the koruna against the reserve currencies, this resulted in a koruna return of 3.00%.

Comparison of the total return on international reserves in 2020 with previous periods



The CNB is guided by economic and financial factors when making investment decisions. However, according to the criteria it currently applies, part of its investments can be described as investments to improve the environment, social conditions and governance, also collectively referred to as socially responsible or environmental, social and governance (ESG) investments. The CNB has long been investing in the debt instruments of multinational development banks, such as World Bank institutions and the European Investment Bank. In light of the missions of these institutions, the bonds they issue can be regarded as socially responsible investments. The bonds of international institutions accounted for 2.31% of the international reserves at the end of 2020.

Overview of socially responsible investments

Bond category	Amount (in EUR millions)	Share in international reserves
Environment	486.22	0.36%
Social area	50.67	0.04%
Sustainable development	243.64	0.18%
Multinational development banks	3,096.70	2.31%
Total ESG	3,877.23	2.89%

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 amounted to SDR 980 million at the end of 2020. It increased by more than SDR 92 million during the year due to transactions with the IMF. Part of the gold held by the CNB was used for the production of commemorative coins in 2020, and part of the gold was bought in line with the procedure for gold reserve holdings approved in 2019, aimed primarily at maintaining the amount of the gold held by the CNB at a certain minimum level. The CNB thus had around 9.5 tonnes of gold at the end of 2020. 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 international reserves management.

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, i.e. it maintains accounts and provides payment services and services relating to liquidity management of the Single Treasury Accounts. It does so under the Act on the Czech National Bank and the Act on Budgetary Rules.

As of 31 December 2020, the CNB maintained 15,800 accounts for the state and the public sector. A total of 450,000 transactions took place on the Treasury accounts on average per day.

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. This was particularly beneficial in 2020, when there was both a significant increase in expenditure and a decrease in income owing to the pandemic.

There are two single accounts: koruna-denominated and euro-denominated. The koruna-denominated Single Treasury Account consists primarily of 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. Since 2019, the Ministry of Finance has also offered clients the option of making time deposits. The funds of the National Fund, euro debt service funds and foreign funds of state organisational units are deposited in the euro-denominated account.

Every morning, the CNB compiles an estimate of revenues and expenditures on the accounts included in the Single Treasury Accounts 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 reduces the refinancing risk of the state and generates budgetary savings due to lower 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.

The issuing activity of the Ministry of Finance was markedly higher in 2020 than in previous years, as there was a need to cover the increase in the state budget deficit caused by the pandemic. The CNB organised 13 auctions of T-bills, with sales totalling CZK 137.4 billion, 65 auctions of government bonds, in which investors purchased bonds with a nominal value of CZK 477.1 billion, and one auction of euro-denominated

government bonds under Czech law, amounting to EUR 0.3 billion. 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 (15 papers published in 2020) and the CNB Research and Policy Notes (three papers published in 2020). These internationally reviewed research papers cover a wide range of subjects, from the macroeconomic modelling of the Czech and international economy, through the organisation of research in central banks, to financial stability.

In February 2020, the CNB Bank Board presented two awards for the best CNB research publications for the previous year. These awards take into account the technical standard of the winning papers and their relevance to economic policy. The authors of the first winning paper, [How to Improve the Model Selection Procedure within a Stress Testing Framework](#) are Petr Polák and Jiří Panoš. The other winning study is titled [Inflation Targeting Flexibility: The CNB's Reaction Function under Scrutiny](#) and was written by Jan Filáček and Ivan Sutóris.

In 2020, the CNB's two research divisions started to publish a joint newsletter *CNB Research News*, which provides information about the latest economic and financial research news, especially details on the CNB's research publications, analytical sections in other CNB publications, and seminars and conferences organised or co-organised by the CNB. This publication replaced the previous *Economic Research Bulletin*.

The CNB's traditional Research Open Day was not held in 2020 due to the coronavirus pandemic. The *Expectations in Dynamic Macroeconomic Models* international conference, scheduled to take place in September 2020, was also postponed for a year. By contrast, the [annual workshop of the ESCB Research Cluster on financial stability, macroprudential regulation and microprudential supervision](#) was held virtually. A total of 36 representatives from 13 European central banks spoke at the workshop. The two keynote speakers were Professor Mariassunta Giannetti from the Stockholm School of Economics and Professor Xavier Freixas from the Universitat Pompeu Fabra.

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 in the EU and around the world. Other topics discussed included the role of big tech firms on the European payments market, and digitalisation and productivity.

CNB representatives were actively involved in the activities of the 13 committees of the European System of Central Banks (ESCB) and a large proportion of its sub-committees and working groups. The CNB was also involved in assessing relevant draft EU and Member State legislation and selected ECB materials in the form of written consultations with the ECB. The CNB commented on the ECB Report on central bank compliance



The CNB issued
18 internationally reviewed
papers in its research
publication series in 2020

with Articles 123 and 124 of the Treaty on the Functioning of the European Union, which prohibit central banks from engaging in monetary financing. It also commented on the first version of the draft ECB 2020 Convergence Report and a draft ECB opinion on proposals for amendments to the Union prudential framework in response to the coronavirus pandemic.

CNB Governor Jiří Rusnok and Deputy Governor Tomáš Nidetzký also participated in six meetings of the General Board of the European Systemic Risk Board (ESRB). These meetings focused mainly on the coordination of rules for restricting the payment of dividends by financial institutions and the introduction of debt moratoria and guarantee schemes for the provision of bank loans to non-financial corporations. The ESRB also focused on risks associated with the liquidity of investment funds and the implications of procyclical downgrades of non-financial corporations' bonds and potential restrictions on the use of macroprudential buffers by banks.

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, 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 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. For example, the CNB worked with the Ministry of Finance on the preparation of the government document used to regularly assess compliance with the Maastricht convergence criteria.

Further to the assessment of the applications by Bulgaria and Croatia to join the Exchange Rate Mechanism (ERM II), the CNB reiterated its objection at an EFC meeting in June to the possible precedent created in relation to the interpretation of the conditions applied to Bulgaria and Croatia for entering ERM II. This related mainly to the obligation to enter ERM II at the same time as joining the banking union. The CNB repeated that it does not consider these conditions to be binding on the Czech Republic, as compliance with them is not stipulated in EU legislation.

The CNB also continued to be involved in talks on the completion of the Economic and Monetary Union. The debate was dominated by two topics: completing the key building blocks of the banking union and reforming the European Stability Mechanism (ESM). No major advances were made in the efforts to find a compromise on the European Deposit Insurance Scheme and discussions will continue in 2021. The most significant progress was made on the reform of the ESM and the proposal for earlier introduction of the backstop for the Single Resolution Fund. The states of the banking union identified the reduction of risks in the banking sector as being adequate, allowing the backstop to be introduced at the beginning of 2022. The amendments to the treaty establishing the ESM enabling it to be used as a backstop to ensure that additional funds are available for resolving systemically important banks are expected to be ratified by the end of 2021.

In connection with the banking union, in 2020 the CNB participated in the preparation of an update of the Impact Study of Participation or Non-participation of the Czech Republic in the Banking Union, submitted by the Ministry of Finance. The main conclusion of the updated study is that the Czech Republic should not seek to enter the banking union in the current situation and should continue to monitor its further development. The government subsequently agreed with this recommendation at the start of 2021. During the preparation of the update, the CNB primarily endeavoured to ensure that its findings and conclusions assessed, both faithfully and objectively, the advantages and disadvantages of the Czech Republic's potential participation in the banking union in all areas monitored. When publishing the study, it also

emphasised that it considered it appropriate for the Czech Republic to enter the banking union at the same time as adopting the euro.

In 2020, the CNB also played an active role in the work related to deepening the capital markets union. Over the next three years, the direction of this process will be determined mainly by the capital markets union action plan adopted by the Commission on 24 September 2020. The withdrawal of the UK from the EU and the common market is also highly relevant, as it will result in a greater effort by EU institutions to strengthen the competitiveness of EU capital markets. The Commission's new action plan seeks, among other things, to harmonise insolvency legislation in the EU Member States and envisages measures to enhance access to capital market funding for small and medium-sized enterprises. The CNB supports greater diversification of company financing in the economy. However, at the same time it advocates that the creation of a capital markets union should not lead to over-regulation of the EU market environment, should not favour cross-border activities over national ones and should not reduce consumer and investor protection standards or weaken national supervisory authorities' instruments.

In 2020, there was a decisive shift in relations between the United Kingdom and the EU. In January 2020, the two parties ratified the withdrawal deal, which took effect on 1 February 2020. On that date, the UK ceased to be a member of the EU, and thus of the ESCB as well, and the transition period during which the EU and the UK had to reach agreements on future relations started to run. The negotiators managed to come to an agreement on 24 December 2020. Therefore, upon ratification in the UK and endorsement by the EU Council, the agreements were able to enter into force on 1 January 2021, although they will apply only provisionally until they are approved by the European Parliament during the first quarter of 2021.

International Monetary Fund

The CNB actively engaged in discussions about the international monetary and financial system at the International Monetary Fund (IMF), whose activities were significantly affected in 2020 by the crisis caused by the coronavirus pandemic.

The IMF had to respond to an unprecedented number of requests for financial assistance and take a series of crisis measures, including temporary adjustments to its existing lending toolkit. It also launched fundraising campaigns to top up the trust funds designed to provide assistance to low-income countries, which were hit particularly hard by the crisis. The IMF also provided debt service relief to its 29 poorest members. It introduced a new short-term liquidity line and explored the possibility of setting up a new pandemic credit facility and Special Drawing Rights (SDR) general allocation, which could be used to enhance the liquidity of its members during the crisis.

The IMF Executive Board approved the provision of around SDR 74 billion in financial assistance to 83 countries facing balance-of-payments problems. Four new financial programmes were approved for Egypt, Ecuador, Jordan and Ukraine from the IMF's general resources. Three precautionary credit lines were also approved – for Chile, Colombia and Peru. This financial assistance amounted to SDR 50.7 billion altogether. A further SDR 1.2 billion was provided to increase existing programmes and SDR 16 billion was released as emergency financial assistance. The IMF also provided SDR 6.5 billion to low-income countries through the Poverty Reduction and Growth Trust.

At the same time, the IMF had to postpone some planned work, including the review of financial sector assessment programmes and the comprehensive surveillance review. The IMF's bilateral surveillance activities were also suspended due to the high administrative burden associated with the increase in requests for financial assistance and other crisis measures, as well as travel restrictions. The annual IMF Article IV mission to the Czech Republic to assess economic and financial developments in the country thus did not take place in 2020. CNB Deputy Governor Marek Mora attended the yearly spring and annual meetings of the IMF and World Bank.

The CNB continued to be involved as a creditor in providing various forms of assistance to IMF member countries in 2020. In November 2020, the CNB Bank Board decided to provide a new bilateral loan of up to EUR 1.5 billion to the IMF. This was automatically reduced to EUR 646 million when the multilateral New Arrangements to Borrow (NAB) reform took effect on 1 January 2021.

CNB activities in other international organisations

CNB Governor Jiří Rusnok participated in the regular meetings of central bank governors of the member countries of the Bank for International Settlements (BIS). He and Deputy Governor Tomáš Nidetzský also attended the meetings of the Central Bank Governors' Club of Central Asia, Black Sea Region and Balkan Countries.

The CNB was represented by Deputy Governor Tomáš Nidetzský or other representatives at four meetings of the Basel Consultative Group (BCG), which is part of the Basel Committee on Banking Supervision (BCBS). The main focus of discussion at the meetings was the handling of the crisis caused by the pandemic and the regulatory and supervisory response to it. The need to work on the implementation of Basel standards was confirmed. Proportionality and the operational resilience of banks were discussed as well. Deputy Governor Nidetzský also attended the biennial International Conference of Banking Supervisors and the meeting of the Group of Banking Supervisors from Central and Eastern Europe, where information was exchanged on international affairs (primarily at the BCBS level) and each country was assessed in the context of the pandemic crisis.

Deputy Governor Marek Mora and another CNB representative, respectively, attended the two meetings of the Regional Consultative Group for Europe of the Financial Stability Board (RCGE FSB) in May and November 2020. The main topic of discussion was the handling of the crisis caused by the pandemic, especially from the global and regional financial stability perspective. CNB representatives participated in a number of FSB workshops. These focused on issues such as the transition away from the LIBOR reference rate, cyber resilience, the role of BigTech firms and the roadmap to enhance cross-border payments.

In addition, the CNB was represented at the meetings of a number of OECD working bodies, particularly the Economic Policy Committee, the Committee on Financial Markets and the Economic and Development Review Committee.

The CNB contributed to an OECD report providing recommendations on how to improve the third pillar of the Czech pension system. The document contains a detailed analysis of the Czech pension system and suggests a number of improvements based on the OECD's experience and best practices.

In 2020, the CNB continued to work closely with major rating agencies (Moody's, Fitch Ratings and Standard & Poor's) on setting the Czech Republic's sovereign rating. In this context, it organised one review mission in the country at the start of the year. Further review missions had to take place virtually due to the pandemic. None of the agencies changed the Czech Republic's rating in 2020, nor did they downgrade its rating outlook for the near future.

Foreign technical assistance

The CNB's systematic and active structured approach makes it a sought-after provider of foreign technical assistance. In the area of technical assistance programmes, the CNB planned to hold six seminars and ad hoc consultations based on requests from partner central banks in 2020. However, these plans were fundamentally affected by the coronavirus pandemic.



Despite the difficult situation, an in-person three-day seminar *Statistics at the CNB* was held in March, attended by 16 experts from 13 central banks. In November, Monetary Department experts held a four-day webinar *Applied Near Term Forecasting* for 14 specialists from eight central banks through an online platform. Both the content of the webinar and the CNB's willingness to hold it were very positively evaluated by the participants. The other events planned for 2020 (seminars and consultations) had to be cancelled.


CNB staff also provided technical assistance in cooperation with the IMF. They participated in two ad hoc events in Belarus and Sri Lanka as part of IMF missions and in three online events for the central banks of Belarus, Rwanda and Tunisia, and provided a permanent advisor to the Central Bank of Sri Lanka.

The CNB also continued its involvement 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.

III.

Management and organisation





— **CSK 20**
(treasury note)

1949

Efforts to replace the Feierabend London issue, which was objectionable after the Communist takeover, came to a head, among other things, with the CSK 20 1949 B/1 version note, an example of Karel Svolinský's extraordinary artistic flair. The face side of the treasury note carried a portrayal of the head of a girl in profile with a crown of variegated flowers in her hair, dressed in a festive folk costume, on a background of a blossoming Czech spring landscape in the early morning light. The reverse side features a woman holding a rake in the Czech countryside during the haymaking season, illustrating the wealth of the Czech lands contained in its fertile soil. To further strengthen the image, Svolinský placed a painted jug with a bouquet of meadow flowers in the foreground.

The harmony between the two sides of the note, inspired by Czech folklore, which permeates almost all Svolinský's work, suggests the author's artistic concept. This presents nature and the bloom of youth on the one hand, and the maturity of summer and early autumn on the other.

III. MANAGEMENT AND ORGANISATION

III.1 ORGANISATIONAL CHART AS OF 31 DECEMBER 2020



The CNB has a two-tier management system. Fundamental decisions relating to the maintenance of price stability, which is the CNB'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 2020).



Executive directors of departments and branches

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.

The CNB made a minor organisational change in the Financial Regulation and International Cooperation Department as of 1 January 2020. A new Financial Market Regulation Division II was established and the names of the Financial Market Regulation Division and the Payment Systems Regulation and Financial Innovations Division were changed to Financial Market Regulation Division I and Financial Market Regulation Division III respectively.

A new Human Resources Department was established with effect from 1 September 2020 by separating off the previous Human Resources Division from the General Secretariat. The Bank Board members' oversight responsibilities were also re-allocated as a result.

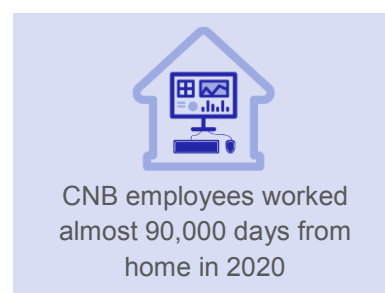
A CNB strategy to promote financial and economic literacy in the Czech Republic in 2020–2022 took effect on 1 January 2020. The CNB's current financial and economic literacy projects will be complemented in the future by the new CNB Visitor Centre. The coordination team for financial and economic literacy is headed by Bank Board member Aleš Michl.

With effect from 1 October 2020, the Bank Board established a Committee for Organisational Changes as another advisory body to the Bank Board. As of the same date, intermediaries of supplementary pension savings and policyholders offering the possibility of becoming an insured person were added to the set of entities supervised by Financial Market Supervision Department II.

III.2 HUMAN RESOURCES

As regards human resources management and CNB staff welfare, 2020 was an unprecedented year in terms of adjusting to the coronavirus period. The CNB had to take numerous employment measures to ensure both the proper performance of the CNB's activities and the safety of its staff.

After the outbreak of the pandemic, the CNB greatly enhanced telework (the number of days worked from home was more than 13 times higher than in 2019) and introduced rotation of work teams in business areas that required staff to be present on-site. It also decided to temporarily close some facilities, such as the special library. The epidemiologic situation also accelerated the migration of some human resources activities into the online world.



Recruitment and presentation of the CNB on the labour market

Last year was also challenging in terms of recruiting new employees. The risk of contagion had to be minimised due to the pandemic situation. A large proportion of interviews were thus held online. Many written tests and assignments were also done in electronic form so job applicants could complete them at home. Nevertheless, the CNB succeeded in testing the qualifications, expertise and personal attributes of candidates to the same standard as before. The number of selection procedures declined by around one-third from 2019.

The CNB remains an attractive employer for students of economics. However, it offers a much broader range of career opportunities. It therefore presented itself in March 2020 at the Elsa trade fair, which focuses on law school graduates, and in autumn 2020 at the online JobChallenge trade fair for students at universities in Brno.



In 2020, the CNB advertised vacancies on its website and on job sites. The CNB web pages offering vacancies were given a facelift and now also contain more details on its corporate culture. The CNB continued to actively seek suitable candidates and address them through professional social networks. About 50% of vacancies were filled thanks to LinkedIn.

Employee benefits

The CNB provides its employees with numerous financial and non-financial benefits. In 2020, the structure of benefits for 2021–2023 was modified through collective bargaining. Sports, social and cultural events, which bring employees together and foster team spirit, were mostly cancelled due to the pandemic.

Personnel expenses

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 1,903 million in 2020, up by about 6.1% on a year earlier.

Compared to previous years, costs relating to obstacles to work on the employer's part and employee benefits increased due to the pandemic, while staff training costs declined slightly.

Salaries of Bank Board members in 2020

(in CZK)

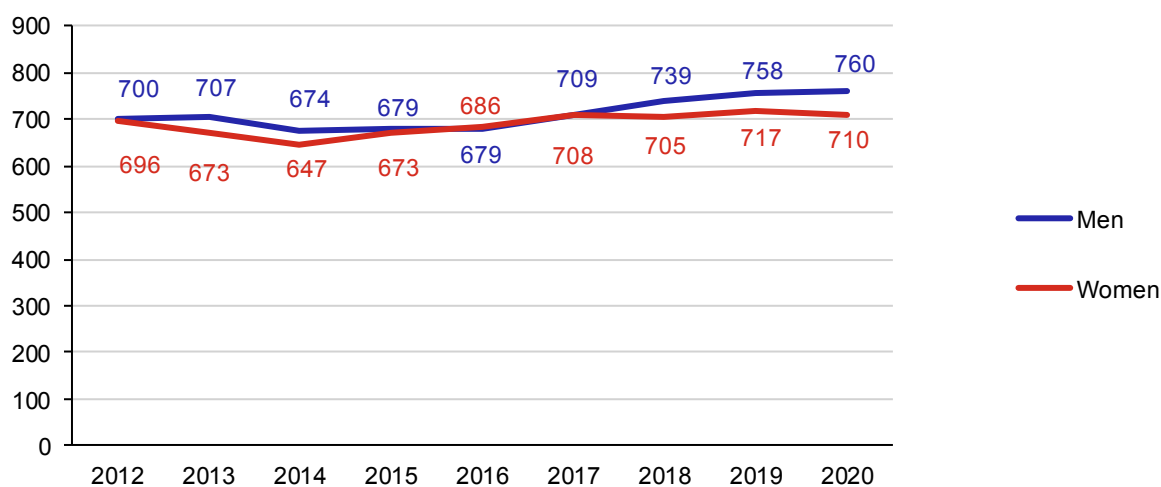
Bank Board Member	Gross salary ¹⁾	Net salary ²⁾
Jiří Rusnok	5,853,387	4,193,703
Tomáš Nidetzký	4,753,155	3,434,501
Marek Mora	4,736,405	3,387,799
Vojtěch Benda	3,969,201	2,868,876
Tomáš Holub	3,968,461	2,868,341
Oldřich Dědek	3,967,384	2,833,455
Aleš Michl	3,915,017	2,829,788

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

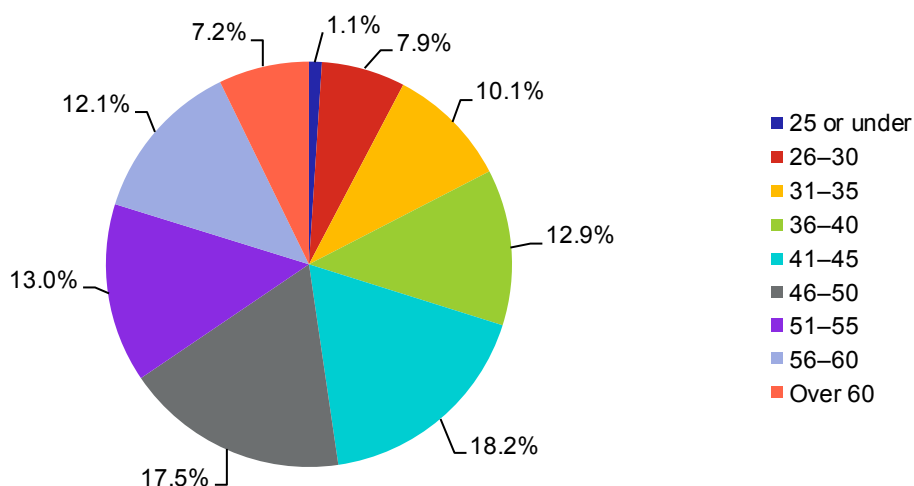
2) The net salary is the gross salary net of state health insurance contributions, social security contributions, state employment policy contributions, income tax and solidarity tax and tax discounts for the taxpayer and tax discounts for dependent children for those Bank Board members who applied for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

Education, age and gender structure

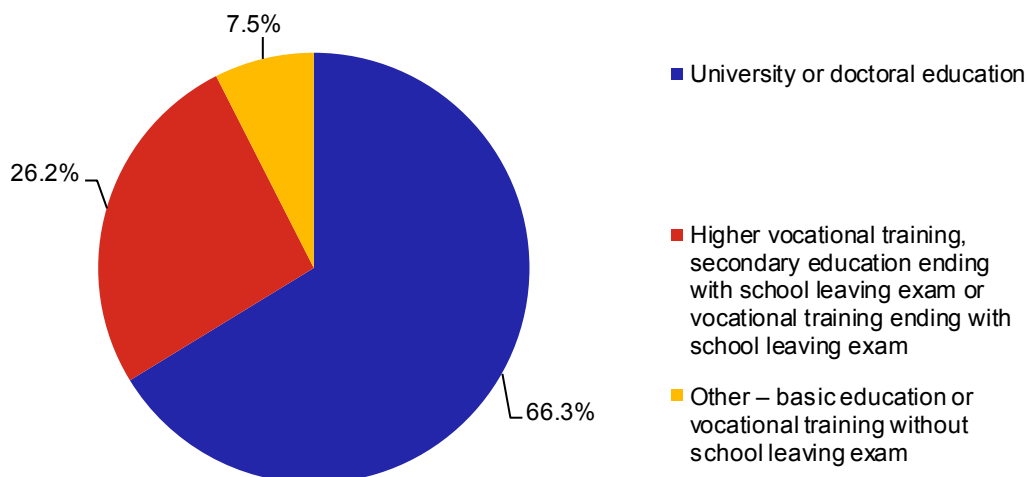
The CNB takes pride in recruiting staff based primarily on the quality of candidates and in offering equal opportunities to all job applicants. It can thus boast a balanced team structure.

Numbers of men and women employed at the CNB

The balanced age structure of the CNB's staff guarantees the necessary stability in generational turnover and provides teams with the synergistic effect of experience and new ideas.

Age structure of employees as of 31 December 2020

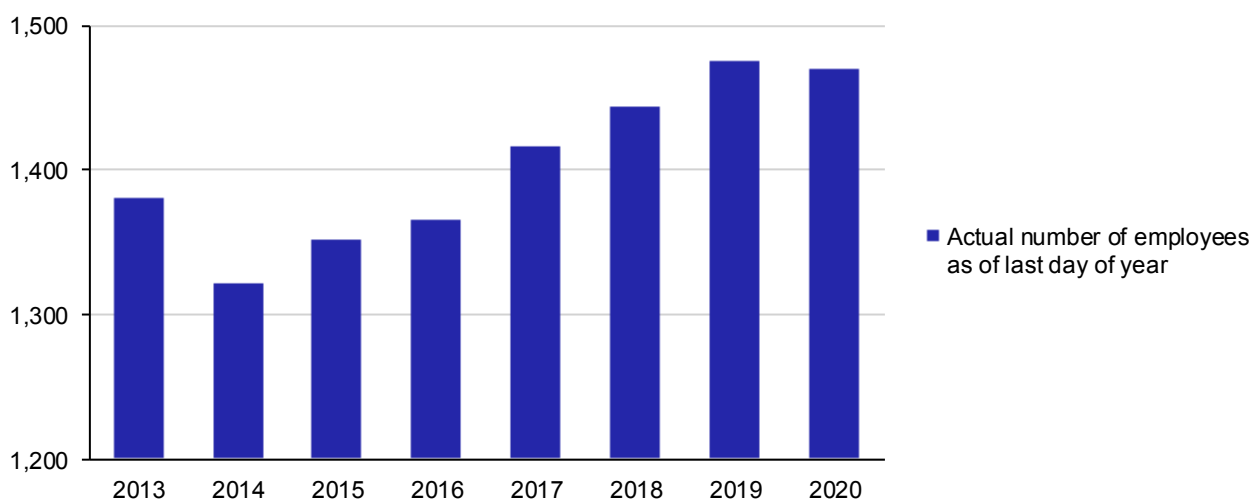
The workforce education structure has long remained unchanged at the CNB. To ensure professional qualified activities, the CNB requires most of its staff to have a university education in economics, law or, increasingly over the last ten years, information technology.

Employee structure by highest level of education attained as of 31 December 2020

The CNB had 1,470 employees as of 31 December 2020, five less than at the end of 2019. The overall staff turnover rate in 2020 was 5.1%, down by 0.7 percentage point compared with 2019. The average length of employment at the CNB decreased slightly year on year to 12.9 years.



Number of employees



Staff training

The year 2020 generated new stimuli for the professional development of CNB staff as training opportunities were moved online. Training events could not be held in-person for most of the year due to the pandemic. To preserve professional development opportunities as far as possible, the CNB changed its approach to staff training: it had to provide employees with new forms of training and incorporate topics enabling employees to adapt quickly to the demands of teleworking.

Training is a key area of professional development at the CNB. It is a necessary condition for maintaining and increasing the proficiency and competence of its staff. Domestic and international professional training events accounted for almost 70% of the total number of training events in 2020. These courses are usually held on-site in the host institutions; however, more than 60% of them took place online in 2020.

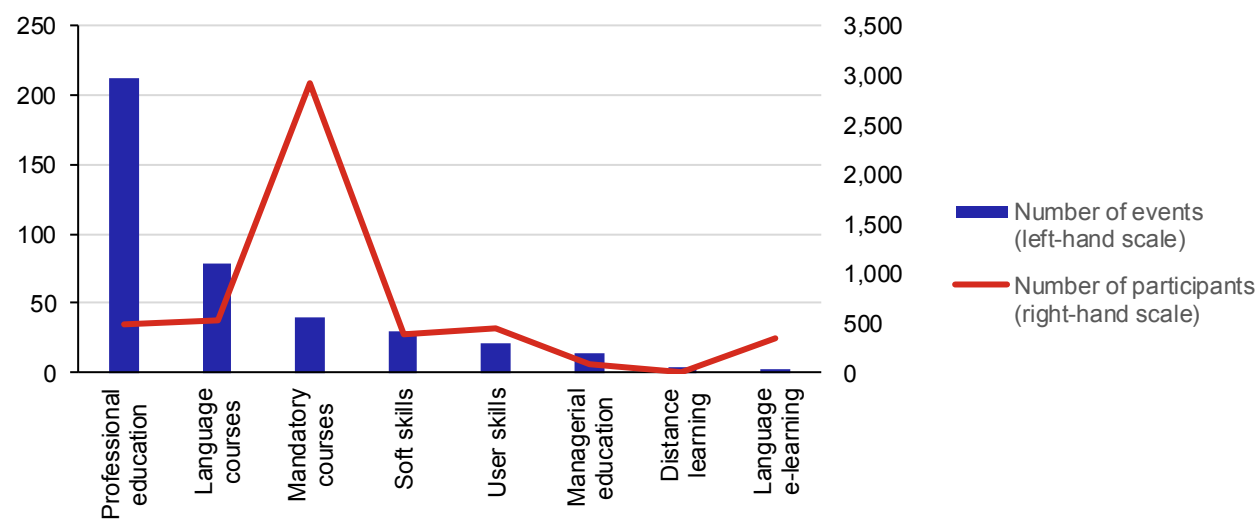
Thanks to the transfer of international training courses online, CNB experts had the opportunity attend training events organised by institutions of the European System of Central Banks (ESCB) and international institutions such as the International Monetary Fund, the Joint Vienna Institute and the Financial Stability Institute. The CNB also moved its international training courses online in 2020. This made it one of the first ESCB institutions to offer remote international training events.

The development of soft and managerial skills was focused mainly on dealing with the new work and life conditions brought about by the epidemic containment measures. Workshops on remote cooperation and team leadership, productivity and motivation when working from home and on stress and anxiety management were therefore flexibly incorporated into the range of training events on offer. As regards user skills, the emphasis was put on training staff in online security and the Webex platform, which the CNB uses for remote team collaboration.

Developing the language skills of CNB staff is an important element of professional development. Foreign language instruction was provided remotely and hence was not reduced. Employees also received compulsory training in the same way. All mandatory training courses which do not include practical tuition or an exam were moved online.

The total direct costs (tuition fees excluding transport and accommodation costs) of CNB staff training amounted to almost CZK 6 million in 2020.

Overview of CNB staff training in 2020



IV.

Public relations





20

— **CSK 20**
(banknote)

1970

The CSK 25 banknote featuring the Hussite general Jan Žižka of Trocnov was first issued in 1953. In 1970, this unusual denomination was replaced by a 20-koruna banknote (CSK 20 I 1970 version) by Czech graphic designer Karel Hruška. The originality of the design lies in his use of authentic Hussite artwork. The face side features an engraving of a portrait of Jan Žižka of Trocnov, based on his oldest preserved sculpture from the end of the 15th century.

The reverse side featured one of the illuminations of the *Jena Codex*, which was created at the initiative of Bohuslav of Čechtice in 1490–1510 as a critique of the church and to commemorate Jan Hus and Jerome of Prague. The illumination by Janíček Zmizelý of Písek depicted a Hussite army led by a priest carrying a monstrance and Jan Žižka of Trocnov, already blind in both eyes, on a white horse. The production of the banknote was also unique, as the then-modern technique of bleed printing, i.e. printing that goes beyond the edge of the surface area, was used.

IV. PUBLIC RELATIONS

IV.1 COMMUNICATIONS

The CNB entered 2020 with a new visual style. This was introduced to modernise communication with the public and in particular to gradually unify the graphics of all the CNB's outputs. In the interests of continuity, the new visual style kept the CNB's logo and corporate colours and complemented them with two unifying elements. The basic colour scheme of dark blue combined with white was brightened with small accents of red, and the statue of the Genius with a Lion atop the CNB's headquarters in Prague became the dominant figurative element. It symbolises progress and expectations of future prosperity.

The Genius and the Lion also “guard” the CNB's independence, openness and expertise – principles which constitute the central bank's long-term commitment to the public. At the beginning of the year, the CNB also enhanced the transparency and predictability of its actions by starting to publish the arguments of the individual Bank Board members in the minutes of the monetary policy meetings. These “[attributed arguments](#)” are not yet the norm in central banking. This step further strengthened the CNB's position among the most transparent central banks in the world.

The CNB again ranked among the most credible domestic institutions, confirming the upward trend in public confidence observed since 2014. According to an opinion poll conducted by the STEM agency between 5 and 15 March 2020, almost three-quarters of the Czech population trusted the CNB (72%).

Communication during the pandemic

In spring 2020, the CNB's communication activities were affected by the onset of the coronavirus pandemic and the related government measures to contain the contagion. Discussion panels, roundtables and other in-person events at which representatives of the central bank traditionally meet representatives of the public or corporate sector were thus cancelled. Communication moved mostly online.



The CNB started to hold press conferences and meetings between the Bank Board and analysts by means of videoconferencing technology. A special subsection of the website “[CNB versus coronavirus](#)” was also created to clearly communicate the decisions taken by the CNB to support the economy during the first wave of the pandemic.

The increasing importance of online communication, especially on social networks, is reflected in the new communication strategy for 2021–2023 discussed and approved by the CNB Bank Board in November. Fulfilment of the strategy should make the CNB’s communications easier for the general public to understand without affecting the expertise, correctness and value of the information imparted. The strategy puts an emphasis on tailoring information and communication channels to specific target groups, creating original content and on seamlessly integrating the CNB’s communications and economic and financial education.

The CNB stepped up its communication on social networks during the year, adding Instagram to its channels of communication with the public. The CNB can thus currently be followed on [Facebook](#), [Twitter](#), [Instagram](#) and [LinkedIn](#), where it became the most followed Czech public institution in 2020. Complementing the [YouTube](#) channel is a new official account on [Spotify](#), where the CNB issues self-produced interviews as podcasts.

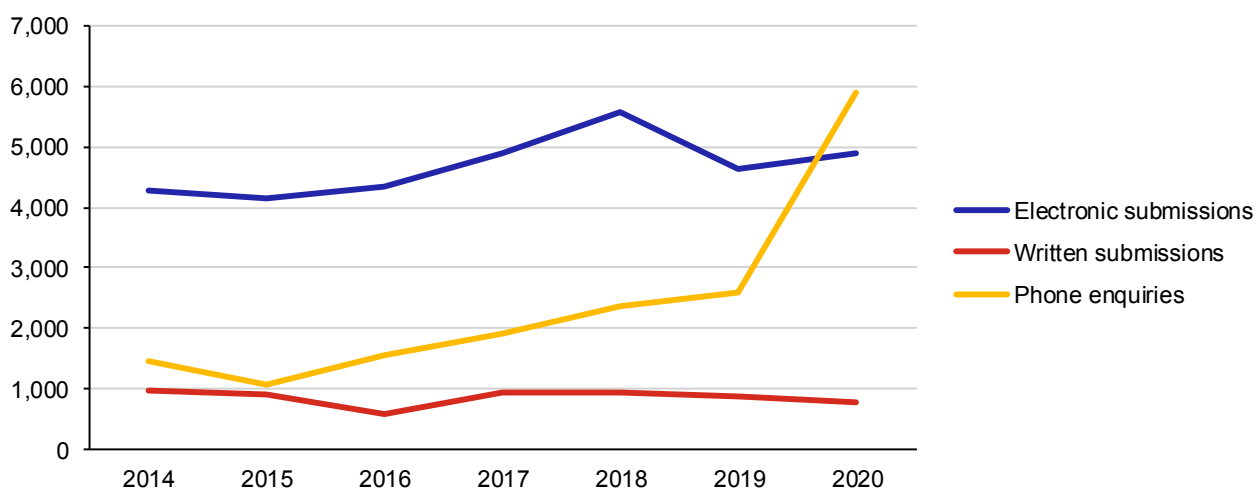
The CNB produced more than 20 interviews in the “ČNBvlog” series in 2020, a significant increase compared with the previous year. In these interviews, it mainly communicated consumer-related topics (phishing, payment verification, mortgage ratios and pre-Christmas loans) but also commented on European issues and the new issuance schedule for commemorative banknotes and coins and presented its education activities and career opportunities.

The [Czech Money](#) mobile app was also updated to include new versions of the CZK 20 coin (bearing portraits of Tomáš Garrigue Masaryk, Milan Rastislav Štefánik, Edvard Beneš, Alois Rašín, Karel Engliš and Vilém Pospíšil) and the CZK 100 banknote (featuring the logo of the 100th anniversary of the introduction of the Czechoslovak koruna).

Written, electronic and telephone submissions

The CNB handled a total of 5,902 telephone enquiries in 2020 (compared with 2,578 in 2019, i.e. up by almost 130%) as part of its direct communication with the public. The sizeable increase in the number of telephone enquiries was due to the integration of calls made to all branches into the Prague headquarters and also to the public’s greater need to obtain information relating to the pandemic. The CNB also replied to 4,893 electronic submissions (including complaints, suggestions and enquiries) and 758 written submissions.

Numbers of submissions and enquiries from the public handled



IV.2 FINANCIAL AND ECONOMIC LITERACY

Experience shows that the soundness of the economy depends largely on the financial health of the population. It is primarily the job of the state and its education system to make the Czech public financially and economically literate. Nevertheless, the CNB can contribute partly to this objective thanks to its independence and necessary know-how. It also does so in order to have on its side people who are familiar with financial and economic matters, as this helps it fulfil its statutory duties and limits potential unfair practices in the financial market. The CNB's projects to promote financial and economic literacy are targeted mainly at higher-grade primary school pupils, secondary school pupils and the general public.

For teachers, pupils and students

In 2020, the CNB prepared a [web portal](#) for its financial and economic literacy projects and materials. Among other things, it contains a teaching aid designed for higher-grade primary school pupils and secondary school pupils in the form of a presentation covering basic knowledge on personal finance. The material is also available in English and can thus be used in English lessons. The presentation is complemented by methodological guidelines explaining how to use the material.

The portal also includes a link to the [Money on the Run](#) (Peníze na útěku) portal, which teaches young Czechs (aged 18–35) not only how to negotiate the world of finance, but also how to run a balanced household budget or set aside appropriate reserves in order to avoid financial difficulties in unexpected situations. Educational posts on social networks are another of the key instruments the CNB uses for education.

For the public and school groups

The CNB also contributes to financial education with its permanent exhibitions in Prague and Brno, which are designed for schools and the general public, the largest proportion of visitors being secondary school pupils. [The CNB's People and Money exhibitions](#) offer a unique collection of information about the history of money and monetary policy in the Czech Republic. The Prague exhibition has been closed since December 2020 due to the start of the renovation of the bank hall at CNB headquarters, where a [Visitor Centre](#) is being built.

The Visitor Centre will open to the public in spring 2022. Beside housing the existing *People and Money* exhibition, it will feature a new permanent interactive exhibition showcasing the CNB's individual roles. Visitors will be able to choose from a set of supporting programmes in the form of workshops, seminars, short-term exhibitions and the like. Information about central banking will be provided in a fun and educational way, and concepts and topics relating to the central bank's role will be clearly explained. The Visitor Centre is targeted main – but not solely – at pupils of higher-grade primary schools and secondary schools, which have financial education included in their curricula.

Alongside its permanent exhibitions in Prague and Brno, the CNB has been reaching out to the general public at external events since 2019. This [outreach programme](#) uses special play tables and accompanying activities to expand both children's and adults' knowledge of the central bank and inform them about the Czech currency.



Activities supported by the CNB

The CNB also supports and co-organises partner projects. In 2020, among other things, it supported the fourth edition of the student [Economics Olympics](#). The event, organised by the Institute of Economic Education, was held under the official auspices of CNB Deputy Governor Tomáš Nidetzký. All semi-finalists who progressed from the school-level to the regional rounds could also compete for the [CNB Award](#). The semi-finalists gave presentations on one of three announced topics relating to the central bank's activities in three-minute videos. The CNB also supported the 12th 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 Opava in partnership with the CNB and the town of Karviná. The Global Money Week initiative, which is organised nationally by yourchance o.p.s. and the European Financial Planning Association Czech Republic, was also held under the auspices of the CNB, with the Ministry of Finance as national coordinator. The aim of Global Money Week is to cultivate a cross-generational awareness of money, how it is obtained and how to manage it efficiently and effectively.

IV.3 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, or to applicants on the basis of applications. The following text gives details on applications for information under the Act in 2020.

1. Number of applications for information under the Act: 49
2. Number of decisions refusing an application: 6
3. Number of appeals submitted against decisions: 4
4. Court judgements relating to the CNB in the area of provision of information: 1

The Municipal Court in Prague ruled on 14 April 2020 on an action against the Decision of the CNB Bank Board of 10 May 2019, Ref. No. 2019/050601/CNB/110, that the Decision of the CNB Bank Board of 10 May 2019, Ref. No. 2019/050601/CNB/110, and the Decision of the CNB of 28 February 2019, Ref. No. 2019/24514/570, shall be repealed. The CNB was ordered to provide the complainant with the CNB Organisational Statute in force and effect on the day the application for information had been lodged, i.e. 23 January 2019, within 15 days from the day this judgment became final and conclusive. The complainant was provided with the Organisational Statute.

5. Costs of the legal proceeding: CZK 40,156.
6. Number of exclusive licences granted, including justification of the need to grant exclusive licences: 0
7. 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

In four cases, complainants disagreed with the procedure or the way in which their applications had been dealt with, as the CNB had not provided the requested information by way of notification and had not issued a decision. The complaints were dealt with under the procedure laid down in Article 16a(5) of the Act, and a decision refusing the complaint was issued in all four cases. One complainant objected that the CNB had not provided all the requested information and requested that the missing information be provided. The complaint was dealt with by way of a memorandum.

8. Other information relating to application of the Act:

The number of applications received decreased significantly from 101 in 2019 to 49 in 2020. A large proportion of the applications consisted of queries relating to the CNB's supervisory work in all financial market segments, including its licensing and enforcement activities. The applications concerned a wide range of information, including statistics (interest rates, reporting), the central register of accounts, unauthorised business, public tenders and the CNB's internal regulations.

IV.4 SPECIAL LIBRARY

The CNB's special library provides CNB staff and the professional public with lending, advisory, reference, bibliographic and research services. Its carefully built and 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 89,000 publications and 700 periodicals.

Personal visits to the library were significantly restricted during the year due to the government measures to counter the spread of the coronavirus, but online services were expanded substantially.

IV.5 ARCHIVE

The historical record of Czech and Czechoslovak banking is deposited in the [CNB Archive](#). It currently manages and makes accessible to the general public 106 archive collections sourced mostly from leading Czechoslovak financial institutions. Anyone interested in 19th and 20th century history can study archive documents providing a unique insight into the history of the Czech lands and Central Europe. Researchers can view documents that are more than 30 years old.

The scope of the archive documents increased significantly in 2020 after the CNB Archive acquired the archive collections of the former Investiční banka and its legal predecessors. Of greatest importance are those relating to the activities of public financial institutions "for long-term credit", such as Zemská banka,

Hypoteční banka česká and Československý reeskontní a úvěrní ústav. These banks made a major contribution to the economic development of the Czech lands. The archive book collection was likewise expanded, gaining publications on the administration of securities in particular.

IV.6 CONGRESS CENTRE

The activities and use of the [CNB Congress Centre](#) were fundamentally affected by the global coronavirus pandemic in 2020. The number of traditionally held conferences, lectures, presentations, seminars, committee meetings, press conferences and training courses dropped to one-third of the usual annual total.

The CNB used the period during which the Congress Centre's activities had to be limited to replace obsolete projection equipment and inadequate lighting in the Small Hall. Not only was the Centre's technical equipment modernised significantly, but the overall level of comfort for those organising and attending professional and social events there was increased.



V. Financial report





— **CSK 20**
(banknote)

1988

The last Czechoslovak 20-koruna banknote was the CSK 20 II 1988 version by Slovak designer Albín Brunovský which, among other things, received the prestigious “Bank Note of the Year Award” from the Association Française pour l’Etude du Papier-monnaie (AFEP) in 1989.

The central theme of the banknote was education and Jan Amos Comenius. The face side carries his portrait, complemented by an open book on a background of a globe. The beginning of life is symbolically pulsating around him in the upper part of the atmosphere, while in the lower part zigzag waves suggest terrestrial and aquatic life.

The reverse side also features a tree of knowledge bearing apples, an allegory of teaching and education. This time the tree is growing out of an open book. To the left of the tree, the Glagolitic alphabet, a fragment of the Foundation Charter of Charles University and a depiction of celestial bodies in motion show progress in education. The portrayal of a student and a teacher, illuminated by the sun, standing together reading from an open book, along with a rainbow symbolising hope in the younger generation, complete the composition.

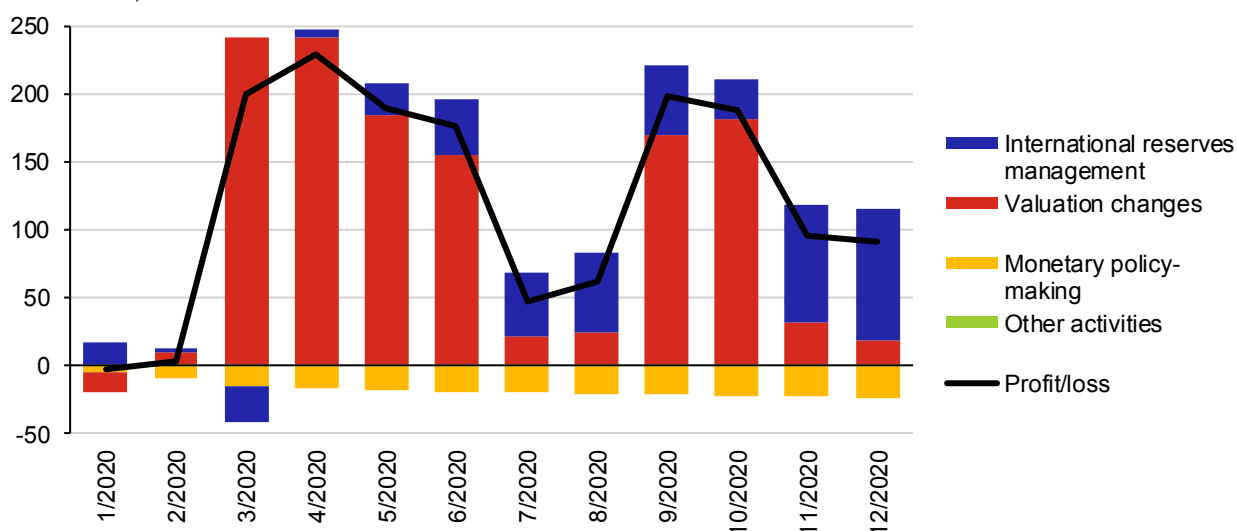
V. FINANCIAL REPORT

The section on the CNB's performance is based on the financial statements. However, the internal breakdown of the income and expense categories is different, owing to the structure of the activities performed and their impact on performance.

The CNB recorded a profit of CZK 91.7 billion in 2020. Its dominant component stemmed from international reserves management, complemented by foreign exchange gains on revaluation of foreign currency assets and liabilities to the Czech currency. The effect of monetary policy operations was significantly smaller than in 2019.

The CNB's income and expenses in 2020

(in CZK millions)



The level of profit fluctuated over the course of the calendar year. Concerns about the massive spread of the coronavirus and the economic impacts of the quarantine measures resulted in high volatility on global markets, general sell-offs of risky assets, and migration of investors to safer markets. The koruna exchange rate exhibited a particularly high level of volatility. Its value on the interbank foreign exchange market fluctuated depending on the course of the pandemic, affecting the bank's profit via valuation changes. Stock markets were also turbulent and stock indices therefore recorded substantial swings in the course of the year. Central banks responded to the situation by easing the monetary conditions, for example by lowering interest rates. This was reflected in prices on bond markets.

The CNB's income and expenses

(in CZK millions)

	Income and expenses in 2020	Income and expenses in 2019	Y-o-y change
Monetary area	94,216	60,270	33,946
Monetary policy-making	-22,971	-53,053	30,082
International reserves management	97,523	115,146	-17,623
Valuation changes	18,221	-3,341	21,562
Client operations	1,437	1,513	-76
Other operations	5	5	0
Currency issuance and management	-78	-24	-54
Operations	-2,456	-2,348	-108
Total	91,682	57,898	33,784

Inflation remained in the upper half of the tolerance band around the CNB's inflation target at the start of the year. Persisting inflation pressures and a forecast for a sizeable rise in inflation above the upper boundary of the tolerance band necessitated an increase in interest rates in February. However, the coronavirus pandemic led to a sharp change in the domestic monetary conditions. To mitigate the impacts of this external shock on the domestic economy, the CNB responded with a combination of monetary policy and macroprudential measures. Monetary conditions were eased in three successive steps (for more details about the changes in interest rates see the section *Financial market operations*).

The systemic liquidity surplus in the domestic banking sector is reflected in the CNB's performance in the form of interest paid, as banks deposit their excess liquidity at the CNB in monetary operations. An easing of monetary conditions, i.e. a decrease in interest rates, means lower costs for the CNB. A tightening of monetary conditions has the opposite effect. However, it is important to emphasise that the CNB takes specific monetary policy decisions in accordance with its primary objective, namely to maintain price stability, regardless of the impact on its profit/loss.

The CNB's interest expenses for repo operations and the deposit facility totalled CZK 22.9 billion, i.e. less than half the 2019 level. The banking sector deposited liquidity mainly through liquidity-absorbing two-week repo operations, which are remunerated at the two-week repo rate. The CNB sterilised CZK 2,699 billion on average using this type of instrument, at a total annual cost of CZK 22.2 billion. The average value of the deposit facility declined to CZK 14 billion, with total annual costs of CZK 0.03 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 0.7 billion.

International reserves are the CNB's main source of income. The size of the return depends on the conditions on the financial markets where the reserves are invested. In 2020, the return was significantly affected by the coronavirus pandemic. Stock markets, which are sensitive to exogenous shocks, initially declined very sharply. Conversely, the safest government bonds recorded unprecedented capital gains due to a decline in their yields. The diversification effect of the composition of the CNB's international reserves was thus fully manifested. Monetary and fiscal authorities managed to gradually stabilise the financial markets by responding immediately and taking appropriate measures. The major stock indices reacted to the improving macroeconomic data and the promise of massive stimulus measures by rising strongly.

The aggregate annual return on the international reserves was CZK 97.5 billion excluding valuation changes. The equity portfolio coupled with its dividend component contributed CZK 36.2 billion to the aggregate annual income. The bond portfolios, in which the largest proportion of the international reserves is deposited, recorded net income of CZK 69.2 billion, due largely to the capital component, stemming from a decline in yield curves, complemented by the interest rate component. By contrast, money market investments have long shown weak performance, due mainly to negative euro-denominated money market interest rates. The decline in interest rates also affected yields on the dollar money market in 2020, so the balance on this part of the international reserves was negative.

Valuation changes unusually had a lower effect on the final profit. They fluctuated substantially during the year depending on the course of the pandemic. Interest in the domestic currency waned as investors left risky markets, which include the koruna. The koruna exchange rate weakened, causing the koruna value of the central bank's foreign currency assets – which is reflected in its profit in the form of exchange rate gains – to increase. This scenario was especially apparent during the spring and autumn waves of the pandemic, when the koruna weakened against virtually all the reserve currencies. Between these two waves, the koruna exchange rate stabilised and the valuation changes shrank significantly. The currency allocation structure of the reserves, or contrary movements in the currency pairs represented in the international reserves, played an important role. The CNB posted a resulting exchange rate profit of CZK 8.5 billion at the year-end. 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, for

example, with respect to the euro, the Australian dollar and the Swedish krona. The koruna appreciated against the US and Canadian dollars, sterling and the Japanese yen, bringing about an exchange rate loss.

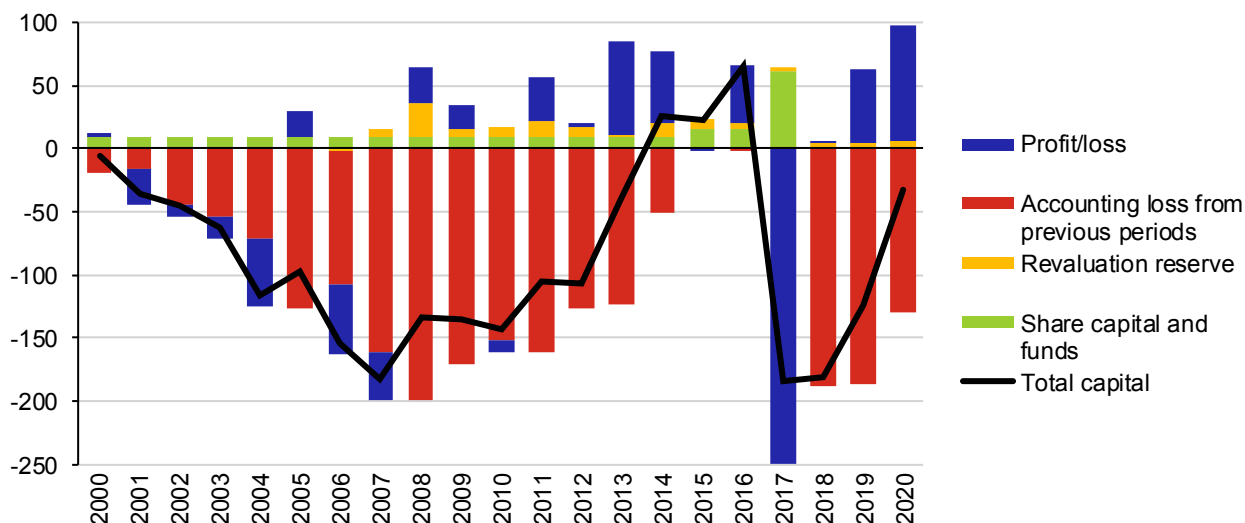
Together with its foreign currency assets and liabilities, the CNB has been repricing gold to market value since the end of November 2020. The market value of gold during the switch to the new valuation method was higher than the previously used historical prices as of the date of purchase of the gold. This caused a sizeable increase in the value of the gold in the bank's balance sheet. Gold reserve holdings are now repriced to market value in monthly cycles directly in the profit/loss. The year-end profit reflected a positive revaluation reserve of CZK 9.7 billion.

The CNB charges its clients fees for maintaining accounts and providing payment services and other banking services. The pricing policy is set in such a way that the fees cover the CNB's operating costs and investments in the relevant segment of activity. The largest proportion of income is generated by conversions of foreign currency funds on clients' accounts. The CNB executes the largest conversions for the Ministry of Finance, which draws down EU funds and pays the Czech Republic's contributions to the Commission's budget. Net income on client operations totalled CZK 1.4 billion.

The government restrictions and long-lasting shutdowns affected almost the entire domestic economy. The central bank was no exception. It had to adapt its operations to the new conditions. The most significant measure was a massive increase in teleworking and the restriction of all face-to-face meetings, including business trips. Internal services needs thus decreased as well. These measures partly contributed to a decline in year-on-year growth in operating costs (3.2%) to half of the average rate seen in the last five years. Wages accounted for the largest share of operating costs. They totalled CZK 1.3 billion, up by 6.7% year on year. Wages are the key factor affecting the CNB's total operating costs.

The CNB's capital

(in CZK billions)



The CNB's capital varied in size during the year depending on its profit/loss level and on valuation changes and valuation differences arising from the revaluation of securities. Their accounting value changed considerably depending on the koruna exchange rate and asset prices on financial markets. The capital recorded positive levels given a combination of a weaker koruna and higher asset prices. However, the resulting year-end figure was negative (minus CZK 31.8 billion). The largest items were accumulated losses (minus CZK 129.2 billion), the 2020 profit (CZK 91.7 billion), the revaluation reserve arising from equity and member shares in international institutions (CZK 4.3 billion) and equity capital (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.

When using its 2020 profit, the CNB abided by the law, which requires it to use its profit preferentially to supplement reserve funds or cover past losses. Given the existence of accumulated accounting losses, the entire profit of CZK 91.7 billion was used to cover these losses.

More comprehensive [information about the CNB's performance](#) in 2020 is available on the CNB website.

VI.

Financial statements and auditor's report as of 31 December 2020





20

— **CZK 20**
(banknote)




1994

The only Czech 20-koruna banknote (CZK 20 1994 version) was designed by Oldřich Kulháněk as part of a series presenting Czech historical figures in chronological order. The first in the series was the 20-koruna banknote, whose face side features a portrait of Ottokar I of Bohemia, a member of the Přemyslid dynasty who acquired a hereditary royal title. His image, which is based on anthropological research by Emanuel Vlček, is complemented by the king's majestic royal seal and, in the background, a relief of the gate of the Porta Coeli monastery in Předkláštří near Tišnov, which was founded by Ottokar I of Bohemia and his wife Constance of Hungary.

The reverse side features the majestic seal on the decree issued by Frederick II (the Golden Bull of Sicily), which confirmed the royal title and the title of elector obtained by the Czech ruler. Located below this is the royal crown, based on the funeral crown of the King Ottokar II of Bohemia. It is on a background of shields bearing coats of-arms portraying the Czech lion and the Moravian eagle.



FINANCIAL STATEMENTS OF
THE CZECH NATIONAL BANK
FOR THE YEAR ENDED
31 DECEMBER 2020

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 2021	 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 18 March 2021.

ASSETS		Note	2020 CZK million	2019 CZK million
1.	Gold	3.1.	12 247	493
2.	Receivables from the International Monetary Fund	3.2.	81 402	83 184
3.	Receivables from abroad, including securities	3.3.	3 515 404	3 356 214
3.1.	Deposits at foreign banks and financial institutions		1 125 656	1 335 973
3.2.	Securities		2 342 561	1 988 495
3.3.	Other receivables from abroad		47 187	31 746
4.	Receivables from domestic banks	3.4.	0	0
5.	Fixed assets	3.5.	3 341	3 118
5.1.	Tangible fixed assets		3 165	2 954
5.2.	Intangible assets		176	164
6.	Other assets	3.6.	7 474	6 889
6.1.	Other financial assets		4 920	4 633
6.2.	Other		2 554	2 256
TOTAL ASSETS			3 619 868	3 449 898

LIABILITIES		Note	2020 CZK million	2019 CZK million
1.	Notes and coins in circulation	3.7.	711 886	644 367
2.	Liabilities to the International Monetary Fund	3.2.	75 088	79 692
3.	Liabilities abroad	3.8.	143 839	138 795
3.1.	Loans from foreign banks		9 280	24 883
3.2.	Other liabilities abroad		134 559	113 912
4.	Liabilities to domestic banks	3.9.	2 283 220	2 408 337
4.1.	Loans received		2 147 836	2 255 227
4.2.	Bank monetary reserves		72 464	43 240
4.3.	Other liabilities to banks		62 920	109 870
5.	Liabilities to the state and other public institutions	3.10.	422 749	291 684
6.	Other liabilities	3.11.	14 932	10 811
7.	Provisions	3.12.	0	0
8.	Revaluation reserve	3.13.	4 289	4 029
9.	Share capital	3.13.	1 400	1 400
10.	Funds	3.13.	0	0
11.	Accumulated loss brought forward	3.13.	-129 217	-187 115
12.	Profit or loss for the period	3.13.	91 682	57 898
TOTAL LIABILITIES			3 619 868	3 449 898

OFF BALANCE SHEET		Note	2020 CZK million	2019 CZK million
1.	Guarantees issued	3.17.	804	804
2.	Issued loan commitments	3.2.	0	38 115
3.	Receivables from spot, term and futures transactions	3.17.	529 014	588 328
4.	Liabilities from spot, term and futures transactions	3.17.	530 180	587 618
5.	Guarantees received	3.17.	0	38 115
6.	Collateral received	3.17.	75 622	49 206

INCOME STATEMENT		Note	2020 CZK million	2019 CZK million
1.	Interest income and similar income	3.14.	19 435	24 004
1.1.	Interest from fixed income securities		18 774	22 276
1.2.	Other		661	1 728
2.	Interest expense and similar expense	3.14.	-32 658	-61 391
3.	Income from shares and interests		8 205	9 213
4.	Fee and commission income		546	655
5.	Fee and commission expense		-210	-178
6.	Gains less losses from financial operations	3.15.	98 896	87 712
6.1.	Net foreign exchange gains/(losses) and foreign exchange spread		19 281	-2 443
6.2.	Other		79 615	90 155
7.	Other operating income		578	741
7.1.	Income from money issue		417	552
7.2.	Other		161	189
8.	Other operating expense		-578	-653
8.1.	Expenses for production of notes and coins		-507	-591
8.2.	Other		-71	-62
9.	Administration expense	3.16.	-2 240	-2 177
9.1.	Personnel expenses		-1 903	-1 793
9.1.1.	Wages and salaries		-1 325	-1 242
9.1.2.	Social and health security		-443	-414
9.1.3.	Training and employee benefits		-135	-137
9.2.	Other administration expenses		-337	-384
10.	Depreciation and amortisation of fixed assets	3.5.	-292	-284
11.	Reversal of provisions for receivables and guarantees, income from receivables already written off	3.12.	0	265
12.	Write offs, additions and utilisation of provisions for receivables and guarantees	3.12.	0	-9
13.	Profit or loss for the period		91 682	57 898

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. It 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 handles 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 2020, 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, Ph.D.

- 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, gold 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.

The arrangement, definition of content of items in the financial statements and the scope of data for disclosure were adopted in accordance with the rules set by the European Central Bank for accounting and financial reporting in the European System of Central Banks, with the exception of the regime for reporting unrealised gains or losses. Maintaining the consistency of data with the Bank's ten-day balance sheet is also respected.

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 2020	31 Dec 2019
EUR	1	26.245	25.410
USD	1	21.387	22.621
JPY	100	20.747	20.844
GBP	1	29.190	29.866
CHF	1	24.298	23.416
CAD	1	16.789	17.413
AUD	1	16.512	15.885
SEK	1	2.614	2.432
SDR	1	30.803	31.281
CNY	1	3.273	3.250
DKK	1	3.527	3.401
NOK	1	2.507	2.576
PLN	1	5.755	5.970
XAG	1	18.058	13.068
XAU	1	1 291.864	1 106.345
XPT	1	732.533	697.706

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.

In 2020, the measurement of gold changed to monthly remeasurement at market value.

2.4. SECURITIES

Foreign debt securities and shares held as part of the foreign currency reserves 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 MBS (“Mortgage Backed Securities”) portfolio is managed by external managers. 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 Special Draw Rights ("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 2.08 million and CZK 1.42 million as of 31 December 2020 and 2019, respectively), 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
Long-term software	6
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. OTHER 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 to the financial statements, but are not reported in the financial statements (refer also to Note 3.21).

3. ADDITIONAL INFORMATION

3.1. GOLD

	2020	2019
Gold (CZK million)	12 247	493
Long-term reserve	11 195	456
Operating reserve	1 052	37
Gold (thousand Troy ounces)	305	257
Long-term reserve	279	239
Operating reserve	26	18
Gold (tonnes)	9.5	8.0
Long-term reserve	8.7	7.4
Operating reserve	0.8	0.6
Gold (market value – CZK million)	12 247	8 841
Long-term reserve	11 195	8 232
Operating reserve	1 052	609

During 2020, there was a change in the measurement of gold at market value. Therefore, the carrying amount this year is the same as the market value. The Bank recognised remeasurement amounting to CZK 9,266 million. The Bank records other gold reserves reported separately as Collections reserve (part of other assets) and Cash reserve (off balance sheet records).

	2020	2019
Collections reserve		
Carrying amount – CZK million	316	20
Troy ounces – thousands	8	8
Tonnes	0.2	0.2
Market value – CZK million	316	227
Cash reserve – carrying amount	12	10

As at 31 December 2020 a foreign bank deposit denominated in gold amounted to CZK 7,888 million (6.1 t). As at 31 December 2019: CZK 337 million (5.5 t). The figures for the year ended 31 December 2019 are stated at historical cost.

3.2. RECEIVABLES FROM AND PAYABLES TO THE INTERNATIONAL MONETARY FUND

CZK million	2020	2019
Membership quota at the IMF	67 135	68 702
Membership deposit	51 056	55 287
Reserve position	16 079	13 415
Long-term loan provided to the IMF	174	177
Deposits in the IMF	14 093	14 305
Total receivables from the IMF	81 402	83 184
Payable from the SDR allocation	24 033	24 405
Payable to the IMF from the bill of exchange	44 737	45 869
Current account with the IMF	6 318	9 418
Total payables to the IMF	75 088	79 692

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. The agreement expired on 31 December 2020, therefore the credit facility amounts to EUR 0 million, i.e. CZK 0 million (31 December 2019: EUR 1,500 million, i.e. CZK 38,115 million). The loan collateral is disclosed in Note 3.17 and the subsequent relationship development in Note 3.21.

3.3. RECEIVABLES FROM ABROAD INCLUDING SECURITIES

CZK million	2020	2019
Deposits at foreign banks and financial institutions	1 125 656	1 335 973
Current account balances	1 010 963	1 075 196
Deposits	114 693	260 777
Securities	2 342 561	1 988 495
Zero-coupon bonds	143 920	112 435
Government	113 059	106 437
Other	30 861	5 998
Coupon bonds	1 686 566	1 525 614
Government	1 250 054	1 180 944
Other	436 512	344 670
MBS	43 540	11 324
Shares	468 535	339 122
MSCI euro (in EUR)	240 027	207 194
of which financial institutions	35 579	37 479
S&P 500 (in USD)	112 406	68 537
of which financial institutions	11 770	8 887
FTSE 100 (in GBP)	20 446	9 767
of which financial institutions	3 772	1 978
Nikkei 225 (in JPY)	26 603	14 474
of which financial institutions	527	341
S&P TSX (in CAD)	44 088	25 430
of which financial institutions	13 650	8 331
S&P ASX 200 (in AUD)	24 965	13 720
of which financial institutions	6 933	4 093
Other receivables from abroad	47 187	31 746
Funds from reverse repo transactions	46 636	31 546
Foreign currencies	551	200
Receivables from abroad including securities	3 515 404	3 356 214

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. In terms of utilisation, the Bank divides foreign currency reserves into a liquidity tranche, which comprised 35.6% of the foreign currency reserves at the end of 2020, and an investment tranche, which comprised 64.4% of the foreign currency reserves.

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 46,024 million as at 31 December 2020 (31 December 2019: CZK 31,404 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 5,362 million (31 December 2019: CZK 2,711 million) provided based on the framework agreements on derivatives transactions (ISDA Master Agreement, ISDA Credit Support Annex).

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. During 2020, there was a change in the measurement of gold at market value. The change is reflected in 'Additions' in the table below. Other tangible assets include the collection of coins and medals made of precious metals in the amount of CZK 316 million as at 31 December 2020 (31 December 2019: CZK 20 million).

CZK million	Land	Buildings	Machinery, furniture and fittings and other tangible assets	Acquisition of assets and prepayments made	Total
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
Net book value at 31 December 2019	164	2 577	155	58	2 954
Additions	0	22	417	170	609
Disposals	0	0	159	165	324
Depreciation	0	174	-100	0	74
Net book value at 31 December 2020	164	2 425	513	63	3 165
Cost at 31 December 2020	164	6 968	3 036	63	10 231
Accumulated depreciation at 31 December 2020	0	4 543	2 523	0	7 066

CZK million	Software	Other intangible assets	Acquisition of intangible assets and prepayments made	Total
Cost at 31 December 2019	926	21	0	947
Accumulated amortisation at 31 December 2019	770	13	0	783
Net book value at 31 December 2019	156	8	0	164
Additions	81	1	82	165
Disposals	21	0	81	102
Amortisation	47	3	0	50
Net book value at 31 December 2020	169	6	1	176
Cost at 31 December 2020	986	22	1	1 009
Accumulated amortisation at 31 December 2020	817	16	0	833

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

CZK million	2020	2019
Bonds		
Collateral for transactions concluded with the counterparty (refer to Note 3.8.)	530	340
Automated lending scheme	612 963	745 638
Shares		
Lending scheme	15 214	13 486
Collateral in the form of other assets (refer to Note 3.17.)	16 101	14 476

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 2020 and 2019, no transactions were concluded; and
- Securities (collateral switch) – as at 31 December 2020 and 2019, no transactions were concluded.

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 2020 amounts to 1.8794% totalling EUR 7.6 million (as at 31 December 2019 it amounted to 1.6075% totalling EUR 6.6 million). The share was calculated in line with Article 29 of the Statute using the population number and gross domestic product.

CZK million	2020	2019
Other financial assets	4 920	4 633
Share in the ECB	200	167
BIS and SWIFT shares	4 720	4 466
Receivables from former banks	0	0
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
Other	2 554	2 256
Deferred expenses	31	20
Other precious metals	8	19
Positive fair value of interest rate swaps (refer to Note 3.17.)	19	90
Positive fair value of currency forwards (refer to Note 3.17.)	100	794
Margin account including profit/(loss) from change in fair value of futures (refer to Note 3.17.)	1 597	646
Loans to employees	264	231
Other operating receivables	545	466
Specific provisions against other operating receivables (refer to Note 3.12.)	-10	-10
Other assets	7 474	6 889

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	
	2020	2019	2020	2019
Notes in circulation	523	489	690 885	624 240
CZK 5,000	34	32	170 207	159 344
CZK 2,000	164	141	327 723	281 894
CZK 1,000	152	141	151 583	141 139
CZK 500	44	45	21 987	22 384
CZK 200	64	65	12 877	12 920
CZK 100	65	65	6 505	6 557
Commemorative notes	0	0	2	2

	million pieces		CZK million	
	2020	2019	2020	2019
Coins in circulation	2 134	2 064	21 001	20 127
CZK 50	157	149	7 852	7 441
CZK 20	232	223	4 637	4 466
CZK 10	255	250	2 548	2 498
CZK 5	303	293	1 516	1 466
CZK 2	542	521	1 085	1 041
CZK 1	642	625	642	625
Commemorative coins	3	3	2 721	2 590
Notes and coins in circulation	2 657	2 553	711 886	644 367

3.8. LIABILITIES ABROAD

CZK million	2020	2019
Funds from repo transactions	9 280	24 883
Other liabilities abroad	134 559	113 912
Liabilities abroad	143 839	138 795

As of 31 December 2020, collaterals were provided as part of repo transactions and derivative transactions in the form of debt securities totalling CZK 530 million (31 December 2019: CZK 340 million) (refer to Note 3.3.).

In addition, foreign banks made deposits amounting to CZK 134,228 million (31 December 2019: CZK 113,217 million) and provided collaterals in the form of cash deposits of CZK 308 million (31 December 2019: CZK 695 million) in accordance with master agreements on derivative transactions (ISDA Master Agreement, ISDA Credit Support Annex).

3.9. PAYABLES TO DOMESTIC BANKS

CZK million	2020	2019
Loans received - repo transactions	2 147 836	2 255 227
Domestic bank reserves	72 464	43 240
Payment system accounts	66 004	35 369
Balances on cash withdrawal and deposit accounts	6 452	7 863
Special MMR accounts	8	8
Other liabilities to domestic banks	62 920	109 870
Short-term deposits received	62 910	109 797
Other liabilities	10	73
Liabilities to domestic banks	2 283 220	2 408 337

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 2,109,275 million as at 31 December 2020 (as at 31 December 2019: CZK 2,239,277 million).

For more information refer to Note 2.8 of Accounting Policies.

3.10. PAYABLES TO THE STATE AND OTHER PUBLIC INSTITUTIONS

CZK million	2020	2019
CZK funds	420 757	289 591
Single Treasury Account and other state funds in CZK (refer to Note 2.14.)	370 389	244 657
Other deposits in CZK	50 368	44 934
Foreign currency funds	1 992	2 093
Single Treasury Account in EUR	128	106
Other deposits in foreign currencies	1 864	1 987
State and public institution deposits	422 749	291 684

3.11. OTHER LIABILITIES

CZK million	2020	2019
Negative fair value of foreign currency forwards (refer to Note 3.17.)	1 337	93
Negative fair value of interest rate swaps (refer to Note 3.17.)	4 709	1 702
Payables to the European Commission	5 582	6 224
Employee accounts	2 233	2 035
Other payables	1 071	757
Other liabilities	14 932	10 811

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

Other liabilities totalling CZK 1,071 million include liabilities of CZK 100 million owing to social security and health insurance premiums as at 31 December 2020 (2019: CZK 95 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 2019	Additions	Write-offs	Release	31 Dec 2019	Additions	Write-offs	Release	31 Dec 2020
Specific provisions	1 376	0	0	-8	1 368	0	0	0	1 368
Classified loans of former banks (refer to Note 3.6.)	1 358	0	0	0	1 358	0	0	0	1 358
Other operating receivables (refer to Note 3.6.)	18	0	0	-8	10	0	0	0	10

CZK million	1 Jan 2019	Additions	Release	FX differences	31 Dec 2019	Additions	Release	FX differences	31 Dec 2020
Provisions	258	0	-257	-1	0	0	0	0	0
Guarantees for clients (refer to Note 3.17)	258	0	-257	-1	0	0	0	0	0

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 2019	3 893	1 400	0	-188 905	1 790	-181 822
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 for 2019	0	0	0	0	57 898	57 898
Balance as at 31 December 2019	4 029	1 400	0	-187 115	57 898	-123 788
Profit distribution for 2019	0	0	0	57 898	-57 898	0
Revaluation reserve not included in profit	260	0	0	0	0	260
Profit/loss for 2020	0	0	0	0	91 682	91 682
Balance as at 31 December 2020	4 289	1 400	0	-129 217	91 682	-31 846

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. In 2019, 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	2020	2019
Interest income and similar income	19 435	24 004
Interest on securities	18 774	22 276
Interest on zero-coupon bonds	143	65
Interest on coupon bonds	17 749	22 155
Interest on MBS	882	56
Other interest income	661	1 728
Interest on inter-bank deposits	658	1 726
Interest on employees loans	3	2
Interest expense and similar expense	32 658	61 391
Interest on liabilities to banks	32 625	61 313
Interest on liabilities to employees and other clients	33	78
Net interest income	-13 223	-37 387

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	2020	2019
Foreign exchange gains or losses and foreign exchange spread	19 281	-2 443
Foreign exchange gains/losses	18 222	-3 341
Foreign exchange spread	1 059	898
Other	79 615	90 155
Gains/losses from revaluation and sale of bonds	54 033	31 675
Gains/losses from revaluation and sale of MBS	172	-16
Gains/losses from revaluation and sale of shares	27 691	59 044
Net gains/(losses) from currency forwards	1 443	1 708
Net gains/(losses) from interest rate futures	-169	-120
Net gains/(losses) from interest rate swaps	-3 878	-2 640
Net gains/(losses) from share futures	323	504
Gains/losses from financial operations	98 896	87 712

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.

3.16. OTHER EXPENSES

CZK million	2020	2019
Personnel costs	1 903	1 793
Salaries	1 325	1 242
Social security and health insurance	443	414
Cost of personnel training	6	14
Employee benefits	129	123
Other administrative expense	337	384
Rental	4	4
Other	333	380
Total administration expenses	2 240	2 177

As at 31 December 2020, the average recalculated headcount including the Bank Board amounted to 1,454 employees (as at 31 December 2019: 1,439 employees).

3.17. OFF-BALANCE SHEET ITEMS

GUARANTEES

CZK million	2020	2019
Issued guarantees	804	804
To clients (refer to Note 3.12.)	0	0
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
Guarantees received	0	38 115
State guarantee to secure the loan to the IMF	0	38 115

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 valid until 31 December 2020, 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	2020	2019
Repo transactions	46 024	31 404
Automated lending scheme (securities lending) (refer to Note 3.3.)	16 101	14 476
Derivatives and additional collateral	156	623
Swap transactions	13 341	2 703
Collateral received	75 622	49 206

SPOT TRANSACTIONS AND FINANCIAL DERIVATIVES

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

CZK million	2020	2019
Off-balance sheet receivables	529 014	588 328
from currency forward transactions	361 676	462 907
from interest rate swap transactions	35 075	37 098
from interest rate futures transactions	11 459	629
from share futures transactions	3 708	2 395
from unsettled interest rate spot transactions	72 957	70 334
from unsettled currency spot transactions	26 279	7 320
from interest forward transactions	17 860	7 645
Off-balance sheet payables	530 180	587 618
from currency forward transactions	362 831	462 212
from interest rate swap transactions	35 075	37 098
from interest rate futures transactions	11 460	629
from share futures transactions	3 708	2 395
from unsettled interest rate spot transactions	72 957	70 334
from unsettled currency spot transactions	26 289	7 305
from interest forward transactions	17 860	7 645

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

CZK million	2020	2019
Off-balance sheet receivables from forward transactions	361 676	462 907
Off-balance sheet payables from forward transactions	362 831	462 212
Positive fair value (refer to Note 3.6.)	100	794
Negative fair value (refer to Note 3.11.)	1 337	93

All currency forwards will mature in 2021.

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.).

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

CZK million	2020	2019
Off-balance sheet receivables from interest rate swap transactions	35 075	37 098
Off-balance sheet payables from interest rate swap transactions	35 075	37 098
Positive fair value (refer to Note 3.6.)	19	90
Negative fair value (refer to Note 3.11.)	4 709	1 702

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	2020	2019
Off-balance sheet receivables from interest rate futures transactions	11 459	629
Off-balance sheet payables from interest rate futures transactions	11 460	629
Net gain/(loss) from change in fair values of interest rate futures transactions for the reporting period (refer to Note 3.15.)	-169	-120
Off-balance sheet receivables from share futures transactions	3 708	2 395
Off-balance sheet payables from share futures transactions	3 708	2 395
Net gain/(loss) from change in fair values of futures transactions for the reporting period (refer to Note 3.15.)	323	504
Net gain/(loss) from change in fair values of futures transactions for the reporting period	154	384
Cash on margin account	1 442	262
Margin account including settled change in fair value of interest rate futures transactions (refer to Note 3.6.)	1 597	646

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 2020 and 2019.

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.

LIQUIDITY RISK

CZK million		Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Unspecified	Total
Gold	2020	0	0	0	0	0	12 247	12 247
	2019	0	0	0	0	0	493	493
Receivables from the IMF	2020	0	0	0	0	0	81 402	81 402
	2019	0	0	0	0	0	83 184	83 184
Zero-coupon bonds	2020	25 700	61 699	36 144	20 377	0	0	143 920
	2019	32 846	36 979	11 342	30 227	1 041	0	112 435
Coupon bonds	2020	2 859	23 929	100 931	999 785	559 062	0	1 686 566
	2019	7 328	9 215	93 047	905 413	510 611	0	1 525 614
MBS	2020	4 288	1 208	385	160	37 499	0	43 540
	2019	396	0	0	0	10 928	0	11 324
Shares	2020	0	0	0	0	0	468 535	468 535
	2019	0	0	0	0	0	339 122	339 122
Deposits, loans and other receivables from abroad	2020	1 172 843	0	0	0	0	0	1 172 843
	2019	1 367 719	0	0	0	0	0	1 367 719
Receivables from domestic banks	2020	0	0	0	0	0	0	0
	2019	0	0	0	0	0	0	0
Tangible and intangible assets	2020	0	0	0	0	0	3 341	3 341
	2019	0	0	0	0	0	3 118	3 118
Other assets	2020	2 260	0	31	36	227	4 920	7 474
	2019	2 006	0	20	38	191	4 634	6 889
Total assets	2020	1 207 950	86 836	137 491	1 020 358	596 788	570 445	3 619 868
	2019	1 410 295	46 194	104 409	935 678	522 771	430 551	3 449 898
Notes and coins in circulation	2020	0	0	0	0	0	711 886	711 886
	2019	0	0	0	0	0	644 367	644 367
Liabilities to the IMF	2020	0	0	0	0	0	75 088	75 088
	2019	0	0	0	0	0	79 692	79 692
Liabilities abroad	2020	143 763	0	76	0	0	0	143 839
	2019	138 719	0	76	0	0	0	138 795
Liabilities to domestic banks	2020	2 283 220	0	0	0	0	0	2 283 220
	2019	2 408 337	0	0	0	0	0	2 408 337
Liabilities to the state	2020	422 749	0	0	0	0	0	422 749
	2019	291 684	0	0	0	0	0	291 684
Other liabilities	2020	14 932	0	0	0	0	0	14 932
	2019	10 811	0	0	0	0	0	10 811
Provisions	2020	0	0	0	0	0	0	0
	2019	0	0	0	0	0	0	0
Equity	2020	0	0	0	0	0	-31 846	-31 846
	2019	0	0	0	0	0	-123 788	-123 788
Total liabilities	2020	2 864 664	0	76	0	0	755 128	3 619 868
	2019	2 849 551	0	76	0	0	600 271	3 449 898
Net liquidity gap	2020	-1 656 714	86 836	137 415	1 020 358	596 788	-184 683	0
	2019	-1 439 256	46 194	104 333	935 678	522 771	-169 720	0

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	2020	0	0	0	0	0	12 247	12 247
	2019	0	0	0	0	0	493	493
Receivables from the IMF	2020	0	0	0	0	0	81 402	81 402
	2019	0	0	0	0	0	83 184	83 184
Zero-coupon bonds	2020	25 700	61 699	36 144	20 377	0	0	143 920
	2019	32 846	36 979	11 342	30 227	1 041	0	112 435
Coupon bonds	2020	17 668	39 534	127 732	949 060	552 572	0	1 686 566
	2019	27 793	30 546	92 061	869 735	505 479	0	1 525 614
MBS	2020	4 288	1 208	385	160	37 499	0	43 540
	2019	395	0	0	0	10 929	0	11 324
Shares	2020	0	0	0	0	0	468 535	468 535
	2019	0	0	0	0	0	339 122	339 122
Deposits, loans and other receivables from abroad	2020	1 172 843	0	0	0	0	0	1 172 843
	2019	1 367 719	0	0	0	0	0	1 367 719
Receivables from domestic banks	2020	0	0	0	0	0	0	0
	2019	0	0	0	0	0	0	0
Tangible and intangible assets	2020	0	0	0	0	0	3 341	3 341
	2019	0	0	0	0	0	3 118	3 118
Other assets	2020	2 291	0	0	36	227	4 920	7 474
	2019	2 026	0	0	38	191	4 634	6 889
Total assets	2020	1 222 790	102 441	164 261	969 633	590 298	570 445	3 619 868
	2019	1 430 779	67 525	103 403	900 000	517 640	430 551	3 449 898
Notes and coins in circulation	2020	0	0	0	0	0	711 886	711 886
	2019	0	0	0	0	0	644 367	644 367
Liabilities to the IMF	2020	0	0	0	0	0	75 088	75 088
	2019	0	0	0	0	0	79 692	79 692
Liabilities abroad	2020	143 839	0	0	0	0	0	143 839
	2019	138 795	0	0	0	0	0	138 795
Liabilities to domestic banks	2020	2 283 220	0	0	0	0	0	2 283 220
	2019	2 408 337	0	0	0	0	0	2 408 337
Liabilities to the state	2020	422 749	0	0	0	0	0	422 749
	2019	291 684	0	0	0	0	0	291 684
Other liabilities	2020	14 932	0	0	0	0	0	14 932
	2019	10 811	0	0	0	0	0	10 811
Provisions	2020	0	0	0	0	0	0	0
	2019	0	0	0	0	0	0	0
Equity	2020	0	0	0	0	0	-31 846	-31 846
	2019	0	0	0	0	0	-123 788	-123 788
Total liabilities	2020	2 864 740	0	0	0	0	755 128	3 619 868
	2019	2 849 627	0	0	0	0	600 271	3 449 898
Net interest sensitivity gap	2020	-1 641 950	102 441	164 261	969 633	590 298	-184 683	0
	2019	-1 418 848	67 525	103 403	900 000	517 640	-169 720	0

CURRENCY RISK

CZK million		CZK	EUR	USD	JPY	GBP	CAD	AUD	SEK	Other	Total
Gold	2020	0	0	0	0	0	0	0	0	12 247	12 247
	2019	0	0	0	0	0	0	0	0	493	493
Receivables from the IMF	2020	51 056	0	0	0	0	0	0	0	30 346	81 402
	2019	55 287	0	0	0	0	0	0	0	27 897	83 184
Zero-coupon bonds	2020	0	101 552	0	42 368	0	0	0	0	0	143 920
	2019	0	44 042	5 998	54 462	0	0	0	279	7 654	112 435
Coupon bonds	2020	0	734 845	528 772	0	89 136	183 851	104 427	34 108	11 427	1 686 566
	2019	0	563 715	624 363	0	0	207 546	106 589	22 955	446	1 525 614
MBS	2020	0	0	43 540	0	0	0	0	0	0	43 540
	2019	0	0	11 324	0	0	0	0	0	0	11 324
Shares	2020	0	240 027	112 406	26 603	20 446	44 088	24 965	0	0	468 535
	2019	0	207 194	68 537	14 474	9 767	25 430	13 720	0	0	339 122
Deposits, loans and other receivables from abroad	2020	0	953 493	42 058	62 562	1 370	114	210	3 695	109 341	1 172 843
	2019	0	1 106 684	77 311	62 652	210	99	191	15 143	105 429	1 367 719
Receivables from domestic banks	2020	0	0	0	0	0	0	0	0	0	0
	2019	0	0	0	0	0	0	0	0	0	0
Tangible and intangible assets	2020	3 024	0	0	0	0	0	0	0	317	3 341
	2019	3 097	0	0	0	0	0	0	0	21	3 118
Other assets	2020	472	1 409	308	215	109	142	93	0	4 726	7 474
	2019	1 153	710	286	66	63	68	59	0	4 484	6 889
Total assets	2020	54 552	2 031 326	727 084	131 748	111 061	228 195	129 695	37 803	168 404	3 619 868
	2019	59 537	1 922 345	787 819	131 654	10 040	233 143	120 559	38 377	146 424	3 449 898
Notes and coins in circulation	2020	711 886	0	0	0	0	0	0	0	0	711 886
	2019	644 367	0	0	0	0	0	0	0	0	644 367
Liabilities to the IMF	2020	51 056	0	0	0	0	0	0	0	24 032	75 088
	2019	55 287	0	0	0	0	0	0	0	24 405	79 692
Liabilities abroad	2020	134 251	129	9 459	0	0	0	0	0	0	143 839
	2019	113 217	531	8 107	0	0	13 553	0	3 387	0	138 795
Liabilities to domestic banks	2020	2 283 220	0	0	0	0	0	0	0	0	2 283 220
	2019	2 408 337	0	0	0	0	0	0	0	0	2 408 337
Liabilities to the state	2020	420 757	128	1 863	0	1	0	0	0	0	422 749
	2019	289 591	106	1 986	0	1	0	0	0	0	291 684
Other liabilities	2020	9 741	462	4 728	0	1	0	0	0	0	14 932
	2019	8 559	530	1 720	0	1	0	0	0	1	10 811
Provisions	2020	0	0	0	0	0	0	0	0	0	0
	2019	0	0	0	0	0	0	0	0	0	0
Equity	2020	-36 211	0	0	0	0	0	0	0	4 365	-31 846
	2019	-127 894	0	0	0	0	0	0	0	4 106	-123 788
Total liabilities	2020	3 574 700	719	16 050	0	2	0	0	0	28 397	3 619 868
	2019	3 391 464	1 167	11 813	0	2	13 553	0	3 387	28 512	3 449 898
Net assets/liabilities (-)	2020	-3 520 148	2 030 607	711 034	131 748	111 059	228 195	129 695	37 803	140 007	0
	2019	-3 331 927	1 921 178	776 006	131 654	10 038	219 590	120 559	34 990	117 912	0
Net off-balance sheet assets	2020	71	132 888	307 671	84 813	236	1 239	2 096	0	0	529 014
	2019	0	116 249	271 901	97 014	95 510	7 460	194	0	0	588 328
Net off-balance sheet liabilities	2020	-71	-146 103	-168 935	-105 145	-237	-228	-291	0	-109 170	-530 180
	2019	0	-106 394	-233 189	-126 748	-267	-7 463	-194	0	-113 363	-587 618
Net foreign exchange position	2020	-3 520 148	2 017 392	849 770	111 416	111 058	229 206	131 500	37 803	30 837	-1 166
	2019	-3 331 927	1 931 033	814 718	101 920	105 281	219 587	120 559	34 990	4 549	710

CREDIT RISK AND CONCENTRATION OF LIABILITIES

ASSETS

CZK million	2020	2019
Czech Republic	9 244	5 083
Germany	973 787	950 964
France	257 673	288 298
Netherlands	129 012	122 870
Austria	31 592	8 713
Slovakia	546 395	546 366
Luxembourg	17 838	22 104
Spain	19 964	19 104
Other Eurozone countries	91 914	53 452
Switzerland	116 231	115 418
Sweden	48 343	46 130
Denmark	4 873	8 101
United Kingdom	143 110	43 695
Norway	22 821	12 634
Other European countries	260	40
USA	712 772	735 912
Canada	257 381	245 595
Australia	88 856	93 657
Japan	131 205	131 336
Other countries	16 597	426
Geographical concentration of assets	3 619 868	3 449 898
Of which deposits and bonds:		
Central governments and central banks	2 479 798	2 595 934
Government agencies	386 053	303 899
Commercial banks	31 574	4 485
BIS	0	22 900
Securities secured with other assets	79 821	45 396
Total deposits and bonds	2 977 246	2 972 614

LIABILITIES

Czech Republic	3 395 359	3 225 187
USA	75 303	79 813
Eurozone countries	93 889	119 152
Other European countries	31 488	25 532
Other countries	23 829	214
Geographical concentration of liabilities	3 619 868	3 449 898

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 2020 these costs amounted to CZK 0.1 million (2019: 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 activities the CNB conducted 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 standard conditions same as loans to other employees of the Bank.

3.21. SUBSEQUENT EVENTS

On 1 January 2021, a new bilateral agreement with the IMF came into force, replacing the agreement in force between 12 September 2018 and 31 December 2020. A new credit facility of EUR 646 million was determined (EUR 1,500 million in the previous agreement). The new agreement is not secured by a state guarantee. 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 2020.

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 2020, 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 2020, 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.

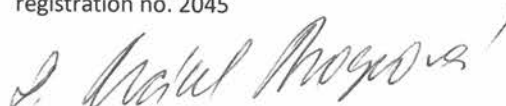
In Prague on 19 March 2021

Audit firm:

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

Statutory auditor:

Diana Rádl Rogerová
registration no. 2045



Abbreviations

ABO	Automated Banking Operations
AnaCredit	Analytical Credit Datasets
BankID	bank identity
BCBS	Basel Committee on Banking Supervision
BCG	Basel Consultative Group
BIS	Bank for International Settlements
BRRD	Bank Recovery and Resolution Directive
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
CZSO	Czech Statistical Office
DSTI	debt service-to-income
DTI	debt-to-income
EBA	European Banking Authority
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
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
FSB	Financial Stability Board
FSI	Financial Stability Institute
FTSE 100	benchmark index for the UK stock market
GDP	gross domestic product
IAIS	International Association of Insurance Supervisors
IFD	Investment Firm Directive
IFR	Investment Firm Regulation
IMF	International Monetary Fund

IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commissions
LTV	loan-to-value
MBS	Mortgage Backed Securities
MiFID II	Markets in Financial Instruments Directive
MREL	minimum requirement for own funds and eligible liabilities
MSCI Euro	benchmark index for the European stock market
MtS	the CNB's information system for data collection
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
PRIBOR	Prague Interbank Offered Rate
PSE	Prague Stock Exchange
RCGE	FSB Regional Consultative Group for Europe
REGIS	information system for registration and licensing activities
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
SIPRES	information system for the collection of regulated entities' reporting duties
SKD	Short-Term Bond System
SMEs	small and medium-sized enterprises
Solvency II	Directive on Insurance and Reinsurance
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
USD	US dollar

Country abbreviations

BG	Bulgaria	LT	Lithuania
CZ	Czech Republic	LU	Luxembourg
DE	Germany	NO	Norway
DK	Denmark	SE	Sweden
FR	France	SK	Slovakia
IE	Ireland	UK	United Kingdom
IS	Iceland		

Issued by:
CZECH NATIONAL BANK
Na Příkopě 28
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ISBN 978-80-88424-00-0