FINANCIAL MARKET SUPERVISION REPORT

2009

CZECH NATIONAL BANK

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The Czech National Bank has issued a Financial Market Supervision Report each year since 2006[1], when on the basis of amendment to Act No. 6/1993 Coll., on the Czech National Bank, a new legal obligation was imposed on the CNB to compile such a report for each past calendar year and to submit it for information to the Chamber of Deputies, the Senate and the Government by 30 June of the following year.

In accordance with the Act on the Czech National Bank, the draft report was submitted to the Financial Market Committee, which exercised its right to append its opinion to the report.

The Financial Market Supervision Report 2009 consists of two parts. Part A gives information on the direct conduct of financial market supervision, on changes in the legislation regulating the financial market, on the introduction of new methods for enhancing the stability and transparency of the financial market, on the entities operating in the Czech financial market, on licensing and enforcement procedures and on international cooperation in the supervisory area. Part B describes developments in the individual segments of the financial market, i.e. credit institutions, the insurance sector and the capital market, in the given year.

The Financial Market Supervision Report is also intended to inform the public about the CNB's activities in the field of supervision of the domestic financial market and about the situation and trends in the Czech financial market in 2009. Like the individual Financial Market Supervision Reports for 2006–2008, the Financial Market Supervision Report for 2009 will be published on the CNB website along with other information about the financial market.

The report was discussed and approved by the CNB Bank Board on 10 June 2010.

1 The Financial Market Supervision Reports for 2006–2008 are published on the CNB website at http://www.cnb.cz – *Financial Market Supervision – Aggregate Information on the Financial Sector – Financial Market Supervision Reports.*

FINANCIAL MARKET COMMITTEE

The Financial Market Committee (the Committee) was established on the basis of Act No. 57/2006 Coll., under which financial market supervision in the Czech Republic was integrated into the Czech National Bank (the CNB),[2] as an advisory body to the CNB Bank Board for financial market supervision. The Committee debates matters of a conceptual nature relating to financial market regulation and supervision and also provides its opinion on significant financial sector trends having a regulatory aspect. However, the Committee does not deal with matters concerning specific financial market entities.

The composition of the Committee in 2009 was as follows:

– Tomáš Síkora, Chairman (elected on 17 June 2009, when he replaced Jiří Rusnok, whose mandate had expired),
– Radek Urban, Vice-Chairman (defended his mandate for a further term of office),
– Václav Tomek (mandate to expire in February 2010; all three members were elected by the Budget Committee of the Chamber of Deputies from candidates proposed by financial market professional organisations),
– František Klufa, Financial Arbitrator of the Czech Republic,
– Klára Hájková, Deputy Finance Minister, and Daniel Drahotský, Executive Director of the Financial Market Analysis Department (replaced Jiří Król on 1 October 2009),
– Miroslav Singer, Vice-Governor of the CNB.

The members of the Committee perform their duties in person and without remuneration.

Given its composition, encompassing representatives of both the private and public sectors, the Committee is an independent forum that provides the CNB with feedback, opinions, recommendations and suggestions on matters associated with the CNB's function as the domestic financial market supervisory authority. The Committee's staffing and remit also mean that it in fact also acts in an advisory capacity to the Ministry of Finance as the central government authority for the financial market, particularly in terms of the configuration and form of future legislation governing business and supervision in this area.

In practice, detailed minutes are prepared after each Committee meeting, containing a written record of the discussion, the opinions of the individual members of the Committee and the conclusions approved by the Committee. After being approved, these minutes are passed on to the CNB Bank Board for information. To make the Committee's activities transparent, a record is also made of the main items on the agenda and the conclusions of the debate. After approval, this record is published on the CNB website (in Czech only: http://www.cnb.cz – *Financial Market Supervision – Financial Market Committee*). The Committee members can, at their discretion, consult financial market professional associations on most of the documents under discussion.

By law, the Committee should meet at least twice a year. In 2009, it met three times: on 17 March, 2 September and 15 December. Between its meetings, the Committee deals with operational and routine matters in compliance with its Rules of Procedure by electronic communication.

The Committee is regularly (twice a year) informed by the CNB of the main financial market supervisory activities (pursuant to Article 45c(3) of the Act on the Czech National Bank) and also issues its opinion on the Financial Market Supervision Report.

The Committee also discussed the proposals approved by the Government for the preparation of a new act on private pension insurance, which defines one of the key items of the second stage of the pension reform. When evaluating the draft, the Committee members emphasised that intelligibility and clarity for all system participants (i.e. clients, providers, the state) should be one of the core aspects of the new act.

2 The position of the Financial Market Committee is governed by Articles 45a–45d of Act No. 6/1993 Coll., on the Czech National Bank, as amended by Act No. 57/2006 Coll.

Also in 2009 the CNB's management informed the FMC regularly and in detail about the current situation in the Czech financial market in the context of the financial crisis and about measures taken in the financial market supervision area. In this regard, the Committee also discussed the changes in the structure of regulation and supervision of the European financial sector and their implications for the domestic financial market.

Promotion of financial literacy and consumer protection are other significant topics addressed by the Committee on a regular basis. In this context, a Consumer Protection Department has been operating within the CNB since September 2008. This issue also covers the activities of the office of the Financial Arbitrator of the Czech Republic. The Committee was informed about the activities of both the above institutions in 2009.

The Committee members were also informed several times about the activities of the Ministry of Finance's working group dealing with the unification of rules for the distribution of products on the financial market.

Over its more than three years of life, the Financial Market Committee has become a respected forum used not only by the CNB, which it officially comes under, but also by the Ministry of Finance, which is responsible for financial market legislation, as well as by market representatives themselves for informal discussion of topical issues related to the regulation and development of the Czech financial market.

OPINION OF THE FINANCIAL MARKET COMMITTEE ON THE CNB'S FINANCIAL MARKET SUPERVISION REPORT FOR 2009

The Financial Market Committee has a statutory duty to discuss the CNB's annual Financial Market Supervision Report before it is approved by the CNB Bank Board and submitted to the Chamber of Deputies, the Senate and the Government for information. The Committee members discussed the report *per rollam* in two parts and none of them exercised the right to convene a Committee meeting on this report. The Committee is entitled by law to attach its opinion to the report.

The Committee members studied in detail the financial sector's performance last year. The Committee stated that the sector had been affected by the global financial and economic crisis, but that the situation on the domestic market was relatively stable compared to other European markets. A recovery on both the stock and bond markets during 2009 had led to an improvement in the economic performance of pension funds and banks compared to the previous year, but there had been a decline in growth in the insurance sector and the entities operating in the capital market had shown mixed results. Banks had recorded a marked increase in business in the area of lending to individuals.

The Financial Market Committee, being aware that the final version of the Financial Market Supervision Report for 2009 must also be approved by the CNB Bank Board, acknowledges this draft report and has no reservations about its content.

On behalf of the Financial Market Committee:

Tomáš Síkora,
Chairman

PART A
FINANCIAL MARKET SUPERVISION IN 2009

SUMMARY

Part A of the Financial Market Supervision Report for 2009 deals with the CNB's activities relating to its function as the financial market supervisory and regulatory authority in the Czech Republic.

The introductory section briefly summarises the CNB's role as the integrated regulatory and supervisory authority in the Czech Republic and defines the set of entities subject to its supervision.

The key information is contained in sections 2 and 4, which summarise the legislative changes made in the financial market supervision area in 2009 and describe the supervisory authority's work in the individual sectors of the financial market. Most of the changes to the legislation related to the transposition of European directives governing this area. Changes were made, for example, to the Act on Banks, the Insurance Act, the Act on Private Pension Insurance, the Payment System Act, the Capital Market Undertakings Act, the Act on Credit Unions and the Act on Collective Investment. In connection with the changes to primary legislation the CNB prepared a number of decrees, provisions, official information documents and explanatory opinions relating to the individual sectors of the financial market. A detailed overview of these documents is provided in section 2.

Off-site surveillance consisted in continuously monitoring the activity and financial performance of the individual entities operating in the financial market, checking compliance with the relevant legal rules, compliance with prudential rules and regular assessment of the financial condition of individual regulated entities. Owing to the global financial crisis, off-site surveillance in 2009 continued to involve more intensive monitoring of the potential impacts on the financial performance of domestic financial institutions. Risk exposure was relatively low and its impacts on liquidity were minimal. Given the financial market situation, the frequency of extraordinary reporting was gradually decreased.

On-site inspections, which are aimed at checking compliance by supervised institutions with the rules laid down in legal and implementing regulations, were in 2009 based on an annual inspection plan drawn up with regard to the significance and risk levels of individual institutions, the latest developments in global financial markets and the time elapsed since the last examination.

In some cases, remedial measures or penalties are imposed on supervised institutions if shortcomings are detected in their activities. A summary of the enforcement proceedings, in which the CNB imposed fines totalling CZK 18 million in 2009, and of other administrative proceedings conducted by the CNB is provided in section 4, which focuses on the exercise of supervision.

The remaining sections deal with international cooperation and the CNB's involvement in the work of international authorities and institutions and with the strengthening of the European framework for financial market regulation and supervision. A separate section is devoted to the Central Credit Register administered by the CNB, which enables banks and foreign bank branches operating in the Czech Republic to share information on the credit commitments and payment discipline of their clients.

Within EU structures, engagement in the work of the European Commission's committees and working groups played the most significant role. Also important was the CNB's involvement in the activities of the Lamfalussy Level 3 committees (CEBS, CESR, CEIOPS) and European Central Bank working groups. The CNB was also actively involved in the preparation of changes to the institutional regulatory and supervisory set-up in the EU and in regulatory activities reacting to the financial market crisis in 2008 and 2009.

Part B of the Financial Market Supervision Report deals with developments in the individual sectors of the financial market in the Czech Republic in 2009.

1. THE CNB AS THE INTEGRATED REGULATORY AND SUPERVISORY AUTHORITY

Under its powers as the integrated financial market regulatory and supervisory authority, the Czech National Bank works to ensure the stability of the financial system and the safe and smooth development of the financial market in the Czech Republic.

The CNB performs its role of integrated regulatory and supervisory authority by means of:

- regulatory work, i.e. the setting of prudential rules and rules of conduct towards clients in the form of implementing regulations, which the CNB issues under the relevant laws;
- licensing and authorisation work, particularly the granting of licences in regulated sectors of the financial market;
- supervisory activities, including:
  - off-site surveillance of financial institutions, market conduct and financial market infrastructure, and analyses of the financial market and its sectors,
  - on-site examinations in financial institutions;
- the imposition of remedial measures and penalties where shortcomings are uncovered in the activities of supervised institutions;
- the collection, processing and evaluation of information, which is used to support supervision and to inform the public about the situation and trends in the Czech financial market.

When performing its tasks, the CNB cooperates with authorities supervising the financial markets of other countries and with international financial institutions and organisations engaged in financial market supervision. The CNB also works in close partnership with the Czech Ministry of Finance and with other state authorities to create a single strategy and unified rules applying to financial market regulation and supervision and to address issues relating, for example, to the building of structures of joint EU supervision of financial markets, crisis management and information sharing in both the national and international context.

As part of its activities, the CNB supervises banks, branches of foreign banks, credit unions, electronic money institutions, branches of foreign electronic money institutions, small-scale electronic money issuers, payment institutions, small-scale payment services providers and the sound operation of the banking system. The CNB is also responsible for supervising insurance companies, reinsurance companies, pension funds and other entities operating in the financial market area. It also supervises investment firms, securities issuers, entities keeping a register of investment instruments, management companies, investment funds, settlement system operators and investment instrument market operators.

The CNB has been the integrated supervisor of the Czech financial market since April 2006. The original breakdown of the supervisory departments by financial market sectors was replaced in 2008 by a functional organisational structure consisting of three departments – the Financial Market Regulation and Analyses Department, the Licensing and Enforcement Department and the Financial Market Supervision Department. The new set-up has proved successful even amid the global financial and economic crisis. In 2008, the CNB was also vested with the authority to supervise compliance with the consumer protection rules pursuant to the relevant regulations by entities subject to its supervision (for details see section 5).

The Financial Market Committee, which was established in 2006 as an advisory body to the CNB Bank Board for the financial market supervision area, is regularly informed about the CNB's main activities related to the conduct of financial market supervision.

2. LEGISLATIVE CHANGES IN THE FINANCIAL MARKET SUPERVISION AREA IN 2009

2.1 ASSESSMENT OF THE SITUATION IN FINANCIAL MARKET REGULATION

In 2009, the CNB continued to implement the EU's rapidly changing regulations in the financial market area and to improve the regulatory framework in the Czech Republic. The CNB's activities in this area included working with the Czech Ministry of Finance and other state administration bodies on the preparation of new laws. In addition, the CNB prepared a number of decrees, provisions and official information documents for the individual sectors of the financial market and explanatory opinions on the application of regulatory requirements by financial market participants. Within the working committees and their working groups operating within EU structures it was involved in the creation of EU regulatory measures for the financial market.

Numerous foreign supervisory authorities had to deal with problems in banks during the financial crisis. Although the Czech banking sector was not seriously hit by the financial crisis, the CNB was involved in the preparation of an amendment to the Act on Banks containing new instruments for addressing any future negative developments. The new Insurance Act was also very important as regards the CNB's activities as a supervisory authority. The principal changes to the regulations in 2009 with respect to the implementation of European law were an amendment of the legislation and related implementing regulations connected with the transposition of Directives 2004/109/EC (on transparency), 2007/44/EC (on qualifying holdings) and 2007/16/EC (on eligible assets of standard funds) and a new Payment System Act transposing Directive 2007/64/EC (on payment services in the internal market).

2.2 CHANGES TO LAWS

The CNB works in close cooperation with the Czech Ministry of Finance, which has primary responsibility for preparing laws in the financial market area. It thus acts in accordance with the agreement on cooperation in the preparation of draft national legislation concerning the financial market and other regulations concluded between the CNB and the Ministry of Finance in May 2006.

Several acts amending and regulating the business activities of financial institutions and other entities subject to regulation and supervision were adopted in 2009 with the active involvement of the CNB.

Act on Banks

On 4 September 2009, an amendment to the Act on Banks was promulgated in the Collection of Laws which widens the range of regulatory instruments available if one or more banks fall into serious problems. Such situations have to be resolved quickly, transparently and at minimal possible cost in the interests of maintaining stability in the financial market and preserving the banking sector's credibility. A common feature of the revisions is legislative support for the implementation of measures directed at increasing an ailing bank's capital or at transferring its business to a sound institution (such as a "bridge bank" – a special-purpose bank established by the state).

Amendment to the Capital Market Undertakings Act, the Act on Banks and Credit Unions and the Act on Collective Investment

An act amending the Capital Market Undertakings Act, the Act on Banks, the Act on Credit Unions, the Act on Collective Investment and other laws took effect on 1 August 2009. This act was adopted in connection with the transposition of:

- Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (the transparency directive),

- Directive 2007/44/EC amending Directive 92/49/EEC and Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of shareholdings in the financial sector (the qualifying holdings directive),
- Directive 2007/16/EC implementing Directive 85/611/EEC (UCITS) as regards the clarification of certain definitions – a change regarding the definition of financial market products in which standard collective investment funds may invest.

Insurance Act
On 31 August 2009, a new Insurance Act was promulgated in the Collection of Laws with effect from 1 January 2010. Directive 2005/68/EC on reinsurance, regulating in more detail the activities of domestic reinsurance companies, was primarily transposed into the new Act. Other significant changes include more detailed requirements regarding the internal control systems of insurance companies, additions to the list of assets arising from technical provisions, and a requirement for reports to be prepared by responsible actuaries.

An act amending some laws in connection with the adoption of the Insurance Act was promulgated at the same time. This act amends a total of 22 other laws (e.g. the Act on Insurance Agreements, the Act on Vehicle Liability Insurance and the Act on Insurance Intermediaries and Independent Loss Adjusters).

Amendment to the Act on Private Pension Insurance
The main change contained in the amendment to the Act on Private Pension Insurance which took effect on 1 August 2009 is the introduction of basic rules for recruiting new planholders. These require funds to act transparently and with professional care, including disclosure of commissions paid to intermediaries. Another important change is a prohibition of employers influencing employees' choice of fund.

Payment System Act
A new Act No. 284/2009 Coll., the Payment System Act, transposing Directive 2007/64/EC on payment services in the internal market, took effect on 1 November 2009. An accompanying act, also containing amendments to related laws (the Foreign Exchange Act in particular), took effect on the same date. The directive introduces a new category of non-bank payment services providers – payment institutions which are subject to certain regulatory and supervisory requirements. Entities that do not meet the requirements placed on payment institutions will be able to provide payment services to a limited extent under an exemption regime laid down in the payment services directive (small-scale payment services providers). The payment services directive introduces new regulations for private legal relationships as regards service provision (e.g. information duties, authorisation of payment transactions, transaction execution manner and time, and liability).

Amendment to the Commercial Code
An amendment to the Commercial Code transposing Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies took effect on 1 December 2009. The aim of this amendment is to allow the convening of general meetings and voting by electronic means and to facilitate the cross-border exercise of voting rights.

2.3 CNB DECREES AND PROVISIONS

The CNB is entitled to issue implementing legal rules in the form of decrees and provisions. The issuance of an implementing rule requires authorisation which is specified in individual laws.

2.3.1 Decrees

In 2009, the CNB completed legislative work on decrees whose publication was associated with new laws in the financial market area.

In the capital market area, the following decrees relating to the Capital Market Undertakings Act took effect on 1 August 2009:

- ***Decree No. 231/2009 Coll., on the requisites and the manner of keeping of a transactions and orders book of an investment firm and on the principles of keeping records of received and transmitted orders of an investment intermediary,*** which replaced Decree No. 261/2004 Coll.

- ***Amended Decree No. 605/2006 Coll., on certain disclosure duties of an investment firm*** stipulates chiefly the form, manner and frequency of sending order books of investment firms, disclosure of information on organisational structure, entities with qualifying holdings and on the cancellation or revision of some statements.

- ***Decree No. 234/2009 Coll., on protection against market abuse and transparency*** was linked to an amendment of an act transposing the transparency directive and replaced Decree No. 264/2004 Coll. (communication of the annual report of an issuer) and Decree No. 536/2004 Coll. (protection against market abuse).

- ***Decree No. 235/2009 Coll., on investment instruments in which a standard fund may invest*** was linked to an amendment to the act transposing Directive 2007/16/EC implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as regards the clarification of certain definitions (“eligible assets").

- ***Decree No. 233/2009 Coll. on applications, approval of persons and the manner of proving professional qualifications, trustworthiness and experience of persons, and on the minimum amount of funds to be provided by a foreign bank to its branch,*** which replaced several sector-based decrees of the CNB.

In connection with the discontinuation of broker examinations and the stipulation of a general obligation of investment firms to ensure the creditworthiness, expertise and experience of persons assisting them in their activities, the following decree was issued with effect from 1 June 2009:

- ***Decree No. 143/2009 Coll., on the expertise of persons assisting investment firms in their activities,*** stipulating the necessary scope of expertise and experience of such persons, including requirements for proving their expertise and experience.

The following decrees were issued with effect from 1 January 2010 in connection with the adoption of the new act in the insurance area:

- ***Decree No. 433/2009 Coll. on the manner of submitting, form and requisites of the statements of insurance and reinsurance companies,*** laying down details regarding the fulfilment of disclosure duties to the CNB;

- ***Decree No. 434/2009 Coll., implementing certain provisions of the Insurance Act,*** stipulating the requirements for control systems of insurance companies, the form and content of the documents enclosed with licence applications, the calculation of the solvency of insurance and reinsurance companies, financial placement limits, the calculation of the maximum technical interest rate, the form and requisites of reports by responsible actuaries, etc.

Following the adoption of the new Payment System Act and a related amendment to the Foreign Exchange Act, the following decrees were issued:

- ***Decree No. 374/2009 Coll. on the pursuit of business of payment institutions, electronic money institutions, small-scale payment services providers and small-scale electronic money issuers,*** stipulating the essential elements of applications for authorisation and for acquisition of qualifying holdings, requirements regarding internal control systems, capital adequacy rules, the assets in which a payment institution or an electronic money institution may invest, and disclosure requirements.

- ***Decree No. 375/2009 Coll., on reporting by payment institutions, small-scale payment service providers and electronic money institutions to the Czech National Bank,*** laying down details regarding the fulfilment of information duties to the CNB.

- ***Decree No. 376/2009 Coll., on bureau-de-change activity,*** stipulating specimen application forms for registration for bureau-de-change activity and the content of their annexes, the manner of informing customers by foreign exchange entities authorised to carry on bureau-de-change activity, and information duties of bureaux-de-change to the CNB regarding the quantity of foreign currencies bought and sold in cash.

2.3.2 Provisions

The following provisions were published in the CNB Bulletin in 2009:

- ***Provision of the Czech National Bank No. 1 of 24 November 2009 repealing CNB provisions for the area of prudential rules for electronic money institutions;***

- ***Provision of the Czech National Bank No. 2 of 30 November 2009, on reporting by banks and foreign bank branches to the Czech National Bank.***

2.4 OFFICIAL INFORMATION

The CNB issues official information documents containing important facts for financial market participants. These documents are mostly explanatory opinions on legal regulations. The CNB issued the following official information documents in 2009:

- Official information of 13 February 2009 regarding additions to the register of responsible actuaries.

- Official information of 23 March 2009 regarding selected obligations under Act No. 634/1992 Coll. on Consumer Protection, as amended, for foreign exchange entities.

- Official information of 28 April 2009 regarding the obligation of insurance intermediaries and independent loss adjusters to complete further training course.

- Official information of 26 May 2009 regarding certain requirements for the system of internal principles, procedures and control measures against money laundering and financing of terrorism.

- Official information of 16 June 2009 regarding the necessary expertise of persons assisting investment firms and other entities in their activities.

- Official information of 29 June 2009 regarding the payment of contributions to the Investment Firm Guarantee Fund.

- Official information of 18 September 2009 regarding the authorisation of investment firms.

- Official information of 30 September 2009 publishing the list of foreign supervisory authorities and foreign administrative authorities with which the Czech National Bank has signed a memorandum of understanding on financial market supervision.

- Official information of 4 November 2009 regarding certain rules of conduct towards private pension scheme participants and persons interested in entering into a private pension policy.

- Official information of 8 December 2009 regarding the prerequisites for entry on the list of web portals and agencies through which obligatorily disclosed information is disseminated.

- Official information of 18 December 2009 regarding protection against market abuse and transparency.

A full and updated list of the CNB's decrees, provisions and official information relating to the financial market can be found on the CNB website (http://www.cnb.cz – *Financial market supervision – Legislation*).

2.5 REGULATORY CHANGES UNDER PREPARATION[3]

2.5.1 Draft laws

Numerous other changes to the regulations were under preparation in 2009, mostly in order to transpose EC regulations. Completion of the legislative process for these amendments is expected in 2010. The changes concerned the following laws in particular:

Act on Banks

The CNB was involved in preparing an amendment to the Act on Banks in a working group established by the Czech Ministry of Finance and subsequently also in an inter-departmental comments procedure. This amendment to the Act on Banks transposes into Czech law Directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009, amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay. The minimum deposit coverage of EUR 50,000 is to be replaced by coverage of the aggregate deposits of each depositor of EUR 100,000 (maximum limit for coverage) by 31 December 2010 in the event of deposits being unavailable. The directive also removes the possibility of reducing compensation for an insured deposit by depositor participation (10%) and shortens the compensation payout delay for an insured deposit in the case of a bank's insolvency to 20 working days with the option of an extension of another 10 working days.

Act on Financial Collateral

The Ministry of Finance organised two rounds of public consultation on the new Act on Financial Collateral. The draft reacts to Directive 2009/44/EC amending Directive 2002/47/EC of the European Parliament and of the Council of 6 June 2002 on financial collateral arrangements, and at the same time removes this issue from the Commercial Code. The CNB made comments in both rounds of public consultation, in particular advocating the greatest possible continuity with the existing regulations (refusing, for example, a change under which only relationships explicitly agreed on by the parties would be subject to this Act).

Consumer Credit Act

This Act implements Directive 2008/48/EC on credit agreements for consumers and repealing Council Directive 87/102/EEC and was prepared by the Ministry of Industry and Trade in cooperation with the Ministry of Finance. There was a public consultation on the draft followed by several rounds of discussion of the comments. The CNB was actively involved in this process also because the Act vests it with new powers – supervision of compliance with all the rules for such agreements by credit institutions, i.e. banks and credit unions.

3 Planned changes to the regulations relating to Basel II, Solvency II and UCITS IV are dealt with in detail in section 3 *Enhancement of financial market stability and transparency in the EU*.

2.5.2 Draft decrees

In connection with the planned amendment of laws, legislative work commenced in 2009 on decrees which are expected to be completed in 2010. These include:

- a legislative and technical amendment to Decree No. 582/2004 Coll., implementing certain provisions of the Act on Insurance Intermediaries and Independent Loss Adjusters. This amendment, which is linked with a minor change to Act No. 38/2004 Coll., concerns the publication of training-providing institutions (now on the CNB website, not in a decree).

- an amendment to Decree No. 604/2006 Coll., on the use of techniques and instruments for effective management of the assets of a standard fund and of a special fund which collects money from the public. The amendment stipulates requirements for public funds' counterparties in repo operations.

- an amendment to Decree No. 269/2004 Coll. on the requisites of, and annexes to, applications pursuant to Act No. 189/2004 Coll., on Collective Investment, which newly regulates the requisites for fund conversion applications.

- a new decree on the disclosure duties of investment firms.

- an amendment to Decree No. 123/2007 Coll., on prudential rules for banks, credit unions and investment firms, linked with amendments to the Capital Requirements Directive.

- a new decree on the details of certain rules for the provision of investment services, which will replace Decree No. 237/2008 Coll. The amendment will focus chiefly on rules of conduct towards clients, whereas the prudential rules for investment firms will be incorporated into Decree No. 123/2007 Coll.

3. ENHANCEMENT OF FINANCIAL MARKET STABILITY AND TRANSPARENCY IN THE EU

The enhancement of financial market stability and transparency through the implementation of new regulatory frameworks is a long-term process linked with changes to European law.

3.1 THE EUROPEAN FRAMEWORK FOR FINANCIAL MARKET SUPERVISION[4]

Following the publication of the European Commission's May 2009 Communication "European Financial Supervision" on the future financial market supervisory set-up in the EU, the CNB conducted an analysis of the potential impacts of the new arrangements, primarily with respect to the proposed introduction of the European System of Financial Supervisors (ESFS). In September 2009, the Commission published the relevant draft regulations. Following a detailed analysis, the CNB expressed its opinions at CEBS, CESR and CEIOPS meetings and – via the Ministry of Finance – also at meetings of the Council's working bodies.

Proposed EU supervisory structure:

<table>
<tr><td colspan="3" align="center">Macro-prudential supervision
European Systemic Risk Board (ESRB)</td></tr>
<tr><td align="center">European Banking Authority (EBA)
(now CEBS)</td><td align="center">European Securities and Markets Authority (ESMA)
(now CESR)</td><td align="center">European Insurance and Occupational Pensions Authority
(EIOPA)
(now CEIOPS)</td></tr>
<tr><td colspan="3" align="center">Exercise of supervision at the national level
National supervisory authorities</td></tr>
<tr><td colspan="3" align="center">Micro-prudential supervision
European System of Financial Supervisors (ESFS)</td></tr>
</table>

Throughout the debate on the reorganisation of regulation and supervision in the EU, the CNB's stance on the proposed structure has been active and generally critical. Among other things it has expressed concerns about the separation of the new powers of European authorities from responsibility for supervision of financial entities. The CNB has criticised above all the provisions giving the new European authorities direct powers over individual financial entities in EU countries. This would mean a circumvention of national supervisory authorities, which are by law responsible for the due exercise of supervision. In this regard the CNB has emphasised the need to address in parallel the issue of cost sharing among EU Member States in the event of insolvency of a cross-border financial group.

In December 2009, the ECOFIN Council agreed on a general approach to the draft regulations on the establishment of EU supervisory authorities at the level of Member States. A general approach to macro-supervision had been approved in October 2009. The Council arrived at a compromise which successfully prevented a situation arising where the EU's proposals were too distant from the principles advocated by the CNB and the Czech Ministry of Finance. Negotiations on the legislative proposals are continuing in 2010 at the level of the Council and the European Parliament under the codecision procedure.

In October 2009, the European Commission also published a proposal for directive amending part of financial market sector legislation in connection with the creation of the new European authorities (agencies) in the banking, insurance and securities segments (the European Banking Authority, the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority). This directive (known as Omnibus I) would authorise

4 For details, see section 7.1.

the new European agencies to issue binding technical standards creating a set of rules to ensure harmonised application of the legislation and ultimately also ensure a level playing field for financial services providers and market and consumer protection across the EU. The CNB prepared a detailed assessment of the individual items of the amendment and the gradually modified proposals. Opinions were sent to the Czech Ministry of Finance and to the Council's working committee. These opinions were used by Czech representatives in negotiations within the CEBS and the CESR. The preparation of the directive will continue in 2010.

3.2 THE CAPITAL REQUIREMENTS DIRECTIVE (CRD)

In July 2009, Commission Directive 2009/83/EC was published in the EU's Official Journal. This, together with Commission Directive 2009/27/EC (published in the Official Journal in April 2009), constitutes an amendment to the Capital Requirements Directive known as CRD I. The amendment is mostly technical in nature and regulates the treatment of exposures to institutions, changes the conditions for the use of life insurance contracts as eligible collateral, and regulates the parallel application of the financial collateral simple and comprehensive methods. A new business line to which losses affecting the entire institution can be allocated is being introduced into the calculation of the capital requirement for operational risk under certain conditions. Changes are also being made to the determination of capital requirements for specific risks.

Another amendment to the CRD was published in the EU's Official Journal in September 2009, namely the Directive 2009/111/EC of the European Parliament and the Council, known as CRD II. Compared to CRD I, this Directive introduces more fundamental changes affecting both regulated entities and supervisory authorities. It changes the relationships between home and host supervisory authorities, revises the exposure rules, regulates the use of so-called hybrids for determining regulatory capital and lays down liquidity risk management requirements and securitisation requirements (including the introduction of a retention requirement for originators and sponsors of securitised exposures).

Another CRD amendment, known as CRD III, is also in the legislative process (approval procedures are expected to be completed at the end of June 2010). The CRD will give rise to changes in trading books and an increase in capital requirements, especially in the case of the inclusion of securitisation and re-securitisation exposures in trading books and in the case of the use of internal models. Institutions are also required to introduce appropriate remuneration policies supporting due risk management and long-term objectives. The supervisory authority may impose sanctions if those policies are inappropriate. The CRD I and CRD II amendments are expected to be transposed in the course of 2010 with effect from 31 December 2010. A similar implementation schedule is currently also planned for CRD III. As the transposition of CRD I does not require any changes to laws, the CNB will transpose it at the level of implementing rules by amending Decree No. 123/2007 Coll. The transposition of CRD II and CRD III requires amendments to the Act on Banks, the Act on Credit Unions and the Capital Market Undertakings Act and also a change to Decree No. 123/2007 Coll. The CNB commenced work on the amendment of this decree at the end of 2009 and is involved in the preparation of changes to the above laws made by the Ministry of Finance.

3.3 SOLVENCY II

The new system of European insurance regulation, known as Solvency II, is governed by Directive 2009/138/EC, which was published in the EU's Official Journal on 17 December 2009. The new regulatory framework is based on three pillars containing quantitative requirements for insurance and reinsurance companies, qualitative requirements for risk management and for supervisory procedures, and reporting and disclosure requirements. The quantitative requirements in Pillar 1 determine the method of calculation of technical provisions and capital requirements, which will be calculated using either a standard formula or internal models approved by the relevant supervisor. The qualitative requirements in Pillar 2 lay down rules for the internal control systems of insurance companies, for the assessment of such systems and for risk management as well as the supervisor's powers and responsibilities. Pillar 3 aims at bolstering market discipline and market transparency based on reporting and comprehensive disclosure of information by supervised institutions.

The European Commission is to adopt implementing regulations for the framework directive which will regulate some areas of the directive in more detail, so the CEIOPS worked on their preparation in 2009. CNB representatives were involved in this process in the relevant working groups. CEIOPS then submitted its proposals for public consultation in three waves (in March, June and November 2009) and afterwards sent its recommendations to the European Commission (the preparation of the recommendations for the final calibration of the capital requirements calculation will continue into the first quarter of 2010). In the second half of 2009, the European Commission started to discuss its draft implementing regulations based on CEIOPS' recommendations with the Member States. The first drafts dealt with control systems of insurance companies, approval of internal models and supplementary capital, disclosure of information by insurance companies and valuation of assets and liabilities other than technical provisions. The CNB is working in close cooperation with the Ministry of Finance on the preparation of opinions on these documents.

Preparations for transposing the Solvency II directive into the Czech legislation went on in a joint project of the Czech Insurance Association, the Ministry of Finance, the Czech Society of Actuaries and the CNB. In 2009, the work focused on the preparation of proposals for future legal rules. Involvement in discussions of proposed implementing regulations at the European level and organisation of seminars on the relevant Solvency II issues are planned for 2010. CEIOPS is preparing a further round of the Quantitative Impact Study (QIS5) in the second half of 2010. This will involve testing the final calibration of the capital requirements for insurance companies. QIS5 will be one of the important activities of the CNB and Czech insurance companies in this area.

3.4 REGULATION IN THE COLLECTIVE INVESTMENT AREA

On 13 July 2009 the European Parliament approved a new directive (UCITS IV) replacing Directive 85/611/EEC. It was published in the EU's Official Journal on 17 November 2009. The directive includes new provisions intended to improve the efficiency of the standard collective investment fund sector. These provisions should above all simplify the cross-border activities of such funds (by allowing a management company to establish standard funds in a state other than the one in which its registered office is situated) and improve the efficiency of asset management by maximising the volume of portfolios managed (cross-border mergers, asset pooling, master-feeder structures). The Member States are obliged to transpose the directive by 1 July 2011 together with implementing measures (an implementing directive, which to some extent may be replaced by an implementing regulation of the European Commission), which should be ready by 1 July 2010. The CNB expressed its opinion on the draft implementing measures within the CESR working group, which provided the European Commission with technical advice in the areas of management passports, mergers, master-feeder structures and crucial information for investors.

The European Commission also submitted a proposal for a directive on alternative investment fund managers. Alternative investment funds represent a very diverse range of funds (e.g. hedge funds, private equity funds, commodity funds, real estate funds and special securities funds). The directive lays down licensing and operating rules and transparency requirements for managers' activities. The draft directive has been under discussion since June 2009 at the expert level in the EU Council and simultaneously also in the Economic Committee of the European Parliament. Numerous changes to the draft were made under the Swedish presidency, mostly of a specifying and supplementary nature. The most problematic issues still include the scope and effect of the directive, depository regulation, the offering of alternative funds from third countries and the regulation of remuneration policy. The Swedish compromise proposal of 15 December 2009 has been transferred to Spain as the country taking over the presidency, which will continue to push for a consensus. There is, however, still disagreement among the Member States regarding the appropriate degree of regulation. It will also be difficult to reach a consensus in the European Parliament, as the Economic Committee has received almost 2,000 proposed revisions.

3.5 REGULATION OF CREDIT RATING AGENCIES

The regulation on credit rating agencies (CRAs) approved by the European Parliament in April 2009 was published in the EU's Official Journal on 7 December 2009. The regulation should take effect on 7 June 2010, when CRAs will be able to start filing applications and supervisory authorities will commence a new type of activity consisting in registration and supervision of CRAs. Existing agencies must apply for registration by 7 September 2010. The implementation of the regulation in the Czech Republic requires changes to primary legislation to allow the CNB to become the competent authority for supervision of CRAs (legal entities having their registered office in the Czech Republic). The relevant amendment relates primarily to the Capital Market Undertakings Act, the revision of which was approved by the Czech government in December 2009. After the aforementioned regulation has been in effect one year (i.e. as from 7 December 2010) specified financial market entities may use for regulatory purposes only ratings issued by CRAs based in the EU and registered in compliance with the regulation. Ratings issued in third countries will be eligible only if certain conditions are fulfilled (supervision equivalence, or confirmation of the rating by an EU agency). The CESR is currently working on equivalence assessment.

3.6 OTHER SELECTED AREAS RELATING TO FINANCIAL MARKET SUPERVISION

The CNB is actively involved in the work of the Financial Conglomerates Directive Working Group established by the European Commission in connection with the revision of Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate. The revision is based on recommendations prepared by the Committee on Financial Conglomerates at the request of the Commission (chiefly as regards scope of application, terminology, internal control systems and methods for determining capital adequacy at financial conglomerate level) as well as comments from the industry arising from public hearings and documents on risk management prepared by the Joint Forum. The preparation of the amendment to the directive is expected to continue in 2010.

In 2009, the EU also issued a new e-money directive (2009/110/EC) and an amendment to the settlement finality directive (2009/44/EC). The CNB is involved in the preparation of primary and secondary legislation on this issue and the new Regulation 923/2009 on cross-border payments.

4. DIRECT FINANCIAL MARKET SUPERVISION IN 2009

4.1 LICENSING, APPROVAL AND AUTHORISATION ACTIVITIES[5]

Credit institutions[6]

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

	As of 31 Dec. 2008	Entries	Exits	As of 31 Dec. 2009
Banks	21 (of which 5 building societies)	0	0	21 (of which 5 building societies)
Foreign bank branches (under the single licence)	16	3	1	18
Credit unions	17	0	0	17
Credit institutions, total	54	3	1	56

The exercise of the right of establishment under the European legislation on the basis of the single licence principle in another EU Member State in 2009 was unchanged from 2008. One domestic bank (J&T BANKA, a.s.) is operating as a branch in Slovakia and five domestic credit unions (Fio, Unibon, WPB, Citfin and AKCENTA) are operating in Slovakia, Poland, Hungary and Cyprus.

As regards electronic money institutions, which also belong in this sector according to European law and which may be established in the Czech Republic pursuant to Act 124/2002 Coll., the Payment System Act, the CNB registered no applications and conducted no administrative proceedings. Two new applications for payment institution licences were submitted based on the new Payment System Act (284/2009 Coll.).

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

Continuing from 2008	Opened	Completed	Number in 2009
7	78	53	32

In 2009, the CNB conducted 85 administrative proceedings concerning regulated credit institutions (banks, branches of foreign banks and credit unions), 11 of them banks and 74 credit unions. The remaining administrative proceedings concerned regulatory consent to the establishment of a branch of a credit union abroad, to a decrease in a membership contribution, etc.

A total of 53 administrative decisions were issued during 2009.

The important administrative decisions made in the credit institution sector in 2009 included three licence changes in the case of J&T BANKA a.s. (all three being extensions to include investment services, since the bank also has an investment firm licence). In 2009, an administrative procedure on the granting of a banking licence to Fio, burzovní společnost, a.s. was under way.

5 Further numerical information regarding sections 4.1–4.4 can be found on the CNB website in the lists of regulated institutions and registered financial market entities at http://www.cnb.cz/cnb/JERRS.WEB07.INTRO_PAGE?p_lang=en and in the list of final and conclusive decisions at http://www.cnb.cz/cs/dohled_fin_trh/dohled_kapitalovy_trh/pravomocna_rozhodnuti/susr.html

6 For details see Part B, section 2.1 *The structure of the banking sector* and section 2.6 *The credit union sector.*

The applications of EGB Ceps Beteiligungen GmbH and EGB Ceps Holding GmbH, which were granted consent to acquire a qualifying holding in Česká spořitelna, a.s., were among the major proceedings concerning qualifying holdings. RLBOÖ Unternehmensholding GmbH was granted consent to acquire a qualifying holding in Raiffeisenbank a.s.

The largest number of proceedings traditionally relates to prior consents to acquire qualifying holdings (51 proceedings) and to the approval of members of bodies and senior officers of credit unions (23 proceedings).

The collective investment and pension fund sectors

The trend of entry of new entities into the collective investment sector continued in 2009. There was increased interest particularly in special funds for qualified investors (established or created in the form of investment funds and mutual funds) specialising in investment in real estate and real estate companies. An amendment to Act No. 189/2004 Coll., on Collective Investment, as amended, took effect on 1 August 2009. This provided a significant impetus for the further development of non-autonomous investment funds (i.e. investment funds whose assets are managed by a management company).

The new amendment among other things relaxed the regulatory constraints and reduced the administrative burden relating to the establishment of such funds. It is now possible to use non-monetary deposits as a way of paying up the equity capital of investment funds for qualified investors and lifts the limit on the period for which investment funds can be established (previously 10 years). The licensing requirements have also been eased (senior officers and persons having qualifying holdings are no longer subject to prior approval by the CNB) and with the relevant CNB permission investment funds are also allowed to merge with unregulated entities provided the investment fund does not cease to exist as a result of the merger.

The CNB registered a total of 58 special funds for qualified investors (of which 27 investment funds and 31 mutual funds) as of the end of 2009.

Table A.III – Numbers of entities in the collective investment and pension fund sectors (active or newly licensed)

	As of 31 Dec. 2008	Entries	Exits	As of 31 Dec. 2009
Management companies	20	2	0	22
Investment funds	16	11	0	27 i)
Open-end mutual funds	142	16	19	139
of which: standard funds	41	2	7	36
Close-end mutual funds	2	0	0	2
Pension funds	10	0	0	10
Depositories	8	0	0	8

i) Two investment funds (Metrostav Nemovitostní, uzavřený investiční fond, a.s., and ŽSD Invest, uzavřený investiční fond, a.s.) were not entered in the Commercial Register as of 31 December 2009

A total of 241 administrative proceedings were conducted and 199 decisions were made in the collective investment area in 2009. Licences were granted to two new management companies (FORS CAPITAL a.s. and EUFI – Asset Management a.s.) and to 11 new investment funds - PILSENINVEST, uzavřený investiční fond, a.s.; R.E. uzavřený investiční fond, a.s.; Apollon Property, uzavřený investiční fond, a.s.; Společný zemědělský uzavřený investiční fond a.s.; EUFI – uzavřený investiční fond a.s.; EUBE, uzavřený investiční fond, a.s.; RECIFA REALITY, uzavřený investiční fond, a.s.; EXAFIN, uzavřený investiční fond, a.s.; Doma je Doma, uzavřený investiční fond, a.s.; Metrostav Nemovitostní, uzavřený investiční fond, a.s.; and ŽSD invest, uzavřený investiční fond, a.s. One administrative proceeding to change the scope of a management company licence, one administrative proceeding to grant a management company licence and two administrative proceedings to grant an investment fund licence were discontinued because of withdrawal of the application by the applicant. Two proceedings to grant a management company licence and one proceeding to grant an investment fund licence had not been completed by the end of 2009.

The CNB conducted 14 administrative proceedings concerning prior or subsequent consents to the acquisition of a qualifying holding in a management company or an investment fund. Nine proceedings had been closed by a final and conclusive ruling by the end of 2009. The most significant acquisitions in the sector were the entry of WOOD & Company Group S.A. into CREDIT SUISSE ASSET MANAGEMENT investiční společnost, a.s., which resulted in a change of name of the management company, and the takeover of Investiční kapitálová společnost KB, a.s., by Crédit Agricole Asset Management. Prior consent was granted to Erste Asset Management GmbH and Erste Bank Beteiligungen GmbH to acquire a qualifying holding in Investiční společnost Česká spořitelna, a.s.

The administrative proceedings most frequently concerned the approval of changes in the statutes of collective investment funds (128). In three cases, the CNB Bank Board issued decisions on appeals confirming negative decisions issued in the first instance. Two proceedings concerning the approval of a change in the statutes were discontinued at the request of the applicants. Twenty-six proceedings had not been completed by the end of 2009.

A total of 35 administrative proceedings concerned prior consents to the discharge of office of director of an investment firm or an investment fund, one of which was definitively closed by the issuing of a negative decision in the first instance due to insufficient expertise of the proposed officer. One proceeding was discontinued and two proceedings had not been completed by the end of 2009. In all, 22 administrative proceedings were held on the granting of licences to establish mutual funds (six of which had not been completed by the end of 2009). The CNB issued one authorisation to establish a mutual fund (a special fund for qualified investors). A total of 12 authorisations to establish a mutual fund were revoked at the request of the management company, and 6 authorisations to merge mutual funds were granted.

In 2009, the CNB held two administrative proceedings concerning authorisations to offer securities of a foreign special fund to the public in the Czech Republic. In one case, where the applicant was a Luxembourg company QUADRIGA SUPERFUND SICAV, the administrative proceeding was discontinued by issuing a negative first-instance decision. In the second case, the Slovak company IAD Investments, správ. spol., a.s. was granted authorisation to offer securities of a foreign special fund called Prvý realitný fond, š.p.f., IAD Investments, správ. spol., a.s. to the public in the Czech Republic.

In connection with the August 2009 amendment of the Collective Investment Act, the CNB received a completely new type of application for authorisation to convert an investment fund. Two related administrative proceedings were held regarding permission to merge special funds for qualified investors with an unregulated entity (IMOS development, uzavřený investiční fond, a.s., and Společný zemědělský uzavřený investiční fond a.s.). Both proceedings had been completed by the end of 2009.

Table A.IV – Numbers of administrative proceedings in the collective investment and pension fund sectors

	Continuing from 2008	Opened in 2009	Completed in 2009	Continuing into 2010
Collective investment sector	23	218	199	42
Pension fund sector	2	38	37	3
Total	25	256	236	45

There were no major changes in the private pension area as regards CNB licensing, approval and authorisation activities. Amendments to Act No. 42/1994 Coll., on supplementary pension insurance with state contribution and on the amendment of some other laws related to its introduction, as amended (the Act on Private Pension Insurance) took effect, but these required no fundamental changes to the internal documents governing the activity of pension funds. The amendments above all extended consumer protection, legislated for the possibility of charging a fee for termination settlement and transfers of participants' funds, and provided for the possibility of holding selected bonds to maturity in portfolios at the acquisition price up to a level of 30% of the pension fund's assets.

The CNB received 38 applications for the opening of administrative proceedings, all of them under the Act on Private Pension Insurance. No applications were submitted to the CNB and no proceedings were conducted under Act No. 340/2006 Coll., on the activities of institutions for occupational retirement provision from Member States of the European Union or other Contracting States of the Agreement on the European Economic Area within the territory of the Czech Republic and on the amendment of Act No. 48/1997 Coll., on public health insurance and on the amendment of some related acts, as amended, which belongs in this sector according to European law and pursuant to which institutions for occupational retirement provision from other Member States of the European Union can operate in the Czech Republic.

A total of 40 administrative proceedings were under way in 2009, two of which continued from 2008. One concerned authorisation to establish and operate a pension fund (applicant: KKCG Finance B.V.), where the authorisation expired because the motion for entry in the Commercial Register pursuant to Article 62(1) of Act No. 513/1991, the Commercial Code, as amended, was not filed in time. The other concerned the granting of prior consent to Société Beaujon to acquire more than 10% of the equity capital of AXA penzijní fond, a.s.

Other important administrative decisions concerned two changes to the pension plans of AXA penzijní fond a.s. and AEGON Penzijní fond, a.s. and four changes to the statutes of AXA penzijní fond a.s. (two consecutive changes), AEGON Penzijní fond, a.s., and Penzijní fond České spořitelny, a.s.

The other (32) proceedings related to prior consent to the election of persons to pension fund bodies, including the re-election of existing members of pension fund bodies (one of these proceedings was discontinued because of withdrawal of the application by the applicant, and three proceedings had not been completed by the end of 2009).

Investment firms, investment intermediaries and foreign exchange licences
In the area of investment service providers, a total of 38 entities holding investment firm licences, 11 of them banks, were registered under Article 5 of Act No. 256/2004 Coll., on Capital Market Undertakings, at the beginning of 2009. Three new investment firm licences were granted in 2009 (to CITCO - Finanční trhy a.s., AKCENTA CZ, a.s., and CYRRUS CORPORATE FINANCE, a.s.). Two licences expired owing to changes in objects of business (BODY INTERNATIONAL BROKERS, a.s., and GAUDEA, a.s.). The CNB registered 39 investment firms, 11 of them banks, as of the end of 2009.

Table A.V – Numbers of entities in the investment services provider sector

	As of 31 Dec. 2008	Entries	Exits	As of 31 Dec. 2009
Non-bank investment firms	27	3	2	28
Bank investment firms	11	0	0	11
Total	38	3	2	39

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

Continuing from 2008	Opened in 2009	Completed in 2009	Continuing into 2010	As of 31 Dec. 2009
15	551	558	8	28

In 2009, the CNB issued a total of 558 decisions in the investment services provision area, of which 498 were on the withdrawal of registration of investment intermediaries (one of which was repealed after reconsideration).

Three decisions were issued on the granting of investment firm licences. Two proceedings regarding the granting of investment firm licences were discontinued. The CNB issued three decisions on the widening of investment firm licences and discontinued two proceedings in this area. One decision was issued regarding the approval of auction rules. Five decisions concerned prior consents to the discharge of office of director of an investment firm. One application for prior consent to the discharge of office of director was withdrawn. The CNB issued consent to the acquisition of qualifying holdings in investment firms in five cases.

In all, 26 proceedings regarding applications for registration of an investment intermediary were discontinued.

Foreign exchange licences were abolished as of 1 November 2009, when Act No. 284/2009 Coll., the Payment System Act, transposing Directive 2007/64/EC on payment services, and Act No. 285/2009 Coll., amending, inter alia, Act No. 219/1995 Coll., the Foreign Exchange Act, as amended, took effect. Activities carried on before 1 November 2009 on the basis of a foreign exchange licence for non-cash foreign exchange transactions or for provision of financial services are now included in payment services under the Payment System Act. The CNB issued seven decisions on the granting of foreign exchange licences and three decisions on revocation of foreign exchange licences. Two proceedings to grant a foreign exchange licence were discontinued. The CNB now issues authorisations for the pursuit of business of payment institutions to payment service providers or enters them in the register of small-scale payment service providers.

The insurance sector

Domestic insurance companies and reinsurance companies and insurance companies from third countries (non-EU/EEA countries) are subject to licensing and approvals by the CNB.

A total of 36 domestic insurance companies (including the Czech Insurers' Bureau) and one reinsurance company were subject to supervision by the CNB as of the end of 2009. The CNB also supervised 17 branches of insurance companies – 16 from the EU/EEA countries and one from a third country (Switzerland) – to a limited extent.

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

	As of 31 Dec. 2008	Entries	Exits	As of 31 Dec. 2009
Insurance companies (including branches and reinsurers)	54	2	3	53
of which:				
domestic insurance companies (excluding the CIB)	35	0	0	35
branches of insurance companies from the EU/EEA	17	2	3	16
branches of insurance companies from third countries	1	0	0	1
reinsurance companies	1	0	0	1

The CNB, as the supervisory authority in the insurance area, conducted 118 administrative proceedings and issued 110 administrative decisions in 2009.

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

Continuing from 2008	Opened in 2009	Completed in 2009	Continuing into 2010	As of 31 Dec. 2009
3	115	110	8	28

In an effort to consolidate the assets of the financial groups they supervise, the governments of some countries (the USA, France, the UK and Belgium) carried out a series of rescue operations in 2009 leading to the regrouping of ownership relations within the supervised financial institutions. As a result, an increased number of applications by special-purpose state or semi-state entities[7] for consent to the acquisition of qualifying holdings in domestic insurance companies was recorded in the licensing area of the Czech insurance market. Consent was granted to AIG Credit Facility Trust and ALICO HOLDINGS LLC to take control of PRVNÍ AMERICKO-ČESKÁ POJIŠŤOVNA, a.s., and to French state company Société de Prise de Participation de l'Etat and Belgian state company Société Fédérale de Participations et d'Investissement to acquire a qualifying holding in POJIŠŤOVNA CARDIF PRO VITA, a.s.

Insurance companies tended to put greater emphasis on the conservative component of financial placement of their assets arising from technical provisions. Some insurance companies (VICTORIA VOLKSBANKEN pojišťovna, a.s., Kooperativa pojišťovna, a.s., Vienna Insurance Group and Česká podnikatelská pojišťovna, a.s., Vienna Insurance Group) submitted applications for consent to change the structure of their financial placements directed at increasing the statutory financial placement limit for bonds. Consent was granted in all cases. A different financial placement structure was also permitted for UNIQA pojišťovna, a.s. and ČSOB Pojišťovna, a.s., a member of ČSOB holding.

No new entities added to the overall range of services offered on the insurance market. The CNB granted two requests of insurance companies for additions of new categories of non-life insurance (Česká podnikatelská pojišťovna, a.s., VIG and Evropská cestovní pojišťovna, a.s.) and one request in the area of facultative reinsurance activities (POJIŠŤOVNA CARDIF PRO VITA, a.s.). By contrast, one application for carrying on insurance activities in the non-life insurance category was rejected.

Prior consent was granted to Wüstenrot Versicherungs – Aktiengesellschaft to acquire a qualifying holding in Wüstenrot pojišťovna a.s. Consent to acquire a qualifying holding in Halali, všeobecná pojišťovna, a.s., was granted to Interlov Praha, s.r.o. Allianz Holding eins was granted consent to take control of Allianz pojišťovna, a.s.

Approval was granted to ČSOB Pojišťovna, a.s., a member of ČSOB holding, for its method for calculating the provision for fulfilment of obligations arising from the technical interest rate used. Komerční pojišťovna, a.s. was granted consent for the reallocation of own funds in its solvency calculation. Vitalis pojišťovna, a.s. was granted consent to reduce its equity capital subject to compliance with the required solvency margin.

The CNB issued 89 decisions granting prior consent to membership of a statutory or supervisory body of an insurance or reinsurance company.

In 2009, the CNB conducted two administrative proceedings concerning registration in the register of responsible actuaries maintained by the CNB and one proceeding concerning deletion from the register. In all, 49 responsible actuaries were entered in the above register as of the end of 2009 (48 as of 31 December 2008).

Securities issues and regulated markets

At the start of 2009, a total of 68 companies whose securities had been admitted to trading on a regulated market (issuers of listed securities) were registered, 18 of which were located outside the Czech Republic and one outside the EU. In the course of 2009, the number of issuers of listed securities dropped by seven, largely due to the decision of regulated market operators to exclude six securities issues due to non-compliance with the conditions for being admitted to trading (chiefly because of low liquidity). Following the granting of a licence to Power Exchange Central Europe, a.s. (formerly Energetická burza Praha), the number of licensed regulated market operators increased to three (the other two being RM-Systém and the Prague Stock Exchange). The number of settlement systems (the RM-S transaction settlement system SVYT, the CNB's short-term bond market, and the Central Securities Depository settlement system) was the same as in 2008. In 2009, a central depository licence was issued to the Central Securities Depository (formerly UNIVYC),

7 These were mostly legal entities created by the finance ministries of some countries to deal with the impacts of the crisis on selected and systemically important financial market participants in their countries.

which should, after it opens for business, take over the securities register currently maintained by the Czech Securities Centre and continue to operate the settlement system. The transfer of the registers of the Czech Securities Centre is now under preparation.

Table A.IX – Numbers of securities issues, regulated markets and settlement systems

	As of 31 Dec. 2008	Entries	Exits	As of 31 Dec. 2009
Issuers of listed securities	68	3	10	61
of which: foreign	18	0	1	17
Regulated market operators	2	1	0	3
Settlement systems	3	0	0	3
Central depository	0	1	0	1

In 2009, the CNB issued 109 first-instance decisions in the area of securities issues and regulated markets.

Most of these decisions (104) concerned the approval of documents relating to new issues of securities, i.e. bond issue conditions in compliance with Act No. 190/2004 Coll. on Bonds, securities prospectuses and combinations thereof for the purposes of public offers and admission of securities to trading on the regulated market under the Capital Market Undertakings Act. In the case of bond issue conditions this involves a formal check of the essential elements of such documents. In the case of approvals of securities prospectuses, compliance with the conditions laid down in European Commission Regulation No. 809/2004 is checked.

In addition to these approval proceedings, five proceedings were held in 2009 in relation to the disclosure duties of issuers of listed securities, in particular proceedings concerning the narrowing of the scope of annual reports. Three administrative proceedings were opened and three administrative decisions issued in the takeover bids area.

With regard to market infrastructure the CNB issued six licensing decisions in 2009, the most important of which were the granting of a central depository licence to the Central Securities Depository and a regulated market operator licence to Power Exchange Central Europe, a.s, for certain commodity derivatives. The CNB also approved an application by Fio burzovní, a.s. for prior consent to acquire a qualifying holding in regulated market operator RM-Systém, česká burza cenných papírů a.s., and two applications by the Central Securities Depository (or UNIVYC) for the approval of changes in settlement system rules.

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

Continuing from 2008	Opened in 2009	Completed in 2009	Continuing into 2010
6	115	119	2

4.2 NOTIFICATION (under the single licence)

The Czech Republic's accession to the EU in 2004 opened up the Czech financial market to other entities entitled to benefit from the free movement of services under the single licence (the European passport).[8]

During 2009, the CNB received 421 announcements by foreign regulators of notifications of cross-border provision of services, of which 32 from banks[9] (one of them an electronic money institution), 68 from insurance companies[10], 109 from collective investment funds, 10 from management companies and 203 from investment service providers.

Nine banks (of which one electronic money institution), eight insurance companies, one management company, 221 foreign funds (collective investment funds) and 85 investment service providers terminated their cross-border service provision activities. The competent supervisory authorities from EU Member States were notified of the intention of two domestic insurance companies (Generali Pojišťovna a.s., Pojišťovna VZP, a.s.) and one domestic bank (PPF banka, a.s.) to carry on insurance business within their territory under the freedom to provide services.

Table A.XI – Cross-border service provision notifications

	As of 31 Dec. 2008	Entries in 2009	Exits in 2009	As of 31 Dec. 2009
Banks	252	32	9	275
of which: electronic money institutions	12	1	1	12
Insurance companies	554	68	8	614[11]
Funds	1,569	109	221	1,457
Management companies	40	10	1	49
Investment services providers	840	203	85	958

In 2009, three banks (Poštová banka, a.s., AXA Bank Europe SA/NV and Saxo Bank A/S), two insurance companies (Deutscher Ring Sachversicherungs-AG and Stewart Title Limited) and two investment firms (Ertrag & Sicherheit Investmentfondsberatung Ges.m.b.H. and Jung, DMS & Cie Gesellschaft m.b.H.) submitted notifications to provide services in the Czech Republic in the form of establishment.

One bank (Straumur-Burdaras Investment Bank), three insurance companies (QBE poisťovňa, a.s., XL Insurance Company Limited and Wüstenrot poisťovňa, a.s.) and one investment firm (Ertrag & Sicherheit Investmentfondsberatung Ges.m.b.H.) discontinued their activities in the Czech Republic in 2009.

The CNB received a total of 131 prospectus notifications from foreign regulators.

During 2009, the CNB received notifications of the intention to carry on business in the Czech Republic from 885 insurance intermediaries having a home Member State other than the Czech Republic (444 of them from Slovakia).

8 More details on the single licence are available at http://www.cnb.cz (in Czech only: *Dohled nad finančním trhem – Bankovní dohled – Výklad ČNB k jednotné bankovní licenci).*
9 Three branches of foreign credit institutions in the EU (this figure is included in the total of 32 notifications) submitted notifications for foreign financial or credit institutions for the first time in 2009 (in the first half of the year).
10 In addition to insurance companies, insurance company branches operating in other EU/EEA countries are notified in this manner. In 2009, the CNB was notified by foreign regulators of the intention of 32 branches to provide services in the Czech Republic (this figure is included in the total of 68 notifications).
11 152 of which are branches of these insurance companies in the EU/EEA (two branches closed down in 2009).

4.3 REGISTRATIONS

As of the end of 2009, a total of 24 representations of foreign banks and financial institutions were registered in the Czech Republic under Article 39 of Act No. 6/1993 Coll., on the Czech National Bank (three representations terminated their activities in 2009 and one new was registered). Such representations are not authorised to carry on business in the Czech banking sector, but intermediate and promote the services of their banks in the Czech Republic.

A total of 182 investment intermediary registrations were made and 499 were cancelled during 2009. At the same time, 3,435 registrations were cancelled by law because the entities concerned were entered in the list of tied agents (under an amendment to the Capital Market Undertakings Act in effect from 1 July 2008, the transition period for cancelling investment intermediary registrations by law expired on 2 April 2009). The CNB registered 9,121 investment intermediaries as of the end of 2009.

The CNB entered 7,602 entities in the list of tied agents and deleted 1,989 entities from the list in 2009. The total number of tied agents registered by the CNB as of 31 December 2009 was 9,123.

In 2009, a total of 18,835 new intermediaries were entered in the register of insurance intermediaries and independent loss adjusters, 128 of which were insurance agents and 47 insurance brokers.[12] At the end of 2009, a total of 105,980 insurance intermediaries were listed in the register, 8,003 of them foreign. In connection with the registration of insurance intermediaries, the CNB holds professional examinations of insurance agents and insurance brokers (to verify whether the applicants are competent to perform such activities at a medium or higher level of competence). In all, 576 candidates took these examinations and 558 passed.

4.4 OTHER REGULATED ENTITIES

Under Act No. 219/1995 Coll., as amended (the Foreign Exchange Act), the CNB supervises more than 2,500 non-bank foreign exchange entities. This category includes both entrepreneurs offering cash purchases or sales of foreign currency and entities engaged in executing or intermediating non-cash foreign exchange transactions or providing money services.

Since 1 September 2008, the CNB has been performing registrations for bureau-de-change activity. The registrations are made at the CNB's branches. In 2009, the CNB performed 390 such registrations. All types of foreign exchange licences are issued by CNB headquarters.

In 2009, the CNB granted seven foreign exchange licences, five for providing money services, one for intermediating non-cash foreign exchange transactions and one for executing non-cash foreign exchange transactions. As of 31 December 2009, the CNB registered 201 valid foreign exchange licences.

Non-bank foreign exchange entities may carry on bureau-de-change activities or non-cash foreign exchange transactions or provide financial services only on premises registered for this purpose in advance by the CNB. In 2009, the CNB registered 191 premises.

In 2009, the CNB issued four permits to issue electronic money under Article 19 of Act No. 124/2002 Coll., on Transfers of Funds, Electronic Payment Instruments and Payment Systems (the Payment System Act). A total of 55 entities had such a permit as of 31 December 2009. The Czech Republic continues to be in a leading position among the EU Member States in terms of the number of electronic money institutions. The vast majority of these electronic money issuers

12 The register of insurance intermediaries is available on the CNB website in the ISPOZ system (http://ispoz.cnb.cz/).

are bus transport companies which issue chip cards that can be used to pay fares between regions to other transport companies. At the end of 2009, three companies were issuing electronic money for internet payments, one was using electronic money to enable employees to withdraw money from a social fund and one company was intermediating "micro-payments" for third-party services using a mobile application. In 2009, one licence was also granted for money transfers, but the company applied for termination of the licence immediately after it was granted.

In connection with the coming into effect of the new Payment System Act (No. 284/2009 Coll.) on 1 November 2009, so-called other entities authorised to issue electronic money are regarded as small-scale electronic money issuers under this Act. These entities are authorised to issue electronic money after the CNB enters them in the register of small-scale electronic money issuers. All electronic money issuers with a valid permit under the previous act were entered as small-scale electronic money issuers in the CNB's register of regulated and registered financial market entities (JERRS) as of 1 November 2009. No other entity applied for entry in the register of small-scale electronic money issuers or for a licence to operate a payment system in the last two months of 2009.

The new Payment System Act also introduced the category of non-bank regulated entities providing payment services, i.e. payment institutions and small-scale payment services providers. Two applications for payment institution licences and ten applications for entry in the register of small-scale payment services providers had been submitted by the end of 2009.

Regulation and supervision in the foreign exchange area were also fundamentally affected in 2009 by the coming into effect of the new Payment System Act. In compliance with transitory provisions of the Payment System Act, entities carrying on non-cash foreign exchange transactions or providing money services will have to obtain a licence for providing payment services. As regards foreign-exchange entities, the Foreign Exchange Act continues to regulate bureau-de-change activity only.

4.5 ENFORCEMENT

Activity in the enforcement proceedings area remained an integral part of financial market supervision in 2009 and consisted in the investigation of petitions for the opening of administrative proceedings, decision-making on the opening of administrative proceedings or the deferral of cases, and the conduct of first-instance administrative proceedings, within which fines and remedial measures were imposed, licences revoked and registrations cancelled.

The work also includes communication with law enforcement authorities, including the preparation of documents and opinions, and communication with the Finance Ministry's Financial Analytical Unit as regards money laundering and terrorist financing. International cooperation with other supervisory authorities, particularly in the area of unauthorised business in the financial market, also deserves mention.

Table A.XII – Numbers of administrative enforcement proceedings

Continuing from 2008	Opened in 2009	Completed in 2009 (by final and conclusive ruling)	Continuing into 2010
22	74	62	34

As regards supervision of credit institutions, one administrative enforcement proceeding was opened in 2009 for failure to pay a contribution to the Deposit Insurance Fund on time. Two decisions took effect: one on the imposition of a fine for breach of the information duty relating to the content of a 2007 annual report and one on the imposition of a fine for failure to pay a contribution to the Deposit Insurance Fund on time. The total fines imposed amounted to CZK 325,000.

A total of 44 penalty or offence proceedings were opened in the capital market area in 2009. Among the main proceedings conducted with capital market undertakings was one on the payment of contributions to the Securities Brokers Guarantee Fund.

A total of 39 decisions in the capital market area entered into force in 2009. The cases closed by a final and conclusive ruling included:

- the imposition of a fine on an investment firm for unapproved provision of the investment service of placing of issues of investment instruments and for breach of the duty of professional care in the management of clients' assets,

- the imposition of a fine on an investment firm for a breach of the professional care duty consisting in providing false information to customers about their portfolios and in unauthorised closing of their positions,

- the withdrawal of registration of an investment intermediary who accepted blank orders (i.e. signed uncompleted orders) from clients.

In all, the CNB imposed fines totalling CZK 16,150,000 in the capital market area in 2009.

In the insurance area, four enforcement proceedings were opened in 2009, one of which for violation of the Act on Insurance, one for breach of the professional care duty of an insurance intermediary, one for breach of the rules of conduct of an insurance intermediary towards clients and one for breach of the prudential rules and for shortcomings in an insurance company's internal control system.

Three decisions took effect in 2009: a fine and remedial measures were imposed on one insurance intermediary; a fine was imposed on one insurance company; and administrative proceedings were discontinued with one insurance company. In all, fines totalling CZK 1,250,000 were imposed in 2009.

A total of 26 administrative proceedings were opened in 2009 for violation of foreign exchange regulations. The CNB issued final decisions or orders in 18 administrative enforcement proceedings and fines were imposed in all cases. The total fines imposed amounted to CZK 302,000.

Monitoring of financial market entities in liquidation

The CNB monitors the process of liquidation of financial market entities on the basis of a statutory disclosure duty of entities in liquidation and ad-hoc requested information. Fourteen former financial market entities were deleted from the Commercial Register in 2009 (three banks, five credit unions, two insurance companies, one pension fund and three investment funds). Management company EVBAK, a.s. v likvidaci ceased to be subject to CNB supervision after meeting the statutory requirements.

One credit union liquidator resigned from office and the CNB filed a court petition to appoint a new liquidator and set his remuneration package. A new liquidator was also appointed in one investment fund after the incumbent resigned from office.

In two management companies in liquidation whose assets were not sufficient to cover the liquidation costs an advance was provided on the liquidator's cash expenditures and remuneration via the Ministry of Finance.

Insolvency proceedings were opened in one management company.

Table A.XIII – List of financial market entities deleted from the Commercial Register

Name	Deleted from Commercial Register
1. Pošumavský investiční fond, a.s. – v likvidaci	7 January 2009
AIG CZECH REPUBLIC pojišťovna, a.s.	29 January 2009
Pragobanka, a.s. v likvidaci	27 February 2009
Gennex investiční fond, a.s. v likvidaci	25 March 2009
POJIŠŤOVNA PATRIE, a.s.	6 May 2009
Horácká družstevní záložna, družstvo "v likvidaci"	12 August 2009
Prokešova družstevní záložna "v likvidaci"	15 August 2009
Investiční fond FINAS, a.s. v likvidaci	28 August 2009
Penzijní fond CERTUM-RENTA a.s. v likvidaci	21 October 2009
Kreditní a průmyslová banka a.s.	30 October 2009
Družstevní záložna KORUNA v likvidaci	6 November 2009
Družstevní záložna "TŘEBOVICKÁ KAMPELIČKA"	8 December 2009
První pražská družstevní záložna	8 December 2009
Plzeňská banka a.s. – v likvidaci	11 December 2009

One new natural person was entered in the list of forced administrators and liquidators for the capital market maintained by the CNB. One entity's application for entry in the list of liquidators and forced administrators for insurance companies was rejected due to insufficient experience in the field.

In 2009, the CNB conducted oral proceedings with liquidators, provided consultations and opinions on liquidation processes and on the requests of courts and law enforcement agencies, and provided requested information and documentation. In two cases it assisted the Ministry of Finance in respect of actions against the state or the Ministry for damages connected with the exercise of supervision.

4.6 OFF-SITE SURVEILLANCE

Off-site surveillance consists in continuously monitoring the activity and financial performance of the individual entities operating in the financial market and also in assessing the evolution of the market as a whole and its segments. The CNB's supervisory work involves checking compliance with the relevant legal rules and compliance with prudential rules and regularly assessing the financial condition of individual regulated entities.

Information is obtained mainly from the statements and reports regularly submitted by individual entities on a solo and in some cases also a consolidated basis. The required frequency and manner of sending data to the CNB still differ across individual market segments. As the integration of supervisory activities progresses, however, efforts are being made to align them gradually in terms of both content and manner of reporting to the CNB. Where more intensive monitoring of the economic situation is needed, an extraordinary reporting duty is imposed on financial institutions.

In addition to the regular reports, all other available information from various sources is used for continuous monitoring of entities and the market. These sources include financial statements, annual reports, auditors' reports, information from on-site inspections and information-gathering visits, public presentations and press releases. Where additional information is needed, meetings with representatives of the supervised institutions are organised on an ongoing basis.

Off-site surveillance helps the CNB to form a comprehensive picture of the financial condition of the supervised financial market entities and allows it to identify potential problems and risks, which provide a starting signal for conducting on-site examinations or making decisions on further action to be taken against a supervised institution.

Owing to the financial crisis in 2009, off-site surveillance was focused more intensively on the performance of domestic financial institutions. In this context, the portfolios of the supervised institutions were analysed in more detail and their exposure to risky entities or instruments was determined. The risk exposure was relatively low and so its impacts on institutions' financial results were only limited. Considerable attention is also being paid to the liquidity of key financial institutions. In this context, the supervisory authority communicated intensively with the supervised financial market institutions and introduced extraordinary reporting of selected indicators and information, which was gradually discontinued in the second half of 2009.

4.6.1 Supervision of credit institutions

The main analytical instrument employed in off-site surveillance is regular comprehensive analyses to assess the financial condition of individual entities and the credit institution sector as a whole. An analysis of the financial condition of each bank and credit union and the risks it undertakes is prepared quarterly. This serves as a basis for decisions on the intensity and manner of their supervision. Compliance with prudential limits (e.g. credit exposure limits) and other prudential rules for banks is monitored on a monthly basis for all credit institutions. Early warning information is also assessed every month; this comes from an automated system which helps supervisors to identify potential negative tendencies in the financial indicators of individual banks in a timely fashion. Branches of foreign banks from EU countries are assessed under a slightly simplified regime, as the CNB's powers of supervision of these entities are limited.[13]

Ratings dividing banks into five categories according to their financial conditions and management quality are prepared for internal CNB supervisory purposes twice a year.

Staff involved in off-site surveillance uses an automated Banking Supervision Information Centre. This tool, created in-house at the CNB, allows supervisors to view data from all the supervisory reports and statements and generates standard outputs. It also enables the creation of specific outputs for analytical assessments of individual institutions and the banking sector as a whole. This informational support provides an instant overview of the main indicators of the financial condition of each bank and the banking sector and of compliance with the prudential rules.

Auditors' reports on banks' and credit unions' internal control systems are an important source of information for supervision of credit institutions. These reports are requested from banks or credit unions particularly in periods when no on-site examination covering the given area is conducted. In 2009, CNB Banking Supervision obtained auditors' reports on internal control system from one bank and five credit unions, evaluating the situation in these institutions as of 31 December 2008. For 2009, requests for such audits were made with regard to nine banks. No requests for such audits were made in respect of credit unions in 2009.

In the initial phases of the global financial crisis, the CNB on 1 October 2008 introduced an extraordinary daily reporting obligation covering regular data on liquidity positions, the volume and structure of quick assets, the volume of deposits, exposures to groups of foreign parent undertakings and the volume of loans provided. For some banks the range of information provided was subsequently widened to include other data as needed.

The CNB decided to phase out daily reporting owing to a gradual calming of the market situation and because, from the start of 2009 onwards, domestic banks' liquidity and exposure situation was essentially calm and the daily reporting obligation was placing quite a significant burden on them. To begin with, numerous banks switched to weekly reporting, and later on, at the beginning of October 2009, the extraordinary reporting duty was completely discontinued for most banks.

13 Primary responsibility for supervision of foreign bank branches lies with home country supervisors. In the case of branches of foreign banks from EU Member States, the CNB mainly monitors their liquidity and compliance with the obligations under the Act on Banks.

By the end of 2009, supervision of banks was going on under the completely standard regime. Owing to the worsened economic situation, attention was being devoted primarily to the quality of banks' loan portfolios, sufficiency of provisioning, sufficiency of banks' capital to cover potential losses, and banks' overall performance. In this context, the CNB conducted a whole series of meetings and information-gathering visits in credit institutions in 2009.

The first round of regular half-yearly stress testing of banks' credit portfolios was conducted in the second half of 2009. Six selected banks which have been given approval to use a special IRB approach[14] to the calculation of capital requirements for credit risk, or in which IRB pre-validation by the CNB is ongoing, took part in the testing. The credit portfolio stress testing project consists primarily in assessing the effects of pre-defined economic scenarios on the credit portfolios of individual banks or the Czech banking sector as a whole. Two economic scenarios were prepared: a baseline scenario consistent with the CNB's official macroeconomic forecast and an adverse scenario simulating a deeper recession. These scenarios were subsequently pre-transformed into average percentage increases in the probability of default (PD) in the most important segments of the credit portfolio. The aggregated results of the first round on the data as of 30 June 2009 indicated relatively good resilience of domestic banks to the potential adverse economic scenario tested.

A subsequent second round of stress testing was conducted on the data as of 31 December 2009 for the same entities as in the first round. Two alternative economic scenarios were prepared in this case as well – a baseline scenario based on the CNB's current forecast and an adverse scenario assuming a strong recession and a further sizeable decline in GDP in 2010. By comparison with the mid-year testing, however, the tests were revised and expanded. For example, the assumption of a stable level of regulatory capital was relaxed. The aggregated stress test results based on the end-2009 data again demonstrated sufficient resilience of the participating commercial banks to the adverse macroeconomic shocks tested.

Supervision of the credit union sector proceeded in 2009 in compliance with the approved plan of activity under the standard regime without any need for extraordinary measures. It focused in particular on assessing the current situation and developments in individual credit unions and on resolving their regulatory problems. Some of large credit unions considered the possibility of conversion into a bank, and one proceeding took place in this matter.

In 2009, a total of 75 decisions were issued relating, among other things, to the assessment of the competence and integrity of proposed senior officers in banks, the approval of external auditors of banks and credit unions, the approval of lists of shareholders prior to general meetings, and the inclusion of subordinated debt in a bank's capital.

Shortcomings identified in credit institutions' activities during continuous off-site surveillance are resolved with these institutions using appropriate means to remedy the problem and achieve the required situation. In the event of less serious shortcomings, the credit institution is asked to inform the CNB about how and when the shortcomings will be remedied. To this end, credit institutions are required to send the CNB a list of measures adopted, usually on a quarterly basis. Less serious shortcomings detected during on-site examinations are dealt with in the same way. If more serious violations of the legal regulations or prudential rules are found in an institution's activities, remedial measures are imposed. The remedial measures listed in Article 26 of the Act on Banks or Article 28 of the Act on Credit Unions can be used.

14 The Internal Ratings Based Approach – see Articles 90–101 of Decree No. 123/2007.

4.6.2 Capital market supervision

In the capital market area, the CNB supervises investment firms, investment instrument markets, collective investment entities, pension funds and other entities operating in the capital market. Capital market supervision relates both to entities and to transactions.

Fulfilment of the information duty and the disclosure duty were continuously assessed in the investment firms sector as part of off-site surveillance. A detailed inspection of compliance with exposure limits and the correctness of recording thereof in the CNB's information system was commenced in 2009. Investment firms were called on to submit detailed documents on the basis of which compliance with exposure limits was inspected on an ongoing basis.

There was continued checking of compliance with new obligations on investment firms arising from the implementation into Czech law of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments amending Council Directive 85/611/EEC and 93/6/EEC and Directive of the European Parliament and of the Council 2000/12/EC and repealing Directive of the Council 93/22/EEC (MiFID), and similar duties of investment intermediaries. Greatest attention was paid to the management of potential conflicts of interest in the provision of the investment service of managing clients' assets on a discretionary basis under contract, the fulfilment of information duties to clients, and the process of ascertaining information from clients about their expertise, experience in investing in investment instruments, financial background and investment goals, and to how this information is assessed.

The activities of the exchange chamber, the exchange committees of the stock exchange and power exchange and the bodies of the Exchange Guarantee Fund were continuously monitored. Information sent by regulated market operators under their disclosure duty was regularly evaluated.

Special attention was paid to the CESR's activities in the area of the system for sharing reports on investment instrument transactions among the Member States' supervisory authorities. Practical experience has identified differences in the settings of the reporting system across the Member States which complicate the use of such data. The CESR's working groups worked intensively on the necessary harmonisation.

In the area of private pension insurance, trial monitoring of pension funds' performance according to prudential mechanism principles was commenced in 2009. This helped to maintain the financial stability of pension funds. The Association of Pension Funds of the Czech Republic recommended that its members should continue to send information on their financial results on a monthly basis. The Bank Board was regularly informed about the results.

The amendment to the Act on Private Pension Insurance has given rise, among other things, to changes in the area of informing those interested in private pension insurance, changes in the assessment of admissibility of incentives and the possibility of charging a migration fee in the case of contracts lasting less than five years. The CNB worked actively with the Association of Pension Funds on the definition of admissible and inadmissible incentives and on a draft information sheet for those interested in private pension insurance containing all the legally required information.

Off-site surveillance in the collective investment area was focused on inspection of the statutory disclosure duty. Formal shortcomings in fulfilment of the disclosure duty were communicated to individual entities and subsequently eliminated.

Off-site surveillance also involved across-the-board checking of the investment portfolio structures of all special funds for qualified investors. The analysis focused on compliance with legal investment limits and limits defined by statutes.

Attention was paid to the advertising of securities of "secured funds" and the offering and advertising of securities issued by funds for qualified investors. In this area, a broader debate was opened with the involvement of the Czech Capital Market Association.

4.6.3 Supervision of insurance companies

The CNB's financial market supervisory work involves checking insurance companies' compliance with the relevant legal rules as well as their solvency and performance from the point of view of their ability to fulfil their obligations. It also includes verifying the methods of creation and application of technical provisions and the financial placement of assets arising from technical provisions, checking compliance with the CNB's decisions, inspecting the conformity of activities performed with licences granted, and checking accounting procedures and the effectiveness of control systems.

Off-site surveillance is based on regular assessments of the financial condition of insurance companies, including compliance with prudential rules, as well as imposing remedial measures where shortcomings are detected. Key economic indicators of insurance companies are assessed on the basis of regularly submitted reports. In insurance companies that belong to an insurance group, data obtained from supplementary supervision of insurance companies in groups are also evaluated.

The financial situation of insurance companies is also analysed using an early warning system. This uses financial indicators to assess the recent trend in an insurance company's development at quarterly frequency from regularly obtained statements. It also enables supervisors to identify potential weaknesses in an insurance company's finances. Work continued in 2009 on introducing an overall internal rating system for insurance companies.

Information-gathering visits to all Czech insurance companies, focusing in particular on obtaining information on their current financial and business situation and their other plans and strategies, were an integral part of supervision in 2009. Besides the standard information-gathering visits, thematic information-gathering visits took place in selected insurance companies, each focusing on a specific segments of non-life or life insurance (for example credit insurance and guarantee insurance). More thematic information-gathering visits are planned for 2010.

Given the financial market developments, significant supervisory attention in 2009 was devoted to insurance companies' solvency and ability to cover technical provisions. The extraordinary reporting duty introduced in the second half of 2008 in response to the financial crisis and high financial market volatility was discontinued in the second half of 2009 for most insurance companies owing to the stabilisation of the financial situation. However, the extraordinary reporting duty was maintained in some form for selected insurance companies. Increased attention is also being paid to credit insurance companies. Investment and financial placement by insurance companies will remain a key issue in 2010.

Several joint inspections were conducted by the CNB and relevant foreign supervisory authorities at the international financial group level in 2009. These joint inspections were targeted at unifying the methodologies for individual areas of supervision within the EU. Cooperation with foreign supervisory authorities (for example in the form of attendance at coordination meetings relating to the supervision of insurance companies in groups) was stepped up during 2009.

4.6.4 Supplementary supervision of financial conglomerates

Financial conglomerates are groups in which insurance companies, banks and/or investment firms have a significant share. The insurance and banking sectors have a significant share in all the financial activities performed by the entities of such groups.

The CNB performs supplementary supervision of these groups under Act No. 377/2005 Coll. and Decree No. 347/2006 Coll. Supplementary supervision of financial conglomerates focuses on capital adequacy, intra-group transactions, risk concentrations, internal control systems and risk management systems. Since entities subject to financial market supervision by various supervisory authorities are active within financial conglomerates, the role of "coordinator" has been established under criteria specified in the aforementioned act for the purposes of supplementary supervision. Its role consists mainly in coordinating the collection and provision of significant information at financial conglomerate level, monitoring defined indicators, including compliance with the requirements for capital adequacy and risk management systems, and coordinating supervisory authorities' practices in the performance of supplementary supervision at financial conglomerate level. In 2009, the CNB acted as a coordinator in one case. In other cases, the role of coordinator was entrusted to foreign supervisory authorities, with which the CNB cooperates during supervision on an ongoing basis.

4.6.5 Supervision of other regulated entities

In the foreign exchange area, the CNB supervises more than 2,500 non-bank foreign exchange entities. These consist of entities offering cash purchases or sales of foreign currency as well as holders of foreign exchange licences for non-cash foreign currency transactions and holders of foreign exchange licences for the provision of financial services. The CNB's foreign exchange supervisory work involves checking compliance with the foreign exchange regulations, examining anti-money-laundering and anti-terrorist-financing measures and also inspecting measures relating to international sanctions.

The CNB extended its activity in the field of payment system oversight to include supervision of Clearstream Operations Prague s.r.o., (COP) under a Memorandum of Understanding between the Banque Centrale du Luxembourg and the Czech National Bank concerning the oversight of Clearstream Operations Prague s.r.o, signed in July 2009.

In monitoring COP's activities the CNB focuses on potential operational risk, measures to mitigate such risk, and the adequacy of the internal inspections conducted in COP. Information on investigation results is provided to the Banque Centrale du Luxembourg.

4.6.6 Cooperation with supervised institutions

Under the reporting duty, the CNB receives a whole range of reports and statements for supervisory and statistical purposes from regulated entities. The fulfilment of these reporting duties can be assessed as satisfactory. The overwhelming majority of entities submit reports of the required quality within the required deadlines, though in some cases there is still some room for improvement. The sporadic cases in which discrepancies were found in the submitted data were dealt with through communication between the CNB and the supervised institution. This supervisory practice has proved its worth and helps to improve the quality of the data submitted.

As part of the supervision of fulfilment of the regular reporting duty, supervisors focus on continuous, regular and timely compliance and also on the formal and objective accuracy of the reporting and of the data disclosed. When analysing the acquired data, the supervisory objective is to determine and monitor the regulatory risks occurring in the individual segments of the financial market.

The information contained in the regular reports is not always sufficient for financial market supervisory purposes, since by its nature it relates primarily to past events. Given the rapid development of the financial market, it is vital to communicate with regulated entities regarding their current situation, future prospects, strategies, intentions and so on. From the point of view of both the CNB and the individual regulated entities, successful and effective supervision requires regular and open communication between the supervisory authority and the supervised institutions. An ongoing exchange of information is also necessary during the preparation of amended or new regulatory measures.

The CNB rates positively and appreciates the approach of the individual regulated entities to cooperation and exchange of information. This good cooperation has been particularly apparent in the context of the ongoing financial crisis as the CNB has progressively introduced extraordinary reporting duties in individual financial market segments in order to obtain information on the current financial condition of individual supervised institutions. The central bank is endeavouring to further strengthen this mutual communication and exchange of information in relation to both individual entities and their professional associations.

4.7 ON-SITE EXAMINATIONS

On-site examinations are an important instrument of financial market supervision. They are performed in compliance with the legislation in force and are focused on checking compliance with the regulatory rules under the legal and implementing regulations. The inspections also enable supervisors to identify present and future risks in regulated entities, check compliance with the rules of conduct and professional care and take timely corrective action. In the area of prudent operation of regulated entities the CNB focuses on verifying, assessing and evaluating processes associated with risk identification, assessment, measurement, monitoring and management in terms of their adequacy, effectiveness and stability. The CNB proceeds from the presumption that the quality and integrity of risk management systems affect the risk potential of the financial market as a whole. Since financial institutions themselves are the source of most of the data used in off-site surveillance, it is very important to verify truthfulness and fairness of the reporting to the CNB. For this reason, assessment of the functioning of the report compilation system is an important aspect of on-site supervision. The individual examinations focus either on verifying all the relevant activities of the examined entity (comprehensive examinations) or on verifying selected areas thereof (partial examinations). When setting up inspection teams, the CNB takes into account the specialisations of the individual members so that their professional profile matches the focus of the inspection.

In addition to on-site examinations supervisors are heavily engaged in approving advanced methods for calculating capital requirements, focusing on assessing the applicants' preparedness for using internal models. This activity is connected to a significant extent with the implementation of Basel II.

Given the presence of international financial groups and the significance of foreign capital in the Czech financial market, cooperation with foreign regulators is being stepped up, particularly in the form of intensive exchange of information on inspection results, cooperation during the validation of internal models applied within financial groups, and the participation of staff in inspections abroad.

The on-site inspections conducted in 2009 were based on an annual plan of activity compiled with due regard to the requirements of both off-site surveillance and foreign regulators. The main criteria applied when the plan was drawn up included the significance and risk levels of individual institutions, the time elapsed since the last examination and also the latest developments in global financial markets.

The examined entities' managements were notified of any shortcomings detected. On-site examination reports were written and measures were imposed. Compliance with such measures is systematically monitored and evaluated. In justified cases, based on the inspection results, the CNB opened administrative proceedings with the relevant entities.

4.7.1 On-site examinations in credit institutions

The examinations were planned and conducted on the basis of analyses of risk management system results, the time elapsed since the last examination, the potential impacts of financial market developments and the validation of methods requiring the regulator's approval.

In the course of 2009, eight examinations were carried out in credit institutions, of which two were credit unions. Although these were partial examinations, the extent of coverage of most of the areas inspected resembled comprehensive examinations. The examinations focused on credit risk management, liquidity, internal auditing, compliance, operational risk management, money laundering prevention, information systems and technology, and reporting systems for regulatory purposes.

In the case of banking institutions, the examinations revealed no shortcomings posing a direct threat to their financial position and stability. However, some of the findings were in contravention of the regulatory requirements. The relevant shortcomings were stated in the inspection reports, which served as a basis for imposing remedial measures on individual credit institutions. In the case of one credit union, further action was delegated to the Enforcement Division owing to the nature of the shortcomings detected.

Examinations of credit risk management

The examinations of credit risk management were focused on evaluating compliance with the regulatory requirements for credit risk management in lending, trading with counterparties and asset securitisation. Given the current economic trends, emphasis was put on asset quality and also on whether continuous monitoring of clients, collateral evaluation and work with defaults were commensurate with the current economic situation and whether there was sufficient provisioning for defaults or whether the amount of capital allocated for the coverage of unexpected losses due to credit risk corresponded to the institutions' risk profiles.

More significant findings in 2009 included insufficient documentation of lending processes, errors in entering data into information systems, and shortcomings in assessing and monitoring collateral value and monitoring concentration risk in groups of connected persons. Increased attention was paid to loans showing signs of forced restructuring.

Examinations of management of market risks, liquidity risks and risks associated with trading on financial markets

In addition to examinations of credit institutions, the CNB's on-site supervision capacity in the area of market risks, liquidity and risks associated with financial market trading was used for inspecting insurance companies and for validating advanced methods for calculating capital requirements.

In 2009, one examination was conducted focusing on evaluation of the system of internally determined capital being put in place by credit institutions under Pillar 2 of the Basel II framework. Specifically, market risk management, liquidity risk and financial market transaction processing and settlement risk were inspected.

The major findings included the credit institution's limited knowledge of the VaR method used to monitor market risks by the parent consolidating company, shortcomings in the back-testing of this method's results, in data transmission for market risk management between information systems and in the credit risk stress testing method, and a discrepancy between the institution's strategy and the system of limits and permitted products. In the area of liquidity management, shortcomings were found in the system and construction of limits, in back-testing of the liquidity scenario and in the manner of securing refinancing in the event of extraordinary events. In the area of managing operational risks associated with the execution and settlement of financial market transactions, low effectiveness in checking the market conformity of transaction prices was detected.

Examinations of operational risk management, including IS/IT risks

Four examinations focusing on the system of operational risk management, including IS/IT risks, and one examination focusing on IS/IT risks were conducted in the credit institution sector in 2009. In addition to inspection activity, on-site supervision capacity was used also in approving advanced methods for the calculation of capital requirements. The on-site examinations in 2009 continued to assess the efficiency and effectiveness of processes associated with managing the risk of losses due to shortcomings in internal processes, the human factor, systems, external events and non-compliance with legal regulations. These examinations focused primarily on compliance with the regulatory requirements and evaluated whether the causes of the risks identified are assessed and whether effective measures are adopted to minimise their negative impact on banks. Examinations of the correctness of reporting of the capital requirement for operational risk continued to be a subject of on-site supervision in the operational risk area. The appropriateness of the assigned competences and responsibilities for operational risk management in the internal control system was evaluated with due regard to the scope and nature of the activities of the entities examined. The CNB paid attention to the issue of outsourcing in 2009, thereby responding to the potential risks associated with the strengthening of this trend (particularly in the area of IS/IT outsourcing). The CNB requires regulated entities to retain full responsibility for outsourced activities. This area was a significant part of operational risk examinations, in line with the growing influence of the state of information systems on the overall risk profile of regulated entities. Attention was focused on assessing information security management systems. In addition to assessing management and control processes, supervisors scrutinised the way in which the information security management system is integrated into the overall operational risk management framework. Verifications of logical, physical and personal security were a routine part of the examinations.

The deficiencies identified in the operational risk management area included shortcomings in collecting data on the occurrence of operational risk and evaluating its impact, in setting responsibilities for IS/IT risk management, in segregating conflicting duties, in monitoring and assessing operational risk, in managing the risks associated with outsourcing, in testing and updating contingency plans, in analysing the risks associated with information systems, in classifying IS/IT activities, in ensuring secure access to information systems, in ensuring the functionality of information systems, and in IS risk auditing.

On-site supervision in the operational risk area also involved verifying banks' preparedness for the introduction of advanced methods for determining the capital requirement for operational risk. Supervisors cooperated with foreign home regulators in this area.

Examinations of the operation and effectiveness of internal control systems

The relevant components and principles of internal control systems are examined as part of the inspection of the management of individual types of credit risk. Given the cross-sectional nature of these systems, the key overall prerequisites for sound corporate governance and internal control systems are additionally inspected. The internal control system examinations in particular check internal auditing, compliance[15] and the system for detecting and remedying shortcomings. On-site examinations in the area of corporate governance focus on evaluating overall organisational structures, the role of bodies and committees in internal control systems, risk management, information flows and mutual links and so on.

Despite the generally improving state of governance in the banking sector, long-term shortcomings in internal control systems include insufficient traceability of certain decision-making and control activities and inconsistencies between certain activities and internal and regulatory rules. There are also shortcomings in analysing and evaluating risks and in segregating conflicting duties. In individual cases, significant weaknesses were also identified in the system for eliminating shortcomings, in the monitoring and control of significant compliance risks, in internal audit planning, and in compliance with all the requirements for internal audit outsourcing. Additional specific findings included failure to conduct an internal audit of the system of internally determined capital, untraceability of the method for verifying remedial measures by the internal auditor, and problems of banks associated with staffing the audit committee with respect to the requirements of the new Act on Auditors.

More serious and more frequent shortcomings in internal control systems were found in the credit union sector. These included organisational structures that inadequately defined the responsibilities and powers of employees and persons performing some activities for credit unions and inadequately prevented conflicts of interest, insufficient staffing in some areas of activity, and insufficient or completely absent internal control system elements and principles, for example in the area of compliance, internal auditing and "four-eyes" checking.

Anti-money laundering (AML)

These examinations are focused on verifying the operation and effectiveness of the anti-money laundering and anti-terrorist financing system. The CNB's mandate to conduct such examinations is laid down in the relevant legal rules, in particular Act No. 253/2008 Coll., on Certain Measures against Money Laundering and Terrorist Financing. Since the AML system is part of the internal control system, relevant aspects of the internal control system are also verified as part of the examination of this area.

Supervisors check the compliance of the examined entity's activities with Act No. 253/2008 Coll. and other related acts (e.g. Act No. 69/2006 Coll., on the Performance of International Sanctions, etc.) and CNB Decree No. 281/2008 Coll., the application of appropriate "know-your-customer" policies, the sufficiency of vetting of persons, the ability of the credit institution to identify and assess suspicious transactions, the process of reporting suspicious transactions

15 Given the brief definition of compliance in Decree No. 123/2007 Coll., the CNB bases its evaluation on acknowledged standards, in particular the BIS's April 2005 document *The Compliance Function in Banks* and the CEBS's January 2006 *Guidelines on the Application of the Supervisory Review Process under Pillar 2*, which contain additional compliance principles and requirements.

to the Ministry of Finance, etc. The CNB works closely with the Ministry of Finance's Financial Analytical Unit as far as methodology is concerned.

The major deficiencies detected in 2009 included shortcomings in the area of performing international sanctions, failure to classify customers on the basis of risk factors and failure to perform AML checks of customers, shortcomings in the area of monitoring and detecting suspicious transactions, and failure to apply procedures against risks customers. Missing work processes for compliance with the AML duties laid down in the regulations were also detected.

Basel II implementation as regards advanced methods for determining capital requirements

Under the new capital adequacy framework (Basel II), in the wording of EU Directives 2006/48/EC and 2006/49/EC as transposed into CNB Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms, of 15 May 2007, banks are allowed to use advanced approaches based on mathematical models in order to calculate capital requirements.

In 2009, the teams set up in order to examine special methods continued their intensive consultations with all regulated institutions that have shown an interest in using the IRB approach for credit risk or the AMA approach for operational risk. The activities of the two teams included ongoing communication with foreign banking supervisory authorities in validating these advanced approaches in multinational banking groups.

Intensive pre-validation[16] and validation processes for the IRB approach were conducted in two banks operating in the Czech Republic, while the AMA approach was addressed by CNB staff in two banking groups in the Czech Republic.

In 2009, authorisation to use the AMA approach to the calculation of capital requirements for operational risk was granted to one bank in the Czech Republic, which had been included in its foreign parent bank's application to use the AMA approach. At the same time, documents necessary for the final decision on the AMA approach were prepared in one non-bank financial corporation. These documents were forwarded to the home supervisor and – by mutual agreement – taken into account in the final decision.

4.7.2 On-site examinations in capital market institutions

In the collective investment area in 2009, one on-site inspection was completed and one was conducted in a management company and in the non-autonomous investment fund managed by it, focusing on the prudential rules and the rules of organisation of internal operations and also on the rules of conduct and professional care in the management of assets of a collective investment fund. In the first case shortcomings were identified regarding professional care in the management of assets in mutual funds, the information duty in the area of providing investment services, reporting and calculating capital adequacy, and the procedure for valuating certain financial derivatives.

Three on-site examinations were completed in depositories in 2009. These examinations were concentrated on the handling of assets of collective investment funds and pension funds, the execution of orders, the method of valuation of assets of collective investment funds and pension funds and the calculation of the present value of mutual fund units or investment fund shares. Shortcomings were detected particularly in the checking of the instructions on the dates stipulated in the regulations, checking of payments from pension fund assets, systematic checking of professional care in price setting and other terms and conditions of transactions, checking of redemptions of collective investment fund units, checking of the calculation of the present value of mutual fund units, and checking of limits. Supervisors communicated with all depositories regarding the implementation of remedial measures. In one depository, the fulfilment of remedial measures connected with findings made in 2008 was verified by a subsequent on-site examination.

16 This is a preliminary informal examination of advanced methods for the capital requirements calculation before a bank or a financial group as a whole applies to use these methods for regulatory purposes.

In the area of private pension schemes, inspections were completed in three pension funds, focusing on compliance with the obligation to manage pension fund assets with professional care and compliance with the obligation to handle assets in a manner consistent with the interests of planholders as regards covering the direct and indirect costs of recruiting new planholders and of related activities. The inspectors identified an infringement of the obligation to manage fund assets with professional care and not to handle assets in a manner inconsistent with the interests of planholders in the event of covering costs in the group and when setting the allocation key for dividing costs within the group and covering commission costs. Other findings related mainly to unjustified performance of activities not linked with private pension insurance, inappropriate "tipster contracts", breach of duties arising from the amendment to the Act on Private Pension Insurance after 1 August 2009 as regards informing customers (commissions and related costs, advertising inadmissible incentives), breach of duties in the reporting and valuation of certain securities and in the market risk management area, and contraventions of the Accounting Act and Consumer Protection Act. Supervisors also communicated with all examined pension funds regarding the implementation of remedial measures.

Six on-site examinations were commenced in the area of investment service providers in 2009 (four in investment firms and two in investment intermediaries). Five of these examinations were comprehensive, focusing on compliance with the rules for prudent provision of investment services (in particular, administrative and accounting principles, internal control systems, financial risk management systems and liquidity management systems), the rules of conduct towards clients and maintenance of registers. The remaining examination was a specialised one, concentrating on maintenance of registers and on the foreign exchange area.

The examinations revealed no acute problems regarding the capital market sector as a whole. However, some quite serious violations of the legal regulations were detected in some areas. Numerous formal shortcomings were identified, often caused by non-compliance with the internal regulations of an investment firm by its employees and by wrongly configured – and therefore ineffective – internal control systems. During these inspections, in addition to the rules of conduct towards clients, shortcomings were identified in the keeping of a transactions and orders book, the reconciliation of clients' assets, the reporting of capital adequacy and credit exposure, the risk management system, in the area of advertising rules and in the anti-money laundering and terrorist financing area. In the event of errors, shortcomings are eliminated by means of remedial measures, including penalties. This is often followed by an inspection aimed at determining how the remedial measures have been applied in practice.

4.7.3 On-site examinations in insurance companies and insurance intermediaries

In the area of prudential supervision, one examination was conducted in an insurance company in 2009, focused on the amount of reserves for claim payments, the loss adjustment process and insurance risk management in non-life insurance.

The shortcomings consisted mainly in facts having a negative effect on the creation of provisions for claims, such as limitations of the information system for processing insurance policies and related loss adjustment, limited communication with partner insurance companies and shortcomings in contractual documentation on cooperation with insurance brokers. A further shortcoming was detected in failure to secure a file containing insurance claim payment instructions, entailing a risk of unauthorised modification of those instructions.

In 2009, one on-site examination focusing on the obligation to carry on insurance intermediary activities with professional care was in progress in one insurance intermediary and such examinations were completed in three insurance intermediaries. The shortcomings detected concerned infringement of the obligation to act with professional care when requesting and assessing information from clients and providing information to them, breach of duties connected with the entering of changes in the register of insurance intermediaries, with the content of agreements and with non-compliance with internal rules, inappropriate contracts with sales representatives in an intermediary network and insufficient internal controls thereof, the charging of an entry fee for entry into an intermediary network, and making intermediaries' commissions conditional on bringing further persons into the structure.

The preparation of an official information document on certain obligations of an insurance intermediary proceeded concurrently. This document should serve both as a supervisory benchmark and as information for intermediaries on how to bring their activities into compliance with the CNB's requirements. Particular emphasis is being placed on the areas of acting with professional care, obtaining information from clients, conducting analyses of the offers of relevant insurance companies and providing information to clients.

The preparation of methodological support for branches for conducting examinations of insurance intermediaries proceeded in connection with the involvement of CNB branches in such examinations.

4.7.4 On-site examinations in other regulated entities

The CNB conducts on-site foreign exchange inspections through its branches. The aim of these inspections is to verify the activities performed by a particular non-bank foreign exchange entity and its individual establishments and thereby contribute to enforcing and enhancing discipline in the supervised areas. The CNB carried out 362 on-site examinations and inspected a total of 485 establishments in the foreign exchange area in 2009. Where it found that the foreign exchange regulations had been contravened, it opened administrative proceedings or imposed measures to remedy the shortcomings outside the framework of administrative proceedings.

Under Article 59(1) of Act No. 284/2009 Coll., on the Payment System, small-scale electronic money issuers are subject to CNB supervision. Under Article 59(2) of the Payment System Act, the activities of small-scale electronic money issuers are supervised in the same way as those of payment institutions.

5. SUPERVISION OF COMPLIANCE WITH CONSUMER PROTECTION REGULATIONS

On the basis of an amendment to Act No. 634/1992 Coll., on the Consumer Protection Act, and an amendment to Act No. 6/1993 Coll., on the Czech National Bank, the Czech National Bank was in 2008 entrusted with supervising compliance with the prohibition of unfair commercial practices, the prohibition of discrimination against consumers and with obligations regarding the provision of proper pricing information[17] (hereinafter "selected obligations in the consumer protection area") in respect of entities subject to its supervision under Article 44(1) of the Act on the Czech National Bank. In order to fulfil this new legal obligation, a Consumer Protection Department was established on 1 September 2008. In addition to selected obligations in the consumer protection area, the Consumer Protection Department supervises compliance with the information duties stipulated for distance contracts for financial services under Articles 54(a)–(d) of Act No. 40/1964 Coll., the Civil Code, as amended, and since 1 November 2009, also compliance with the information disclosure duties applicable prior to concluding payment services agreements under the new Payment System Act.

5.1 CONDUCT OF SUPERVISION

Supervision in the consumer protection area differs somewhat from the other forms of financial market supervision mainly in the fact, that supervised institutions have no disclosure duty in this area. Indeed, such a duty would not even be feasible. The supervisory authority obtains information on possible breaches of the relevant legal rules from complaints filed either by consumers or by consumer protection associations under Article 26 of the Consumer Protection Act and also from its own activities. Supervision in the consumer protection area can thus be described as reactive, i.e. the investigation of complaints or other information received both from the point of view of one particular potential shortcoming and from the point of view of possible systemic problems in a supervised institution. In its supervisory work the Consumer Protection Department does not employ an on-site inspection plan, but uses on-site examinations together with other supervisory instruments, including written investigations, interviews with representatives of examined entities and information-gathering visits. There is good cooperation between the Financial Market Supervision Department and the Consumer Protection Department. The two units share information that the other might use in its supervisory activities. An examination of requested aspects of consumer protection can also be performed during on-site examinations organised by the Financial Market Supervision Department. Thanks to this cooperation, the Consumer Protection Department conducted only five on-site examinations in 2009 – in one branch of a foreign insurance company and in four insurance intermediaries.

As the public financial market supervisory authority, the CNB is not entitled to intervene in private legal relationships between supervised institutions and consumers and is therefore not an out-of-court dispute settlement authority. This means that its consumer protection activities differ markedly from those of, say, the Financial Arbitrator. Consequently, it sometimes happens that consumers after being informed of this fact do not cooperate sufficiently with the CNB during the investigation of their complaints, since for them the CNB's supervisory activities will not lead to a decision in their favour, including the expected compensation.

5.2 SUMMARY OF CONSUMERS' COMPLAINTS

In 2009, the Consumer Protection Department received 313 complaints, of which 41 fell outside the CNB's jurisdiction. These complaints were mostly against non-bank providers of consumer credit or against hire-purchase and leasing firms. Of the 272 complaints which the CNB investigated, only 12 were from consumer protection associations or were forwarded by the Czech Trade Inspectorate, the Ministry of Finance or other institutions, while 260 were sent in directly by individual consumers.

17 Article 23(9) of Act No 634/1992 Coll., on Consumer Protection, as amended.

The largest proportion of complaints out of the given number (40%) was directed against the insurance sector – both insurance companies and insurance intermediaries. The biggest problem in the insurance area seems to be life insurance, in particular the way in which it is sold and the way in which information on it is provided. Life insurance is a long-term and complex product combining insurance and investment components and also posing an investment risk to the policyholder. This is either not being properly explained to consumers or not being correctly understood by them. Disillusionment connected with the surrender value in the event of premature withdrawal from investment life insurance policies then leads to complaints. In such cases, however, it is very difficult to prove that the insurance intermediary is at fault or that the consumer has misunderstood. For these complex products, therefore, the CNB regards it as necessary to require a properly filled in record of the client's needs justifying why the product was recommended and intermediated to the consumer and how it was explained to him/her. Regulatory initiatives at EU level (proposals for a revision of the directive on insurance intermediaries and proposals for the regulation of combined products, where investment life insurance belongs) should help in this respect. It is also necessary to strengthen the financial education and general legal awareness of the public so that people always sign contracts and purchase products which they clearly understand and know the terms and conditions and related risks.

The CNB also recorded several complaints regarding accidence insurance and household insurance. Complaints in the area of vehicle liability insurance form a more significant group. A large number of complaints were associated with a problematic sales campaign for accident insurance related to payments of this insurance at the beginning of the year. During the year there were problems regarding settlement of this liability insurance and regarding some cases of the Czech Insurers Bureau's requirements concerning payment of the statutory contribution of uninsured persons under Article 15 of Act No. 168/1999 Coll., on Vehicle Liability Insurance.

Of the complaints received, 35% concerned banks, including building societies and foreign bank branches, and also credit unions, where the CNB received only one complaint for the entire year. Most of the complaints against banks related to banking services; only 12 out of the total of 94 complaints concerned investment services of banks. More than half of the consumers complained about insufficient information on products and their terms and conditions or prices. Shortcomings were also revealed in the settlement of complaints by banks. The CNB recorded numerous complaints about the renewal or withdrawal of credit cards in general and particularly of credit cards provided as a bonus in connection with the purchase of other products.

The Consumer Protection Department received only 13 complaints about non-bank investment firms and 14 complaints about investment intermediaries. These complaints related mostly to shortcomings in information on products or their costs and, in the case of investment intermediaries, to aggressive commercial practices (harassment and coercion regarding services refused).

Of the 272 complaints received and investigated, 124 were still open at the end of 2009. The largest number of the 148 complaints closed (63 cases) was not upheld. The second largest group consists of complaints about verbal information, which usually involve the consumer's word against that of the supervised institution and where it is impossible to uphold or reject the complaint (55 cases). The CNB is also encountering cases where the supervised institution voluntarily makes redress either in the specific individual case or by changing its sales system or informing its customers. In 2009, there were nine such cases for banks and six for insurance companies. Redress was also made by insurance intermediaries in four cases and investment intermediaries in two cases. In seven complaints made against a single entity, a motion was filed to open enforcement proceedings.

5.3 FINANCIAL EDUCATION

The CNB considers financial education to be a part of consumer protection in the financial market. It was actively involved in financial education on two levels in 2009. First and foremost, the CNB collaborates with other national authorities engaged in financial education, in particular the Ministry of Finance and the Ministry of Education, Youth and Sports. Together with these institutions, the CNB started at the end of 2009 to prepare a National Strategy for Financial Education, which the Ministry of Finance submitted to the Government for approval[18] in April 2010 and which is aimed at establishing an integrated system for financial education in the Czech Republic. One of the first steps of this strategy is a project to measure the financial literacy of the adult Czech population in the second half of 2010, preparations for which started in the fourth quarter of 2009.

The second level comprises actual financial education projects prepared at the CNB by the Consumer Protection Department in cooperation with a project team for financial education set up in October 2009. This includes a programme of seminars for teachers for the second stage of primary schools and the first stage of academic secondary schools as preparation for the teaching of financial literacy according to the financial literacy standards prepared and approved by the Ministry of Finance and the Ministry of Education, Youth and Sports. To promote the education of the adult population, the CNB disseminates information on financial literacy and general information on consumer protection on its website and has also prepared a series of articles entitled Ten Golden Rules for Bureau-de-Change (Currency Exchange) Clients for the regional daily Deník.

18 Approved by the Government of the Czech Republic on 10 May 2010

6. CENTRAL CREDIT REGISTER

The Central Credit Register (CCR) is an information system administered by the CNB which enables banks and foreign bank branches operating in the Czech Republic (hereinafter referred to as banks) to exchange information on the credit commitments and payment discipline of their clients. The CCR contains information on businesses by type of bank claims. All banks have access to the information in the CCR. All banks are also obliged to update the CCR on a monthly basis and maintain the quality of the information stored in its database.

The CCR has been operating in the Czech Republic for seven years. During this time, the register, which has been used mostly to provide information on the range and quality of loans provided to business borrowers, has also become an instrument used for statistical and analytical purposes. The core functions intermediating information on the credit commitments of bank clients have gradually been enlarged to include new analytical modules and outputs. In 2009, the development of the register was also focused on further enhancing user features.

Another CCR development phase – "CCR Optimisation and Stabilisation" was completed in 2009. New versions of the application's user modules and a communication channel supporting direct connection of banks' automated information systems with the CCR database were made available to users. This technology accelerates and simplifies banks' access to the CCR database and allows them to automate their processes for assessing client payment discipline.

The next CCR development phase will focus on the possibilities of applying the data within the CNB and in particular on international data exchange in the Working Group on Credit Registers at the European Central Bank. The growing use of CCR data is evidenced by the following operational features. The number of enquiries to the CCR by both banks and clients continued increasing in 2009. In most cases, banks have CCR information incorporated directly into their approval processes and business risk management systems and enjoy the benefits of direct connection of their internal systems to the CCR database. The number of extracts from the CCR provided to clients increased by 63% compared to 2008 and this indicator will continue to rise. Clients can now use data boxes to receive CCR extracts.

Table A.XIV – Main operational characteristics of the CCR

	31 Dec. 2006	31 Dec. 2007	31 Dec. 2008	31 Dec. 2009
Number of registered borrowers	356,247	403,417	461,277	497,726
of which: individual entrepreneurs	213,704	237,703	271,770	291,458
legal entities	142,543	165,714	189,507	206,268
Total loans outstanding (CZK billions)	1,101	1,141	1,265	1,200
Number of CCR users	2,284	2,422	2,472	2,194
Ad hoc enquiries about credit commitments (thousands/year)	141	148	180	205
Number of pieces of information on credit commitments in monthly reports (thousands/year)	2,250	2,390	2,800	3,038
Number of extracts made for clients in year	195	225	278	453

7. INTERNATIONAL COOPERATION

7.1 CHANGES IN THE FINANCIAL MARKET SUPERVISORY SET-UP IN THE EU

The work of the Lamfalussy Level 3 Committees[19], which bring together the EU national supervisory authorities and are tasked, among other things, with harmonising financial market regulations and supervisory practices within the EU, was affected to a large extent in 2009 by the publication of a report by a group of experts chaired by Jacques de Larosière focusing on the causes of, and solutions to, the financial crisis. The recommendations of this report led to significant proposals for changes to regulations and to the institutional regulatory and supervisory set-up in the EU.

The committees tried actively to influence the negotiating process leading towards their conversion into three new supervisory agencies in the EU (for the banking sector, the capital market and the insurance sector) and drafted opinions on each phase of that process. The committees endeavoured to provide these opinions jointly. However, the committees' opinions did not always reflect the standpoints of all the members. In the second half of 2009, the committees commented actively on the legislative proposals of the European Commission for the establishment of the agencies and on the "Omnibus Directive" proposing overall changes to the related sectoral directives in order to reflect the supervisory agencies' new powers. The committees were also actively involved in the negotiations in the EU Council's working bodies.

The new supervisory agencies are expected to start up on 1 January 2011. For this reason, the committees started to actively address their conversion into supervisory agencies, in particular as regards organisational changes.

The committees' work to refine the regulations and further strengthen and align supervisory culture and practices, particularly in response to the financial crisis, continued in parallel with the institutional conversion. These activities were based on ECOFIN Council recommendations and on commitments arising from G-20 resolutions. They primarily involved supporting and monitoring colleges of supervisors, work on crisis prevention, management and resolution framework, risk management and monitoring, revision of accounting standards, and reporting.

The work of the current committees will continue to intensify in line with the implementation of expected regulatory measures and the planned conversion of the committees into new supervisory agencies.

Committee of European Banking Supervisors (CEBS)

The aims of the Committee of European Banking Supervisors, in which the CNB has a representative, are to achieve better regulation and convergence in approaches to regulation and supervisory practices within the EU by creating recommendations and rules for credit institutions and supervisory authorities. It contributes to enhancing cooperation and the exchange of information between supervisory authorities. The committee has three standing expert groups, in which the CNB is actively involved (the Groupe de Contact, the Expert Group on Prudential Regulation and the Expert Group on Financial Information).

CEBS's work in 2009 focused mainly on activities related to the continuing financial crisis and on the preparation of standpoints and guidance for the European Commission. The Committee was also involved in work related to the future conversion of CEBS into a European Banking Authority (the EBA).

In 2009, CEBS provided the Commission with Call for Advice on options and national discretions under the CRD, on the classes of information that can be exchanged between home and host supervisory authorities under Article 42 of the CRD, and on the minimum retention requirement for securitised assets requested by the Commission in connection with the CRD amendment. CEBS issued eight sets of guidelines during 2009, on the following areas in particular:

19 Committee of European Banking Supervisors (CEBS)
Committee of European Securities Regulators (CESR)
Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).

operational risk implementation, streamlining of reporting requirements for supervised institutions, the large exposures regime (including a common reporting format), hybrid capital instruments, liquidity buffers and passport notifications. The CNB was involved in drafting or commenting on these documents through its participation in the CEBS working groups where the documents were prepared.

In January 2009, CEBS published a template for multilateral cooperation and coordination agreements for the supervision of cross-border bank groups. The template will be used for specific agreements between banking supervisory authorities. The main objectives of such agreements are to facilitate supervisory cooperation and the exchange of information, to allow for effective consolidated and solo supervision and to enable supervisors to develop a common understanding of the risk profile of the bank group. The CNB is actively involved in the work of seven colleges of supervisors, within which it has committed to cooperation by signing multilateral agreements. These colleges pertain to the cross-border groups of Erste Bank, Volksbank, Raiffeisenbank, Société Générale, UniCredit, KBC and ING.

CEBS completed a sector stress testing exercise during 2009 and submitted the results to the ECOFIN Council in early October 2009. The objective of the exercise was to increase the level of information among policy makers in assessing the resilience of the European financial system. The exercise was based on the situation at the end of 2008 and was conducted on a sample of 22 major European cross-border bank groups representing 60% of the total assets of the EU banking sector. The CNB was not directly involved in this exercise. At the end of 2009, preparations were commenced for a second stress testing exercise based on the situation at the end of 2009. This exercise will again focus on testing the resilience of the EU banking sector in the context of government exit strategies.

Committee of European Securities Regulators (CESR)

In 2009, CESR continued its activities responding to the financial crisis and addressed the changes in the financial market supervisory set-up. Technical advice was prepared for the European Commission in connection with draft new legislation. CNB representatives were actively involved at the expert level in the preparation of all documents in CESR working groups, including technical advice for the Commission regarding future implementing measures for directives, opinions on the Commission's legislative proposals, CESR guidelines and other regulatory outputs, assessments of the implementation of existing European rules and their operation in practice at national level, comparisons of supervisory practices, and analyses of financial market developments.

CESR's activities in the collective investment sector focused on the completion of technical advice for the Commission regarding future implementing measures for the new UCITS directive. The set of measures included advice on the management company passport, advice on the document for investors which will replace the current simplified prospectus, and advice on cross-border UCITS mergers, the establishment and operation of master-feeder structures and the new UCITS product notification procedure. CESR also addressed the definition of money market funds and the legislation governing UCITS depositaries at the national level. One of CESR's main priorities in 2009 was the preparation of the implementation of the new Commission regulation for credit rating agencies (CRAs), which introduces registration and direct supervision of CRAs. CESR produced draft guidelines on the registration process and on the functioning of colleges of supervisors, a consultation paper on the Central Depository, a consultation paper on the use of ratings issued by rating agencies based outside the EU and a draft multilateral agreement on cooperation with CRA supervisory authorities in third countries. Work continued on assessing the equivalence of the regulatory frameworks applied by the USA, Canada, Japan and Australia in relation to the EU. The launch of operation of colleges is under preparation. The CNB participated in the activities of the relevant CESR working group mostly by means of correspondence, expressing its opinions particularly on draft guidelines on CRA registration, on the documents required in registration applications and on the creation of a joint ratings depository headed by CESR. CESR mapped the use of discretions included in the Transparency Directive, MiFID and MAD (Market Abuse Directive) at the national level. Processes for approving and publishing prospectuses also continued to be mapped at the national level. CESR's activities in the accounting area were focused on the following four areas most affected by the financial crisis: simplification of valuation techniques (focusing on fair value accounting), testing for impairment of financial assets, procyclicality and dynamic provisioning, and consolidation of special purpose entities. The CNB expressed its opinions mainly on proposals connected with the preparation and publication of the first part of IFRS 9 Financial Instruments, i.e. the new accounting standard that is to gradually replace the current IAS 39 Financial Instruments: Recognition and Measurement.

CESR continued preparing a draft regulation on short selling and was also involved in the work on the future MAD review.

An Instrument Reference Database System (IRDS) was launched in June 2009. At the end of 2009 it contained more than half a million financial instruments. The CNB has created its own system for collecting data from markets and sending them to the central database. This system experienced no problems. Work continued on a project to widen current transaction reporting to include OTC derivatives within the Transaction Reporting Exchange Mechanism (TREM 3.0). The CNB expressed its opinions on the proposals to widen the system and actively submitted other proposed changes to the current system to enhance data quality. Most of these proposals were accepted and will be implemented in TREM 3.0. In connection with the preparation of information databases in the newly proposed framework for European financial market supervision, the CNB is consistently promoting coordination of the work of all three committees in the area of IT and the creation of new European supervisory databases.

CESR evaluated the impact of MiFID on the functioning of secondary stock markets, analysed the benefits of the potential introduction of post-trade transparency for bonds, structured products and credit derivatives, and prepared a report on current trends in trading in EU capital markets. Work continued on harmonising the approach to some issues in reporting on transactions executed according to MiFID trading requirements. Proposals for new pre-trade transparency waivers for shares under MiFID were assessed and public consultations were organised on various issues linked with the preparation of CESR advice for the Commission on the planned MiFID amendment. CESR also revised the MiFID protocols (cooperation agreements in the areas of supervision of branches, notifications and transparent calculations).

CESR prepared joint CESR-ESCB recommendations for settlement systems and central counterparties in the EU and opened a discussion on its implementation in the EU. It was also involved in evaluating the functioning of the voluntary Code of Conduct for Clearing and Settlement. The Committee also concentrated on increasing the transparency of OTC derivatives transactions. CESR prepared an opinion for the Commission regarding measures to increase the safety of derivatives markets, published a consultation paper on the central database of OTC derivatives contracts in the EU, and analysed the state of unsettled trades and related sanctions in individual states. It dealt on an ongoing basis with practical problems in the area of approving prospectuses and public offerings. CESR prepared an opinion for the Commission as part of a public consultation regarding proposed changes to the Prospectus Directive.

CESR focused on ensuring a unified approach by supervisory authorities to the implementation of the Transparency Directive. The Committee prepared a report on exchange of information on equivalence decisions in the transparency area and an opinion for the Commission on the possible use of standard forms for shareholding notifications. The final touches are being put to a consultation paper on shareholding notifications in relation to cash settled derivatives. CESR published a consultation paper on the use of a standard reporting format (XBRL – eXtensible Business Reporting Language) for securities issuers. The results of the consultation will be used to prepare an analysis of the use of XBRL for sharing regulated data within the network of national databases.

Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

Within CEIOPS, CNB employees took part in the continuing preparation of the new Solvency II prudential framework and worked on the implementing measures of the Solvency II framework directive.[20] The CNB was actively involved in the meetings of CEIOPS and relevant working groups, at which a whole range of draft implementing measures for Solvency II were prepared and approved for public consultation or as reference documents for the European Commission (e.g. implementing measures for technical provisions, the SCR standard formula, approval of internal models, supervision in the area of risk concentrations and intra-group transactions, and cooperation between supervisory authorities in the supervision of insurance groups).

20 Negotiations on the content of the directive were completed in the Council of the EU and the European Parliament in 2009.

In CEIOPS working groups the CNB was involved in activities concentrated on monitoring the financial market crisis and its impacts on the European insurance market. CEIOPS submitted these assessments to the Commission, the FSC, the EFC and the ECOFIN Council. CEIOPS also prepared a fifth quantitative impact study (QIS5). QIS5 will assess the potential impact of Solvency II on insurance companies. More than 1,400 insurance companies from all 30 EEA countries took part in QIS4. Within CEIOPS the CNB monitored preparations for, and progress with, stress tests of the insurance sector. The first round of stress tests took place in the second half of 2009 on a sample of the 28 largest European insurance groups.

CEIOPS regularly assesses conditions on the European insurance market. Twice a year it publishes a report on developments and financial stability in the insurance sector, which is sent to other European institutions and authorities (e.g. FSC, EFC).

The Review Panel continued its activities within CEIOPS. Its mandate is to monitor convergence in supervisory practices in this area across CEIOPS members. At present, the Review Panel is carrying out its first peer review of the implementation of the Committee's recommendations. This is focused on compliance with the requirements of cooperation agreements in the supervision of insurance companies (the Siena Protocol), by employee pension funds (the Budapest Protocol) and by insurance groups (the Helsinki Protocol and the CEIOPS-CEBS 10 Common Principles for Colleges of Supervisors).

The Joint Committee on Financial Conglomerates (JCFC)

At the beginning of 2009, the Joint Committee on Financial Conglomerates replaced the Interim Working Committee on Financial Conglomerates (IWCFC) on the basis of a revision of the decisions establishing CEBS, CEIOPS and CESR. CEBS and CEIOPS cooperate via the JCFC in the area of supervision of financial conglomerates. In the course of 2009, the JCFC, like the IWCFC in previous years, provided a platform for the exchange of information between supervisory authorities, in particular on the condition of large financial conglomerates. The CNB is actively involved in the activities of this committee.

The JCFC spent much of its time in 2009 preparing a response to a European Commission call for advice relating to the ongoing assessment of the Financial Conglomerates Directive (FICoD). The advice concerned terminology, scope and internal control requirements, including an opinion on how to deal with problems identified. The JCFC proposed, for example, a legislative change to the definition of mixed financial holding companies. Another recommendation related to asset management companies (AMCs) and how they should be taken into account in when identifying a group as a financial conglomerate.

The JCFC also expressed its opinion on the application of significance threshold for identifying a group as a financial conglomerate. Other recommendations concerned participations.

The advice of JCFC has become one of the key source documents for the directive assessment group established by the Commission in 2009 in connection with the preparation of the FICoD amendment. Work on this amendment is continuing in 2010.

7.2 COOPERATION WITHIN EUROPEAN CENTRAL BANK STRUCTURES

Banking Supervision Committee (BSC)

In 2009, the BSC discussed the ECB's half-yearly Financial Stability Reviews, the impacts of the proposals for the reform of supervision in the EU contained in the report submitted by the group led by Jacques de Larosière on the BSC's position and role, a report on the results of the bank stress testing exercise for the EFC Committee, and recommendations in the area of central counterparties concentrating on OTC derivatives clearing. The committee continued to pay increased attention to the impacts of the financial crisis on the EU system.

The CNB is actively involved in both the BSC itself and its three working groups. The first is the Working Group on Macroprudential Analysis (WGMA). In addition to the tasks it regularly discusses, which include Banking Sector Stability Reports and its contribution to the aforementioned Financial Stability Reviews, the group also examined the risks caused by the links between banks and insurance companies in financial groups, developments in the market for commercial property loans in the euro area, the effect of securitisation on European banks and the risks associated with foreign currency loans.

In 2009, the Working Group on Developments in Banking (WGDB) prepared its regular EU Banking Structures Report. It also performed a traditional mapping exercise – a report mapping the activities of the main EU banking groups with major cross-border activities. The issues of banking sector remuneration and incentives, bank performance measurement and future EU financial sector developments were opened within temporary working subgroups. In 2009, increased attention was paid to monitoring the impacts of the financial crisis on the EU banking system, particularly in those EU countries whose banking sectors had been hardest hit by the crisis.

The Working Group on Credit Registers (WGCR) in 2009 focused on revising the existing MoU and the related implementation guide in relation to planned changes in the system and its extension to new countries. In the interests of strengthening the use of credit register information for financial statistics, analytical activities and research, the WGCR organised two seminars on these topics.

In addition to working groups, the BSC has working subgroups for specific projects, for crisis management (TFCM) and for harmonisation of statistical and regulatory reporting (JEGR). The working group on crisis management continued in 2009 with the activities it commenced after the signing of the pan-European memorandum of understanding on cooperation in the financial stability area in June 2008 and focused on monitoring the implementation of the Systemic Impact Assessment Framework in individual EU Member States. The group also prepared a document on the possible practical functioning of the Cross-Border Stability Groups (CBSGs), whose establishment is envisaged by the aforementioned memorandum. The temporary working group for harmonisation of statistical and regulatory reporting wound up its activities in September 2009 by issuing a final report. The results of the work of this group included mapping interconnections and establishing a relational database, proposing specific ways of harmonising the methodology in the two concepts in the short run, and making recommendations for the future consisting mainly in the further development of cooperation.

7.3 COOPERATION WITHIN THE BASEL COMMITTEE ON BANKING SUPERVISION (BCBS)

In the first half of 2009, the CNB was represented in the BCBS in the International Liaison Group (ILG) and its working subgroup, the International Liaison Group on Capital (ILGC). The ILG discussed issues relating to the financial crisis and the BCBS's proposals for changes in Basel II. The ILGC discussed, among other things, credit risk concentrations, approval of the IRB approach, ways of setting a supplementary capital requirement not derived from risk and remuneration policy. The ILG was wound down at the end of June 2009. The Basel Consultative Group (BCG), which the CNB is also a member of, took over where the ILG left off. The BCG is focusing mainly on the proposals for regulatory measures which are emerging in response to the financial crisis. It has several streams of regulatory work, in particular increasing the capital requirements in selected areas under Pillar 1, disclosure requirements under Pillar 3, definitions of capital, proposals for the leverage ratio, anti-cyclical buffers, liquidity and changes in the accounting system. Most areas are only in the proposal phase and are expected to be approved by the end of 2010 following the implementation and assessment of an impact study scheduled to take place in spring 2010.

7.4 COOPERATION WITHIN OTHER INTERNATIONAL ORGANISATIONS

Cooperation within the International Organization of Securities Commissions (IOSCO)
The CNB has been a signatory to the IOSCO Multilateral Memorandum of Understanding (MMoU) since March 2007. It cooperates actively with individual signatory states under the Memorandum. IOSCO's vision is to cooperate together to promote high standards of regulation in order to maintain just, efficient and financially sound capital markets.

IOSCO continued its activities responding to the financial crisis in 2009. The main issues included hedge funds, short selling, asset-backed securities, unregulated markets and products, credit rating agencies and the MMoU.

Among other things, IOSCO published a report on hedge funds oversight containing six high-level principles for the regulation of hedge funds, regulatory standards for hedge funds, a report on the regulation of short selling containing four high-level principles for such regulation, a final report by the Task Force on Commodity Futures Markets containing recommendations for enhancing oversight, a report on the implementation of the Credit Rating Agency Code and information on international cooperation in the oversight of CRAs, a report mapping the legislative framework for public offerings of foreign funds' securities in selected countries, including the Czech Republic, principles for outsourcing by regulated market operators, guidelines and examples of due diligence good practices regarding investments in structured products by collective investment schemes, and recommendations to enhance transparency and introduce oversight of unregulated markets and products, focusing on securitisation and credit derivatives markets.

IOSCO has established a new Strategic Direction Task Force tasked with defining IOSCO's new strategy in relation to the future new framework for financial market supervision and regulation. The IOSCO's role as a creator of international standards for capital market regulation and supervision should be further strengthened.

Cooperation within the International Organisation of Pension Supervisors (IOPS)
The CNB cooperated within the IOPS again in 2009. This included attendance at the IOPS´s Annual General Meeting and at Technical Committee meetings. The discussions focused mainly on further developing the Risk-based Supervision Toolkit, which has been the IOPS's flagship project since 2007 and should be completed in 2010. The situation in individual member states in the context of financial market developments was also discussed.

Cooperation within the International Association of Insurance Supervisors (IAIS)
The CNB also cooperated within the IAIS in 2009. It downscaled its involvement in the IAIS annual conference and in the meetings of IAIS working committees and subcommittees, but actively monitored the work on individual standards and guidance papers and took part in various IAIS surveys in the period under review.

7.5 COOPERATION WITH PARTNER SUPERVISORY AUTHORITIES

Towards the end of 2009, the CNB signed a bilateral memorandum of understanding with the China Banking Regulatory Commission. This took the number of supervisory authorities with which the CNB has signed bilateral MoUs to nine. The number of MoUs in the areas of insurance and the capital market was unchanged. In the capital market area, the CNB continued cooperating primarily on the basis of multilateral MoUs prepared by IOSCO and CESR.

In 2009, the CNB opened discussions with the Luxembourg Commission de Surveillance du Secteur Financier (CSSF) on a proposal to amend the existing MoU on the exchange of information and mutual assistance in matters of regulation in the securities area between the CNB and CSSF.

In the supplementary supervision of insurance companies in groups, the CNB attends the meetings of coordination committees of supervisors of specific insurance groups. Intensive cooperation with supervisors of insurance companies belonging to insurance groups operating in the Czech Republic continued. Multilateral and bilateral meetings of supervisors of entities from such groups take place in this context. Cooperation with partner supervisory authorities also continued in the supplementary supervision of financial conglomerates.

PART B
THE FINANCIAL MARKET IN 2009

The Czech National Bank's competences include exercising supervision of the financial market. This activity falls within the responsibilities of the Financial Market Regulation and Analyses Department, Licensing and Enforcement Department and Financial Market Supervision Department. Financial market supervisory activities are governed by a single supervisory concept. The CNB, as the integrated regulatory and supervisory authority, focused on unifying its licensing, authorisation and supervisory procedures. When implementing the single supervisory concept and conducting supervision, the CNB takes into account the individual risk profiles of the supervised institutions.

At the end of 2009, the CNB was supervising 16 banks, 5 building societies, 17 credit unions, 35 insurance undertakings, 10 pension funds, 8 depositories, 139 open-end mutual funds, 28 non-bank investment firms and about 2,500 non-bank foreign exchange entities. To a limited extent only, the CNB was also supervising 18 branches of foreign banks and monitoring the activities of 16 branches of insurance undertakings from the EU and 1 branch of an insurance undertaking from outside the EU/EEA. Regulated markets (the Prague Stock Exchange, RM-Systém, česká burza cenných papírů a.s. and Power Exchange Central Europe, a.s.) were also subject to CNB supervision. The CNB was also supervising electronic money institutions, partly branches of foreign electronic money institutions, small-scale electronic money issuers, payment institutions and small-scale payment service providers. The CNB approved bond issuance conditions and securities prospectuses and granted consents to takeover bid announcements and squeeze-outs. Keeping lists and documentation, and the publication thereof, especially in a manner allowing remote access, are also part of CNB regulation and supervision. The CNB also administers the Central Credit Register, which allows banks and foreign bank branches operating in the Czech Republic to exchange information on the credit commitments and payment discipline of their clients (legal entities).

As of 31 December 2009, the Czech banking sector consisted of 39 banks and foreign bank branches. The assets of the banking sector rose by 1.2% in 2009, to CZK 4,094.8 billion.

Of all the standard risks, the banking sector is still most exposed to credit risk in terms of the structure of transactions. Lending to individuals remained dynamic although the growth rate declined to 11.1%. The total value of these loans was close to CZK 900 billion at the end of the year. Loans for house purchase accounted for more than 76% of all loans provided to households at the end of 2009. Mortgage loans to households to finance house purchases totalled CZK 558.3 billion at the end of 2009.[1] The growth rate of consumer

1 The stock of mortgage loans as of the end of 2009 is reported in compliance with a new (wider) mortgage loan definition as laid down in the Act on Bonds. The data are not comparable from the time perspective due to the change in methodology.

credit, which amounted to CZK 185.6 billion, slowed to 9.8%. Loans to non-financial corporations fell by 7.8% to CZK 782.2 billion in 2009. Owing to the macroeconomic situation and the reduced ability of non-financial corporations and individuals to repay their obligations, default receivables rose by CZK 45.5 billion (65.3%) to CZK 115.1 billion. The share of default receivables in total investment portfolio liabilities was still relatively low at the end of 2009 (at 4.6%), but is steadily increasing.

Domestic banks are mostly local in nature and their activities are mostly focused on domestic clients. The share of transactions with non-residents and the share of foreign currency activities are relatively low. The exposure of the banking sector to territorial and foreign exchange risk was assessed as limited in 2009, too. Operations on foreign markets are usually executed by other entities from the financial group to which the domestic bank belongs. Transactions with non-residents are significant mainly in the interbank market, particularly as regards derivatives transactions.

The banking sector still has enough liquid funds and the liquidity sub-indicators were stable in 2009. Quick assets increased by 11.1% year on year to CZK 1,036.3 billion at the end of the year. Sufficient primary funds are available to finance the loans of the banking sector.

The capital adequacy of the Czech banking sector is sufficient. The capital adequacy ratio increased to 14.1% as of 31 December 2009, owing mainly to a 14.7% rise in the total regulatory capital of the banking sector to CZK 264.7 billion. Tier 1 increased to CZK 237.6 billion at the end of the year thanks to retained earnings. Part of Tier 2 capital was affected by an increase in subordinated debt and partial repayment thereof in several banks. Tier 1 traditionally has a dominant position in the banking sector's capital, accounting for roughly 90% of total regulatory capital. The capital requirements of the banking sector were broadly flat, increasing by just CZK 102.0 million.

The banking sector generated a net profit of CZK 60.0 billion in 2009. The main source of the growth in net profit was an increase in profit from financial activities. Interest profit rose by a further 5.4% in 2009 and accounted for more than 61% of profit from financial activities. Profit from fees and commissions rose by less than 1% to CZK 36.4 billion. Profit from financial operations, amounting to CZK 11.9 billion, was a significant contributor. Total administrative expenses fell slightly, by CZK 1.3 billion, to CZK 60.4 billion. At CZK 11.0 billion, total income tax increased by CZK 2.7 billion year on year.

Credit unions recorded asset growth of almost 50% in 2009. This was driven by growth in deposits. This contrasts with stagnation in the total assets of other financial institutions. Credit unions faced big challenges with regard to the profitability of allocating deposits to assets and management of risks, credit risk in particular.

Capital market participants recorded mixed results in 2009. During 2009, the 63 entities with investment firm licenses (11 banks, 28 non-bank investment firms, 14 foreign bank branches, four organisational units of foreign investment firms and six domestic management companies managing assets of clients under contract) carried out trades for their clients totalling CZK 12,652 billion, a year-on-year rise of 28.8%. Most of them were non-management trades (CZK 11,839 billion). Trades in collective investment securities predominated (45.3%), followed by bond trades (24.3%), share trades (23.7%) and money market instrument trades (6.8%).

The aforementioned investment firms carried out securities trades for their own account totalling CZK 30,820 billion in 2009 (up by 64.4% year on year), with collective investment security trades accounting for 19.0%, bond trades for 41.2%, money market instrument trades for 35% and share trades for 4.8%. Most of the trades (CZK 29,874 billion) were executed by bank investment firms (including foreign bank branches).

The assets of collective investment funds open to the public amounted to CZK 119.0 billion at the end of 2009, down by just under CZK 4 billion (3.2%) from the end of 2008. The largest fall in the value of funds' assets was recorded in 2009 Q1; the remainder of 2009 saw a gradual rise. Owing to the global financial turmoil, the asset value of open-end mutual funds declined by more than CZK 55 billion in 2008 and 2009. However, this figure represents not just a decline in the value of assets due to a fall in their market price, but also a negative net value of unit purchases and sales, which negatively affected the value of money market fund assets in particular. The assets managed by funds for qualified investors amounted to CZK 28.3 billion at the end of 2009, up by 19.6% on the end of 2008.

The pension fund sector, comprising ten pension funds, recorded a net profit of CZK 2.6 billion as of 31 December 2009, a more than a threefold increase on the same period of 2008. The improved performance of the pension fund sector was due to a recovery on the equity and bond markets during 2009.

The total assets managed by pension funds rose to CZK 215.9 billion at the end of 2009, up by more than CZK 24 billion (12.6%) on the same period a year earlier. Given pension funds' conservative investment policies, the bulk of their assets were invested in debt securities (CZK 173.7 billion, i.e. more than 80%), while less than 5% were in shares and units (CZK 10.4 billion) and around 10% were in time deposits and on term accounts (less than CZK 22 billion).

The own funds of the pension fund sector as a whole amounted to CZK 13.4 billion at the end of 2009, up by more than CZK 10 billion on a year earlier, indicating a considerable stabilisation of the sector. During 2009, the number of planholders increased to 4.4 million at the end of the year. The number of new private pension plans declined slightly compared to the previous three years, mainly because of market saturation. Planholders' funds increased by about CZK 14 billion (7.5%) compared to the end of 2008, reaching CZK 200.7 billion at the end of 2009.

Share trading on the Prague Stock Exchange (PSE) decreased considerably, from CZK 852.0 billion to CZK 463.9 billion at the end of the year. This represents a year-on-year fall of 45.5%. After bottoming out in late February and early March 2009, prices of most traded securities rose above their 2008 levels during the year. A total of 25 share issues were being traded on the PSE at the end of 2009, i.e. three issues less than at the end of 2008. The PSE's PX index stood at 1,117.3 points at the end of 2009 (up by 30.2% on a year earlier). As of 31 December 2009, the market capitalisation of shares traded on the PSE was CZK 1,293.5 billion, a rise of 18.5% compared to the end of 2008. Foreign issues accounted for 36.2%, or CZK 303.1 billion, of the market capitalisation.

The total volume of bond trades on the PSE declined by 8.9% compared to 2008, to CZK 585.7 billion. The number of bond issues traded on the PSE declined from 121 to 116 compared to the previous year. Derivatives trading on the PSE remained negligible at just under CZK 463 million in 2009.

The total annual trading on the other domestic regulated market, RM-SYSTÉM, česká burza cenných papírů a.s., showed a significant rise from CZK 8.1 billion in 2008 to CZK 10.5 billion in 2009. Its RM index rose from 1,943.9 points at the end of 2008 to 2,340.7 points at the end of 2009, i.e. by 20.4%.

As of 31 December 2009, the Czech insurance market consisted of 35 domestic insurance undertakings, 16 branches of EU insurance undertakings and one branch of a third-country insurance undertaking.

Owing to the recession in the Czech Republic, the insurance market recorded lower growth in gross premiums written than in previous years. The rate of growth of premiums written, which amounted to CZK 144.1 billion for the entire insurance market in 2009, declined to 3.1%. The growth in gross premiums written in 2009 was mainly due to life insurance, whose growth rate rose by 0.8 percentage point to 5.9% despite the economic contraction in the Czech Republic. By contrast, non-life insurance was flat, with the volume of premiums written increasing by just 1.2% year on year. The share of life insurance in total premiums written increased to its highest-ever level in 2009, rising by 1.1 percentage points compared to the previous period to 41.8%. The non-life insurance market is still dominated by motor third party liability insurance (with a share of 29.0%), followed by insurance against damage to or loss of property (23.7%) and insurance against damage to or loss of land vehicles (19.9%).

The growth rate of claim settlement costs fell by 3.0 percentage points year on year to 9.5%, with total claim settlement costs rising to CZK 75.8 billion. The total assets of insurance undertakings increased by 7.5% to CZK 396.9 billion in 2009. This was a slightly higher pace than a year earlier, when the growth had reached 7.0%. Financial placement (excluding unit linked) is the largest asset item for domestic insurance undertakings. Its value grew by 6.2%, down by 0.6 percentage point from the previous year. Technical provisions are a specific – and also the largest – liability item. In 2009, the share of net technical provisions (excluding provisions for unit-linked life insurance) in the total liabilities of domestic insurance undertakings fell by 3.5 percentage points year on year to 63.4%. Net profit was strongly affected by an increase in returns on financial placement. It reached CZK 15.5 billion for the insurance undertakings sector as a whole, up by 64.2% on 2008. This strong growth in profit compared to the previous period was due mainly to the technical account for life insurance, which showed a profit of CZK 11.3 billion in 2009 following a loss of CZK 47 million in 2008.

1. THE ECONOMIC ENVIRONMENT IN 2009[2]

The global financial and economic crisis affected the macroeconomic situation in the Czech Republic in 2009. The adverse economic trends impacted on the financial performance of institutions operating in the domestic financial market and the ability of businesses and individuals to repay their obligations. Following several years of buoyant economic growth, and after stagnating in 2008, the economy fell into recession in 2008 Q4. GDP decreased by more than 4% in 2009.

The decrease in GDP in 2009 was affected mainly by reduced export opportunities, as global trade recorded a considerable contraction. The small and open Czech economy is very vulnerable in this respect. Both exports and imports of goods recorded declines of almost 10% in 2009 as a whole, while investment saw an even more substantial fall. A slight improvement was fostered by an increase in exports at the end of 2009, following a gradual recovery of the euro area economy and the introduction of car-scrapping incentives in some neighbouring countries. By contrast, household consumption started to decline in 2009 H2 owing to rising unemployment and slower wage growth.

Inflation recorded a sharp decline compared to 2008. The average inflation rate in 2009 was 1.0%, down by 5.3 percentage points from a year earlier.

The depreciation of the exchange rate of the koruna against both the euro and the dollar, which started in 2008 Q3, continued into the start of 2009. Import prices thus recorded an annual increase at the beginning of 2009. However, the koruna's exchange rate started to appreciate gradually against the euro in March and import prices switched to a relatively large annual decline in the remainder of 2009. Nevertheless, the average CZK/EUR exchange rate depreciated from 24.9 in 2008 to 26.4 in 2009. The average koruna-dollar exchange rate showed an even more marked annual depreciation, from an average of CZK/USD 17.0 in 2008 to CZK/USD 19.1 in 2009.

The current account deficit increased slightly to 1.0% of GDP. In absolute terms it reached CZK 37.0 billion. The trade surplus increased significantly, thus reducing the current account deficit during 2009. As in previous years, the financial account showed a surplus in 2009. It amounted to CZK 95.1 billion, up by about CZK 35 billion on a year earlier. This was due mainly to inflows of portfolio and direct investment. The other financial account items recorded an outflow of funds abroad.

2 The data in this section are based on CZSO data available up to 10 May 2010.

The labour market situation deteriorated in 2009 owing to the economic recession. The labour market trend copied the decline in economic activity with the usual lag. The number of vacancies was very limited. The number of unemployed persons steadily increased during 2009. The average registered unemployment rate rose by 2.5 percentage points to 8.0% under current MLSA methodology. At 4.0%, growth in the average gross monthly nominal wage in 2009 was 4.3 percentage points lower than in 2008. Average real wages increased by 3.0% year on year, a rise of 1.1 percentage points compared to 2008. Aggregate labour productivity recorded an annual decline of 3.1%.

The economic recession and the anti-crisis measures adopted generated an increase in the government deficit in 2009. The deficit under ESA95 methodology amounted to CZK 213.7 billion, or 5.9% of GDP, in 2009. The government debt-to-GDP ratio increased in 2009, totalling 35.4% at the end of the year.

The Czech National Bank responded to the economic developments by continuing to lower its key interest rates. It changed its key interest rates four times in 2009 (in February, May, August and December), which resulted in a decline in the repo rate of 1.23 percentage points compared to the end of 2008. Monetary policy decisions were based on forecasts drawn up for the Czech economy. The two-week repo rate was lowered from 2.25% to 1.00%, the discount rate from 1.25% to 0.25%, and the Lombard rate from 3.25% to 2.00%.

2. CREDIT INSTITUTION SECTORS

2.1 THE STRUCTURE OF THE BANKING SECTOR

As of 31 December 2009, the Czech banking sector consisted of 39 banks and foreign bank branches. The number of banks increased by two compared to the end of 2008. AXA Bank Europe, organizační složka, a branch under the single licence (country of origin: the Kingdom of Belgium), Poštová banka, a.s., pobočka Česká republika (country of origin: the Slovak Republic) and Saxo Bank A/S, organizační složka (country of origin: the Kingdom of Denmark) started to operate in the Czech Republic in 2009. By contrast, foreign bank branch Straumur-Burdaras Investment Bank hf - organizační složka closed down in the Czech Republic on 1 July 2009.

The structure of the banking sector was virtually unchanged in 2009. The banking institutions include 16 banks (four large banks, four medium-sized banks and eight small banks), five building societies and 18 foreign bank branches.[3] The distribution of banks into these five basic groups also remained broadly unchanged in 2009. The group of four large banks is still the largest component of the domestic banking market. Their share in total banking sector assets increased only slightly below the 58% level in 2009.

Since EU accession the Czech financial market has been part of the EU single financial market and has been open to other institutions in addition to the above-mentioned banks. Those institutions may carry on business on the Czech financial market and benefit from the free movement of services under the single licence. A total of 276 banks from EU Member States that had notified the Czech National Bank of this activity were prepared to provide banking services on this basis at the end of 2009. They can offer banking services without establishing a branch in the Czech Republic pursuant to Article 21 of Directive 2000/12/EC of the European Parliament and of the Council. Under the notification framework, the CNB is informed in detail about the range of such activities. As in other EU Member States, banks are not subject to a reporting duty in this area and their operations in the domestic banking sector are not subject to CNB supervision and regulation. The number of banks that newly notified the CNB of the provision of cross-border services in the Czech Republic was 32 in 2009. By contrast, eight banks gave notification of the termination of such activities in the same period.

Banks having their registered offices in the Czech Republic are also entitled to offer cross-border services in other EU/EEA Member

Table II.1

Number of banks
(for banks with licences as of the given date)

	2007	2008	2009
BANKS, TOTAL	37	37	39
of which:			
banks	17	16	16
foreign bank branches	14	16	18
building societies	6	5	5

Table II.2

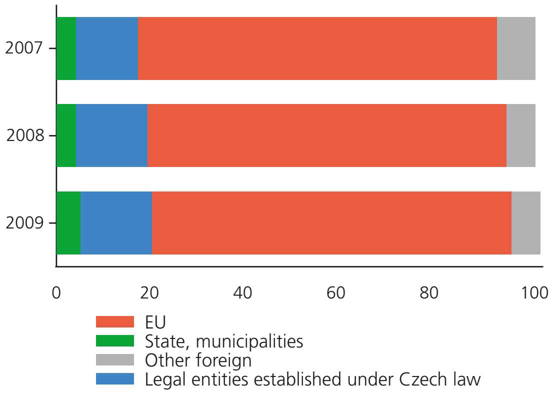
Shares of bank groups in total assets
(in %, for banks with licences as of the given date)

	2007	2008	2009
BANKS, TOTAL	100.0	100.0	100.0
of which:			
large banks	61.7	57.5	57.7
medium-sized banks	10.3	12.2	13.5
small banks	4.4	5.3	5.5
foreign bank branches	12.4	14.1	12.1
building societies	11.2	10.8	11.2

3 The breakdown of banks into groups is provided in Annex 3. For analytical purposes, groups of banks are defined in terms of asset size. The boundaries were moved upwards in 2009. Large banks administer total assets of more than CZK 200 billion, medium-sized banks have assets of between CZK 50 billion and CZK 200 billion, and small banks' total assets amount to less than CZK 50 billion. The other two groups are building societies and foreign bank branches. For more details, see http://www.cnb.cz – *Financial market supervision – Banking supervision – Banking sector – Basic indicators of the banking sector – Methodology*.

Chart II.1

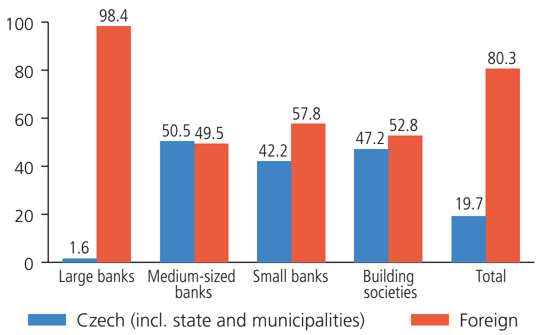
Bank ownership structure
(in %; for banks with licences as of the given date)



Note: Shares in capital

Chart II.2

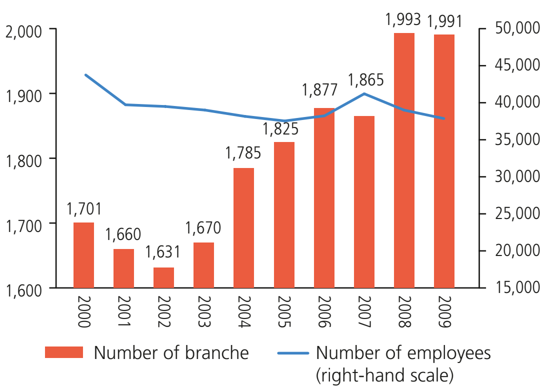
Capital origin
(in %; for banks with licences as of 31 December 2009)



Note: Shares in capital

Chart II.3

Number of employees and number of branches
(as of given date)



States under the single licence. Komerční banka and GE Money Bank continued to provide cross-border services in Slovakia. They were joined by PPF banka in 2009. LBBW Bank started to offer services in Greece on the same principle in 2009. At the end of 2009, J&T Banka was the only bank registered in the Czech Republic to have a foreign branch, namely in Slovakia.

2.1.1 Ownership structure

The Czech banking sector has long had a stable shareholder structure. At the end of 2009, foreign capital dominated the sector's capital, with a direct share of 80.3% (i.e. direct shareholders holding shares directly, not through other entities). Foreign capital predominates in 14 banks, nine of them being wholly owned by foreign capital. Seven banks are majority owned by Czech shareholders. Five banks are still wholly Czech-owned (Hypoteční banka, J&T Banka and Modrá pyramida stavební spořitelna plus two state-controlled banks specialising mainly in export and business promotion – Česká exportní banka and Českomoravská záruční a rozvojová banka).

A total of 97.3% of the sector's total assets were controlled by foreign owners at the end of 2009.[4] Owners from EU countries continue to dominate. Their share in the foreign ownership of the sector increased slightly to 93.0% at the end of 2009. All the owners of the "Big Four" come from EU countries. Shareholders from other territories now have a more-than-marginal representation. The breakdown of ownership by EU country remains diverse.

2.1.2 Employees and banking units

A total of 37,864 people[5] were employed in the Czech banking sector at the end of 2009, a decline of 1,139 from the previous year. The number of employees in the domestic banking sector fell by 2.9% year on year, but the sector's total assets rose slightly by 1.2% over the same period. Banks in the Czech Republic are streamlining their operations. The results of organisational changes and rigorous cost controls are visible. This is particularly noticeable in comparison with 1996, when the banking sector employed a record number of almost 51,000 people. Only small banks and building societies took on new employees to serve their clients. The other groups – large and medium-sized banks and foreign bank branches – reduced their workforces in 2009. Large banks are the largest employer in the banking sector, accounting for almost 70%. They reduced their workforce by 1,080 people year on year. By contrast, small banks and building societies needed, respectively, 50 and 15 more employees to expand their activities in 2009.

Unlike the number of employees, the total number of banking units serving clients was almost unchanged in 2009. The number of banking

4 This refers to the share of total bank assets controlled by foreign entities (i.e. foreign owners holding directly or indirectly at least 50% of the bank's shares) in the total assets of the banking sector.
5 The total number of banking sector employees (full-time and part-time).

units in the Czech Republic decreased by only two in the period under review, totalling 1,991 (excluding their headquarters). However, the structure of the banking sector in terms of banking units showed mixed trends. Large banks expanded their retail networks, adding a total of 47 new banking units. The other bank groups reduced their numbers of units, although this usually involved a change in the strategy of a single bank within each group. Only foreign bank branches cut back their retail networks in 2009. A total of five branches accounted for the reduction of 15 in the number of their units. Banks are trying to streamline their activities while responding to demand. Banking units are being newly established in locations where maximum effectiveness of sales of products and services can be achieved.

As in the previous year, there were around 5,300 citizens per banking unit in the Czech Republic. The availability of banking services was unchanged. The productivity of the banking sector as measured by total assets administered per employee is still rising slightly. It reached CZK 108.1 million at the end of 2009, up by 4.3% year on year, a growth rate exceeding the inflation rate in the Czech Republic.

2.1.3 Electronic banking

In many cases a visit to a traditional brick-and-mortar branch is no longer necessary since bank clients can increasingly use various forms of electronic banking. Such banking is based on electronic account access by card, computer/mobile phone, the internet or telephone. This upward trend in electronic banking was initially supported by a rising number of ATMs and is now being driven by the huge popularity and penetration of mobile phones and the ever increasing number of internet connections. Banks are trying to encourage the expansion of electronic banking by taking advantage of the pricing policies of operators that offer connections to networks using electronic banking, as well as by means of their own fee policies.

The number of current accounts of households (individuals) was up by 6.2% year on year at the end of 2009. The number of accounts enabling access by card, telephone or computer rose by 7.9%. By contrast, the number of accounts without electronic access fell by 4.6% in the same period. Accounts with computer access grew fastest in absolute as well as relative terms: more than 805,000 new clients used computers to access their accounts, an increase of 22.4% compared to the end of 2008. At the end of 2009, only 12.4% of the more than 8.4 million current accounts of households lacked electronic access completely. Telephone and PC transactions could be executed on 43.4% and 52.1% of accounts respectively. Banks are responding to client needs, expanding the range of electronic banking products and focusing on products requiring one-on-one client service and consulting services in their brick-and-mortar branches. The role of personal bankers is strengthening. At the same time, the security of electronic banking transactions and client data protection are being enhanced. Examples include wider use of chip cards and the introduction of new transaction authorisation features in internet banking. The intensity of use of electronic signatures has been rising recently.

Table II.3

Number of employees and banking units in Czech banking sector
(for banks with licences as of the given date)

	2007	2008	2009
Number of employees (in CZ and abroad)	41,207	39,003	37,864
Number of banking units (in CZ)	1,865	1,993	1,991
Number of employees			
per bank	1,114	1,083	996
per banking unit	22.1	19.6	18.7
Number of citizens			
per bank (thous.)	280.6	282.9	269.4
per banking unit (thous.)	5.6	5.3	5.3
per employee	251.9	268.2	277.5

Table II.4

Electronic banking
(for banks with licences as of the given date)

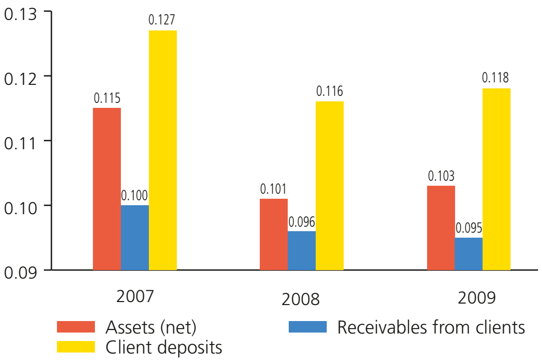
	2007	2008	2009
Number of ATM networks	4	4	4
Number of ATMs	3,357	3,406	3,573
Number of cards issued (thous.)			
total	9,044	9,605	9,348
debit cards	7,197	7,474	7,811
credit cards	1,847	2,131	1,537
Current accounts (households; thous.)			
total	7,447	7,940	8,433
with cards issued	5,576	5,771	5,984
with PC access	2,801	3,588	4,393
with telephone access	2,773	3,247	3,658
without electronic access	1,140	1,097	1,046

The number of ATMs continues to increase, but the rate of growth is slowing every year. Nevertheless, the availability of ATMs is increasing. The number of newly installed ATMs rose by 4.9% in 2009. Banks are focusing on self-service zones, where the number of ATMs was up by almost 30%. Clients are increasingly using payment cards – both credit and debit cards – for non-cash payments. Their numbers do not always reflect this trend, since banks are continuously withdrawing inactive cards issued in the past. In some cases banks are ceasing to issue cards for previous partners. For this reason, the total number of credit cards declined considerably. The number of debit cards increased by 4.5% during 2009.

The range of operations available through payment cards is broadening, as retail chains are also now offering debit card cashback. The range of cards offered is increasingly focusing on security. Demand for hybrid cards[6] rose the fastest, with their issuance being almost 45% higher in 2009 compared to the end of 2008. A total of 9,346 million payment cards are enabled for payments abroad.

CHART II.4

Herfindahl indices of market competition



2.2 ACTIVITIES OF THE BANKING SECTOR

The assets of the banking sector rose by only CZK 50.3 billion (1.2%) to CZK 4,094.8 billion in 2009. The rate of growth decreased significantly compared to 2008 (when annual growth of CZK 295.0 billion, or 7.9%, had been recorded) and especially 2007 (annual growth of 18.9%). This decline reflected the downturn in the domestic economy. Large banks continued to record slight growth (1.5%), with assets rising by CZK 34.2 billion. The increases in the assets of medium-sized banks, building societies and small banks were higher than the banking sector average (12.3%, or CZK 61.1 billion, 4.2%, or CZK 18.5 billion,

TABLE II.5

Banking sector assets
(at net value; in CZK billions)

	2007	2008	2009	Structure 2009 in %
TOTAL NET ASSETS	3,751	4,045	4,095	100.0
Cash	36	40	40	1.0
Cash balances with central banks	308	311	385	9.4
Financial assets held for trading	366	360	250	6.1
Financial assets designated at fair value through profit or loss	66	62	47	1.1
Available-for-sale financial assets	285	335	395	9.6
Loans and receivables	2,216	2,473	2,487	60.7
Held to maturity investments	327	287	315	7.7
Derivatives – hedge accounting (positive fair value)	11	21	22	0.5
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0.0
Tangible and intangible assets	46	46	45	1.1
Investments in associates, subsidiaries and joint ventures	66	71	68	1.6
Other assets	18	34	39	1.0

6 These cards contain both a chip and a magnetic strip.

and 3.7%, or CZK 8.0 billion, respectively). Only foreign bank branches recorded a decline in activities, with total assets decreasing by CZK 71.5 billion (12.6%). Owing to the slightly higher asset growth in large banks, their share in banking sector assets increased by 0.2 percentage point to 57.7% at the end of 2009. The degree of concentration of the banking sector, as measured by the Herfindahl index, increased in terms of total assets (0.103) and client deposits (0.118), and fell slightly in terms of client loans (0.095).[7]

Loans and receivables, which increased slightly by 0.6% year on year, account for the largest share (60.7%) of the sector's assets.[8] The banking sector's credit exposure did not decline in the difficult economic conditions and crisis in financial markets. The asset structure was affected mainly by client receivables, which remained virtually flat (a slight annual rise of 0.2%) and which account for more than half of total assets. Receivables from credit institutions increased by 2.7%, reversing the decline of 10.0% observed in 2008. The volume of transactions with the CNB recorded a year-on-year increase of 23.5% as at the end of 2009.

The concentration of the banking sector saw no major changes as regards total assets, receivables and deposits in 2009 compared to 2008. The situation was different as regards net profit, as the profit generated by one of the large banks affected the results of the entire sector. The three largest banks generated more than 72% of net profit of the domestic banking sector.

2.2.1 The loan portfolio

(sectoral breakdown)[9]

The slight increase in total assets suggests that the business activities of the banking sector continued to rise moderately during 2009. The financial crisis and the contraction of the domestic economy manifested themselves chiefly in a further slowdown in annual growth rates of loans and mixed trends in individual sectors.

Domestic banks' total loans to clients rose by CZK 26.4 billion (1.3%) to CZK 2,102.1 billion. A change in the lending trend is apparent. In 2008 the volume of loans had risen by 16.4% year on year and in 2007 it had gone up by 26.4%.

7 The Herfindahl index (HI) is the sum of the squares of the market shares of all entities operating in the market. It takes values between 0 and 1; the closer it is to zero, the lower the concentration, or the stronger the competition, in the market. Values below 0.10 mean a low degree of concentration, values of 0.10–0.18 mean a moderate degree of concentration and values above 0.18 mean a very concentrated market.

8 The assets of the banking sector comprise cash, receivables, securities, tangible and intangible assets and other assets.

9 Data from the monetary statistics reporting statements submitted by banks were used to prepare this section. These comprise loans provided to residents in the Czech Republic only. These statements use a different methodology than the banking supervision statements, so some of the resulting values (e.g. the total volume of loans provided) are not fully comparable with the data in other parts of the text. For details see www.cnb.cz – *Statistics – Monetary and financial statistics – FAQs*. The quality (degree of risk) of the loan portfolio is dealt with in section 2.4.1 *Credit risk*.

CHART II.5

Concentration of banking sector

(as of 31 December 2009; in %)

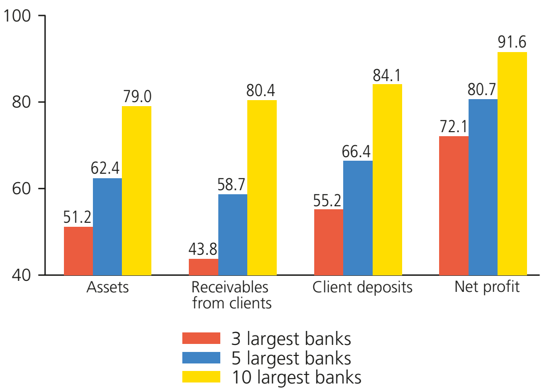


CHART II.6

Receivables in 2009

(in CZK billions)

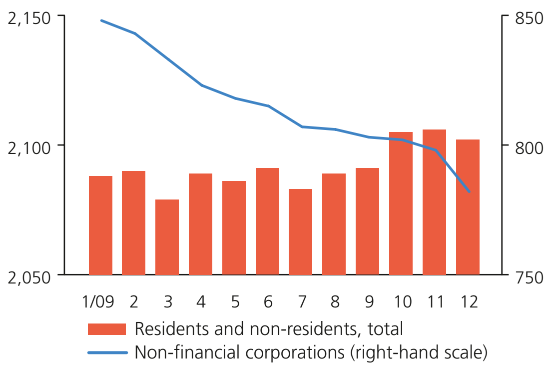


TABLE II.6

Liabilities by sector

	Volume in CZK bn			Change in % from 2008
	2007	2008	2009	
TOTAL	1,784	2,076	2,102	1.3
A. RESIDENTS	1,669	1,927	1,953	1.4
non-financial corporations	743	848	782	-7.8
financial institutions	147	151	130	-13.9
general government	57	54	66	22.0
households	708	851	940	10.5
trades	39	43	43	-1.4
individuals	669	808	898	11.1
non-profit institutions serving households	13	22	34	56.5
B. NON-RESIDENTS	115	149	149	0.0

Chart II.7

Sector structure of loan porfolio
(in CZK billions)

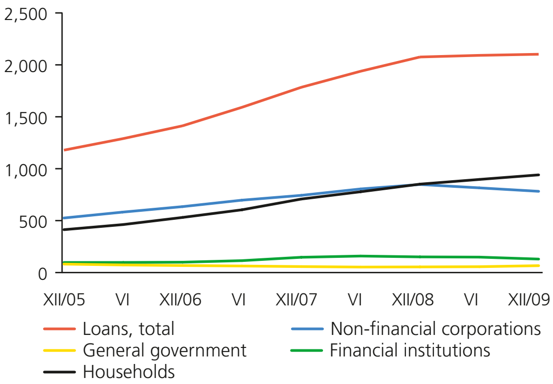


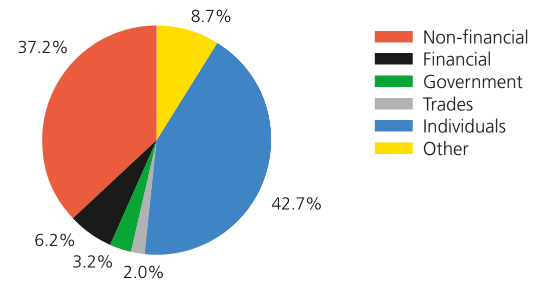
Table II.7

Loans to households by time and type

	Volume in CZK bn			Change in % from 2008
	2007	2008	2009	
TOTAL LOANS AND RECEIVABLES	669	808	898	11.1
of which:				
short-term	29	30	32	6.1
medium-term	39	40	39	-4.4
long-term	600	738	828	12.1
of which:				
housing loans	511	614	684	11.5
of which mortgage loans for housing purposes	334	397	554	39.6
consumer credit, including current account overdrafts	138	169	186	9.8
other	20	26	28	9.4

Chart II.8

Structure of loans by economic sector
(as of 31 December 2009)



Note: Only loans granted in the Czech Republic

The individual groups of banks contributed variously to lending in 2009. Building societies performed well. They recorded the fastest growth in loans (17.5%), with client loans recording the largest increase in 2009 (up by CZK 40.1 billion). Medium-sized and small banks also contributed to the growth; they helped to increase the volume of loans by CZK 27.5 billion (7.5%) and CZK 9.0 billion (6.6%) respectively. Foreign bank branches reduced the loan portfolio by 18.8% year on year (CZK 41.1 billion). The loan portfolio of the group of large banks, which is the largest lender in the banking sector, dropped by CZK 31.1 billion (2.8%) in 2009.

Both loans to households (individuals and trades) and loans to general government showed growth in 2009. Loans to households, individuals in particular, continued to rise, but the increase of 11.1% in 2009 represented a sharp slowdown compared to previous years. Further growth was recorded in mortgage loans, or loans for house purchase, in 2009. Receivables from households rose by CZK 89.0 billion (10.5%) to CZK 940.5 billion as of 31 December 2009. Their share in total loans (44.7%) is the highest in the banking sector, exceeding the share of loans to corporations (37.2%) by 7.5 percentage points. By contrast, the share of loans to non-financial corporations has been declining since mid-2006. It recorded an annual decrease of 3.6 percentage points at the end of 2009. Bank loans to non-financial corporations fell by CZK 65.9 billion (7.8%) to CZK 782.2 billion in 2009. The banking sector maintained its exposure to foreign-owned private non-financial corporations, to which it granted 0.5% more loans in 2009. Their share in total loans reached 10.7%. The share of loans to private non-financial corporations with domestic owners declined by 10.3% to 25.2% of the sector.

The share of bank loans to financial institutions in total bank loans also fell from 7.2% to 6.2% in 2009, with loans to financial institutions declining by 13.9% (CZK 21.0 billion) year on year. Banks reduced their exposure to the interbank market.

By contrast, banks' exposure to general government rose by 22.0% but the share of these loans in the total loans of the banking sector was just 3.2%. Receivables from these institutions increased by CZK 12.0 billion to CZK 66.2 billion. This increase was due mainly to loans to local government (up by CZK 10.4 billion), which account for almost 70% of the total volume of such loans.

2.2.2 Loans to individuals[10]

Lending to individuals was the most dynamic element of growth in the banking sector. Private individuals' debt with domestic banks continued rising in 2009, although the growth is gradually slowing. As of 31 December 2009, loans to individuals totalled CZK 898.0 billion,

10 This section describes loans to individuals who are residents of the Czech Republic. Individuals are a subcategory of the household sector. In addition to individuals, the household sector includes trades.

of which almost CZK 90 billion was lent in 2009 alone (up by more than 11.1% year on year). The loan structure continued to be affected by the trend towards home buying. Loans for house purchase are rising every year, although the growth is slowing. This was particularly true of mortgage loans for housing, which increased by CZK 157.0 billion (39.6%) during 2009 to account for 61.7% of all the loans provided to individuals (compared to the previous maximum of 49.9% recorded at the end of 2007).[11] Consumer credit to households rose by CZK 16.5 billion (9.8%) year on year in 2009. Individuals use loans mostly to finance their housing needs, which ultimately means an increase in the share of long-term loans, which account for more than 92% of total loans to individuals. Their share in total loans to individuals is rising steadily. By contrast, medium-term and short-term loans have a declining share in loans to individuals. Medium-term loans remain flat in absolute terms, while short-term loans are increasing in absolute terms as a result of demand for consumer credit.

Loans for house purchase accounted for 76.2% of all loans to individuals[12] at the end of 2009. This three-quarter share has been stable over the past few years. In 2009, when the domestic economy was facing an economic downturn, CZK 70.7 billion more was lent for housing, an increase of 11.1%. The record year was 2007, when loans to individuals for house purchase increased by 37%. A downturn in growth is apparent, due mainly to the sharp economic downturn and its impacts on the labour market.

Mortgage loans[13] totalled CZK 846.0 billion at the end of 2009.[14] Mortgage loans to households/individuals totalled CZK 604.8 billion, of which mortgages to finance house purchases amounted to CZK 554 billion. These are mostly long-term loans, with 45.3% being mortgage loans with maturities of over 20 years. 73.2% of all mortgage loans, which are used mainly to finance house purchases, were provided for this purpose. They amounted to CZK 618.9 billion at the end of 2009.

Building societies participate in co-financing of housing, and financing of home modernisation and improvements in particular. Thanks to their security and advantageous saving conditions, building saving schemes are a very popular and accessible product. At the end of 2009, building societies provided loans amounting to CZK 267.5 billion, up by CZK 40.1 billion on a year earlier.[15] The total annual increase in building society loans was 17.6%, down by 9.2 percentage points compared to the end of 2008. This growth was positively reflected in the loans-to-

CHART II.9

Receivables in 2009
(in CZK billions)

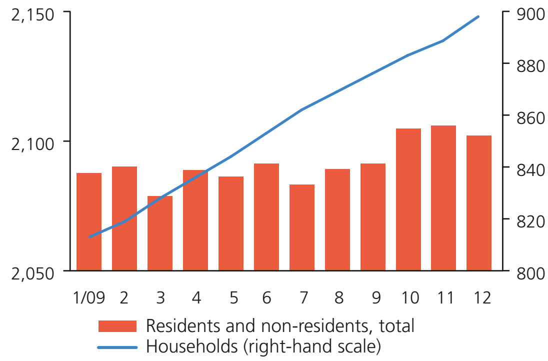


TABLE II.8

Basic indicators of building savings schemes
(in CZK billions)

	2007	2008	2009	Change in % from
No. of new schemes (thous.)	580	705	575	-18.5
No. of schemes in saving phase (thous.)	5,133	5,071	4,926	-2.9
Amount saved	385	401	415	3.5
Total loans	179	227	268	17.8
of which:				
building savings loans	39	43	49	13.7
bridging loans	140	184	219	18.8
Total loans/amount saved (%)	46.6	56.6	64.4	13.8
BS loans/amount saved (%)	10.1	10.7	11.8	10.3
State support granted (CZK billions)	15.0	14.2	13.3	-6.3

11 The year-on-year comparison, or comparison with the end of 2008, on the mortgage market is misleading due to a new (wider) definition of mortgage loans as stipulated in the Act on Bonds.
12 In addition to mortgage loans, housing loans include building society loans (standard and bridging) and consumer credit for real estate purchase or reconstruction.
13 The volume of mortgage loans in accordance with Article 28(3) of Act No. 190/2006 Coll., on Bonds, as amended.
14 Total mortgage loans (residents and non-residents) for all sectors.
15 Table II.8 also includes loans provided by building societies which are of a mortgage loan nature (i.e. secured with a lien on property).

savings ratio, which rose from 56.7% to 64.4%. This ratio nonetheless remains low compared to similar schemes in advanced countries. The building saving scheme market, which now has a six-year savings cycle, is still coping with the changes in the conditions for providing state support valid since 1 January 2004. Following a turning point in 2004, the number of new building savings contracts had been rising since 2005. In 2009, however, building savings clients signed 18.5% new contracts less (575,300 new contracts). The average new housing loan provided by a building society increased from CZK 508,000 to CZK 511,000 in 2009.[16] Building societies granted state support to clients amounting to CZK 13.3 billion at the end of 2009. This is almost CZK 1 billion less than a year earlier.

The continuing rise in private individuals' debt was due in part to consumer credit[17], which rose by a further CZK 16.5 billion year on year. As of 31 December 2009, consumer credit provided to households totalled CZK 185.4 billion. The consumer credit repayable by households at the end of 2009 was 9.8% higher than a year earlier.

2.2.3 Other asset items

Banking transactions in 2009 gave rise to an increase in receivables from banks of CZK 11.3 billion to a total of CZK 428.3 billion. They thus account for 10.5% of the total assets of the banking sector. At CZK 384.8 billion, receivables from central banks are also significant, their value rose by CZK 73.3 billion (23.5%) compared to the end of 2008. They consist chiefly of receivables arising from repo operations with the CNB. The volumes of these receivables are quite volatile from month to month.

Bank assets also include securities, with debt securities significantly exceeding equity instruments, as well interests in associates and subsidiaries. The value of securities in banks' portfolios exceeded CZK 940 billion, of which debt securities totalled CZK 866.7 billion at the end of 2009. The bond market rallied in 2009. Following a decline in 2008 linked with the global financial market situation, the value of bonds held by banks increased by 6.7% (CZK 54.3 billion) year on year in 2009. Banks' portfolios recorded an increase in debt securities issued by government institutions, which account for 66.8% of all issued securities (CZK 578.7 billion). Most securities (35.5%) are held to maturity and a smaller proportion (12.6%) are held for trading. The value of available-for-sale securities[18] is increasing; at the end of 2009 it was up by 21.0% year on year to CZK 390.7 billion. The value of equity instruments[19] dropped to one-third of the level observed at the end of 2008, i.e. CZK 7.2 billion, down by CZK 14.6 billion from

16 Source: Association of Czech Building Societies, http://www.acss.cz.
17 Including current account overdrafts.
18 Available-for-sale securities cannot be classified as securities for trading or as securities held to maturity or as ownership interests.
19 This indicator expresses the total volume of equity instruments regardless of the portfolio where the instrument is placed or of the issuer. It includes shares, units and other equity instruments.

a year earlier. Their share in the securities of the banking sector fell below 1%. The value of ownership interests changes depending on developments in financial groups. In 2009, banks reduced the value of their ownership interests by 5.2% to CZK 67.5 billion. Of this total, 96.7% (CZK 65.3 billion) were controlling shares.

Most of these securities are still held by large banks (74.4%) and building societies (14.3%). Ownership interests are highly concentrated, most of them (99.5%) being held by large banks (CZK 67.2 billion).

2.2.4 Banking sector funds

Table II.9

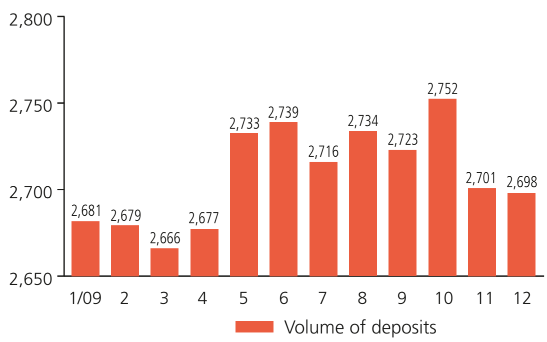
Banking sector liabilities

	Volume in CZK bn			Structure
	2007	2008	2009	2009 in %
TOTAL LIABILITIES	3,751	4,044	4,095	100.0
Deposits, loans and other financial liabilities vis-à-vis central banks	0	38	3	0.1
Financial liabilities held for trading	102	216	138	3.4
Financial liabilities designated at fair value through profit or loss	150	67	116	2.8
Financial liabilities measured at amortised cost	3,156	3,357	3,450	84.3
Derivatives – hedge accounting (negative fair value)	9	13	18	0.4
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0.0
Provisions	12	11	11	0.3
Other liabilities	64	48	36	0.9
Equity, total	257	292	320	7.8
of which:				
issued capital	74	74	75	1.8
retained earnings	81	97	106	2.6
profit for accounting period	47	46	60	1.5

The Czech banking sector has long had sufficient funds and this favourable situation continued into 2009, when global financial markets were hit by the financial crisis. The continuing confidence in the domestic banking sector manifested itself in an annual increase in liabilities to clients (deposits), which grew by CZK 130.9 billion (5.0%) to CZK 2,728.0 billion as of 31 December 2009. Increases in both general government deposits and deposits of other clients were recorded.[20] By contrast, deposits of credit institutions remained virtually flat (recording a slight decline of 0.3%). In 2008 Q4, the central bank increased deposits by more than CZK 38 billion to ensure that banking market stability and confidence were not jeopardised at the time of crisis in financial markets. In 2009, when the reasons had subsided, these deposits were reduced by more than 92%, and at the end of the year they stood at CZK 2.9 billion. Other client deposits account for more than 88% of all deposits. In 2009, (non-government) client accounts with banks recorded an inflow of CZK 116.5 billion. Clients are again turning increasingly to safe deposits on bank accounts.

Chart II.10

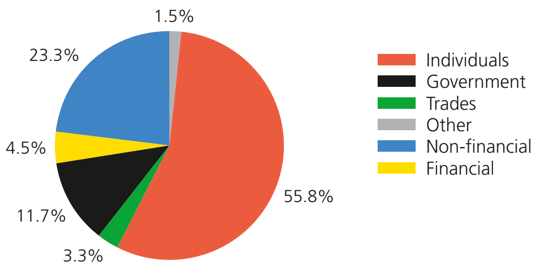
Client deposits in 2009
(in CZK billions)



20 The breakdown by sector includes central banks.

CHART II.11

Structure of deposits by economic sector
(as of 31 December 2009)



Note: Only deposits accepted in the Czech Republic

TABLE II.10

Client deposits by sector

	Volume in CZK bn			Change in % from 2008
	2007	2008	2009	
TOTAL	2,369	2,567	2,698	5.1
A. RESIDENTS	2,282	2,474	2,624	6.1
non-financial corporations	614	591	611	3.3
financial institutions	133	116	118	1.9
general government	213	293	306	4.4
households	1,290	1,440	1,551	7.7
trades	100	94	86	-8.6
individuals	1,189	1,346	1,465	8.9
non-profit institutions serving households	31	34	38	11.0
B. NON-RESIDENTS	87	93	74	-20.2

They prefer current account deposits, as annual growth of the latter is higher than that of time deposits. Demand deposits represented 54.6% of client deposits at the end of 2009. Short-term deposits dominated the structure of time deposits, accounting for 92.1%. Large banks, which are very successful in attracting primary deposits (their share exceeds 60%), recorded an increase of CZK 78.5 billion (5%) in 2009. Primary deposits in these banks totalled CZK 1,660.1 billion at the end of 2009. Client deposits of medium-sized banks rose by CZK 40.1 billion and those of building societies by CZK 13.4 billion year on year. The smallest increase in client deposits was recorded by small banks (CZK 1.5 billion). Foreign bank branches were the only group of banks to see a decline in deposits (of CZK 2.5 billion, or 1.0%).

In 2009, the banking sector continued to reduce its liabilities to credit institutions, which declined by CZK 1.3 billion year on year to CZK 427.1 billion. The interbank deposit market was very volatile. Small banks and foreign bank branches recorded a decline in liabilities to banks, while large and medium-sized banks showed an increase. Liabilities from debt securities issued rose by less than 1% year on year, totalling CZK 372.0 billion at the end of 2009.

In 2009, banks again retained part of their profits in their balance sheets as retained earnings and reserves. In 2009, the growth in retained earnings to strengthen capital (CZK 8.7 billion) was lower than in 2008. Reserves were increased in line with legal requirements.[21]

The sector structure of the total deposits of the domestic banking sector is based on the monetary statistics database. The shares of sectors remain broadly unchanged, but the growth rates are mixed. Household deposits now account for more than 55% of total deposits, having risen by 8.9% year on year, while non-financial corporations account for less than one-quarter. The trades sector was the only one to continue falling; its deposits decreased by 8.6% and its share in total deposits fell to 3.3% in 2009.

2.2.5 Off-balance sheet transactions

Following a long period of growth in the off-balance sheet total, a substantial decline was recorded in 2009, due mainly to a lower volume of derivatives transactions. Derivatives transactions comprise transactions for clients, derivatives for banks' own trading purposes and hedging transactions to close banks' open positions vis-à-vis the risks they undertake. Transactions in interest rate instruments (interest rate swaps and forwards) make up the largest share of off-balance sheet assets (63.8%), followed by transactions in currency instruments (24.3%). Banks engage only minimally in commodity, equity and credit derivatives trading. Receivables/liabilities from futures, forwards, swaps, etc., which are the largest-volume items, both decreased by more than 37%. Options transactions fell by more than 45%.

21 For more details on own funds, subordinated debt and banking sector reserves, see section 2.4 *Capital adequacy.*

TABLE II.11

Banking sector off-balance sheet

	Volume in CZK bn			Change in %
	2007	2008	2009	from 2008
SELECTED OFF-BALANCE SHEET ASSETS	9,646	10,791	6,941	-35.7
of which:				
commitments and guarantees given	847	834	725	-13.1
pledges given	2	2	3	14.8
receivables from spot transactions	91	44	48	10.0
receivables from futures, forwards, swaps etc.	7,724	8,801	5,533	-37.1
receivables from options transactions	851	1,031	563	-45.4
write-off receivables	37	29	31	9.2
values given to custody	95	50	39	-22.7
SELECTED OFF-BALANCE SHEET LIABILITIES	12,121	13,236	9,861	-25.5
of which:				
commitments and guarantees received	471	493	473	-4.1
pledges received	1,366	1,475	1,722	16.8
liabilities from spot transactions	93	44	51	14.4
liabilities from futures, forwards, swaps etc.	7,695	8,797	5,527	-37.2
liabilities from options transactions	853	1,029	562	-45.4
values received to asset management	35	41	46	11.4
values received to custody	1,608	1,357	1,481	9.1
NET POSITION FROM SPOT TRANSACTIONS	-1.8	-0.9	-2.9	234.5
NET POSITION FROM FUTURES, FORWARDS, SWAPS ETC.	28.2	4.4	6.0	37.5
NET POSITION FROM OPTIONS	-1.8	1.8	0.9	-47.9

The net position from futures, forwards, swaps etc.[22] at nominal value increased by CZK 1.6 billion to CZK 6.0 billion at the end of 2009. However, its value fluctuated significantly from month to month (from CZK 27.0 billion in April 2009 to CZK 4.3 billion in October 2009).

2.3 RISKS IN BANKING

2.3.1 Credit risk

Credit risk has always been by far the most significant risk undertaken by the Czech banking sector. In the past, banks have performed major operations to clear their balance sheets of bad loans. Since 2004, the volume of default loans (former non-performing) has been going up, owing to rapid growth in banks' loan portfolios. The quality of the loan portfolio has been worsening since 2009 as a result of deteriorating macroeconomic indicators.

Loans are divided into default receivables and non-default receivables based on an assessment of their quality.[23] A debtor is in default at the moment when it is probable that he will not repay his obligations in a proper and timely manner, or when at least one repayment of principal is more than 90 days past due. Banks assess the financial and economic

22 The difference between the nominal value of receivables and liabilities arising from futures, forwards, swaps, etc.

23 See Decree No. 123/2007 Coll., on prudential rules for banks, credit unions and investment firms.

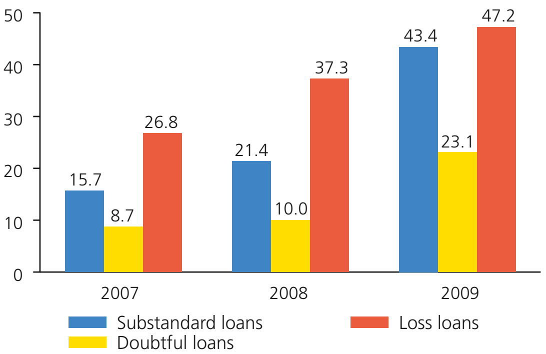
Table II.12

Classification of receivables from clients
(in CZK billions and %)

	Volume			Change
	2007	2008	2009	in % from 2008
INVESTMENT PORTFOLIO RECEIVABLES, TOTAL	2,191	2,481	2,520	1.6
A. RECEIVABLES FROM CLIENTS	1,846	2,095	2,118	1.1
non-default	1,795	2,027	2,005	-1.1
standard	1,733	1,941	1,893	-2.4
watch	62	86	111	29.6
default	51	69	114	65.5
substandard	16	21	43	102.9
doubtful	9	10	23	131.8
loss	27	37	47	26.4
B. RECEIVABLES FROM CREDIT INSTITUTIONS	345	386	402	4.2
non-default	344	385	401	4.1
standard	343	383	400	4.4
watch	1.2	2.2	1.0	-52.9
default	0.6	0.9	1.4	49.3
substandard	0.6	0.4	0.1	-85.3
doubtful	0.0	0.5	0.7	46.6
loss	0.0	0.0	0.6	10,571.7
C. ALLOWANCES AND LOSS OF VALUE	36.1	46.4	64.9	39.8
allowances for individually assessed financial assets	29.3	40.1	56.0	39.6
allowances for individually non-impaired assets	1.6	1.7	2.2	27.6
allowances for portfolio of individually immaterial assets	5.2	4.6	6.7	46.1
Allowances and loss of value by sector	36.1	46.4	64.9	39.8
allowances and loss of value for credit institutions	0.1	0.1	0.2	39.8
allowances and loss of value for clients	36.0	46.3	64.6	134.9
Allowances and loss of value / investment portfolio receivables (%)	1.65	1.87	2.57	37.4

Chart II.12

Loan portfolio quality
(client loans assessed individually; in CZK billions)



situation of their clients. The categorisation of receivables does not take into account collateral, which is considered only when quantifying impairment and in particular when creating allowances (impaired/non-impaired receivables).

Non-default loans made up the large majority of the investment portfolio of the banking sector (95.4%) at the end of 2009. This figure comprises standard receivables (91.0%) and watch receivables (4.4%). The share of non-default loans classified as standard loans declined by 2.7 percentage points year on year.

The quality of the loan portfolio deteriorated during 2009. Non-default receivables accounted for CZK 2,405.2 billion of the total value of investment portfolio receivables of CZK 2,520.2 billion. The value of all default receivables rose by CZK 45.5 billion (65.3%) to CZK 115.1 billion in 2009. They account for 4.6% of total receivables, up by 1.8 percentage points on a year earlier. Loan portfolio quality showed mixed trends across the individual groups of banks, but the values of default receivables increased in all groups of banks during 2009. The largest increase was recorded by large banks (CZK 24.3 billion, or 58.9%, year on year), followed by medium-sized banks (CZK 9.7 billion, or 72.1%) and small banks (CZK 6.4 billion, or 112.7%). Foreign bank branches also saw an increase in the volume of this loan category (of CZK 3.1 billion, or 52.6%). Building societies, which displayed the largest increase in credit exposure (almost 18%), saw an increase in default loans of CZK 2.0 billion (59.8%) but still recorded the lowest share of such loans in the total value of their investment portfolio (1.8%) and the smallest annual increase (0.5 percentage point). By contrast, small banks recorded a deterioration in loan portfolio quality in terms of default loans as a percentage of the total value of their investment portfolio, which increased by 3.5 percentage points year on year to the highest value in the sector (6.8%). Both large banks and medium-sized banks recorded values exceeding 5% of default loans (5.3% and 5.1% respectively, representing increases of 2.1 percentage points and 1.8 percentage points respectively). Loan quality worsened in the group of large banks amid a decline in the value of the investment portfolio. Besides building societies, foreign bank branches also have a higher quality loan portfolio than the sector as a whole. Default loans accounted for 2.6% of their total loans at the end of 2009, up by 1.0 percentage point on a year earlier, even though their loans are declining. Large banks saw the largest growth in substandard loans (up by 106.0%) and watch and doubtful loans (both up by more than 67%). The relatively high default loan growth rates in 2009 were due to an increasing inability of bank clients to meet their obligations. The quality of the loan portfolio deteriorated amid minimal growth in lending.

Assessed by default period, default investment portfolio receivables were most frequently classified as (loss) loans more than 360 days past due (CZK 25.8 billion). The share of past-due default receivables in total investment portfolio default receivables decreased to 47.2% year on year.

The banking sector responded to the deterioration in loan quality by increasing allowances. The volume of allowances rose by CZK 18.5 billion (38.8%) year on year to CZK 64.9 billion. Allowances assessed individually and allowances assessed on a portfolio basis both increased proportionally.

All sectors recorded a higher volume of default receivables in absolute terms at the end of 2009 compared to a year earlier. The ratio of default receivables to total loans granted also increased. The trades sector has long had the highest proportion of default receivables in its loan portfolio (10.8%).

In 2009, the rise in default receivables was most pronounced in the non-financial corporations sector. The value of these receivables rose by CZK 26.0 billion year on year, while their share in total loans provided by non-financial corporations was 7.8%.

The volume of default loans in the household sector rose by CZK 11.7 billion year on year, mainly because of the economic downturn and conditions on the labour market. Loans for house purchase are traditionally higher in quality and recorded a low proportion of

TABLE II.13

Receivables in default by sector

	Volume in CZK bn			Change in % from 2008
	2007	**2008**	**2009**	
RECEIVABLES IN DEFAULT, TOTAL	47.3	65.7	109.3	66.2
non-financial corporations	22.8	35.3	61.4	73.7
financial institutions	0.7	0.6	0.8	41.0
general government	0.05	0.15	0.22	41.2
households	21.1	25.6	38.3	50.0
of which:				
trades	2.8	3.5	4.6	29.3
individuals	18.3	22.0	33.8	53.3
of which:				
housing loans	7.9	10.0	17.4	73.3
mortgage loans	4.3	6.1	13.5	121.6
consumer credit	10.2	11.4	15.3	34.7
non-profit institutions serving households	0.01	0.04	0.08	130.1
non-residents	2.6	4.1	8.4	107.9

CHART II.13

Structure of loans in default provided to non-financial corporations
(as of 31 December 2009; in %)

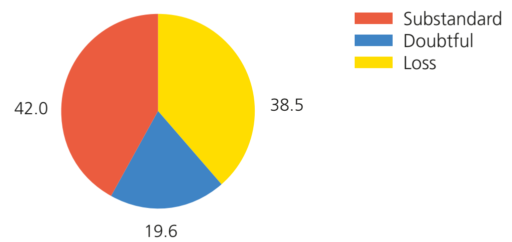


CHART II.14

Structure of loans in default provided to individuals
(as of 31 December 2009; in %)

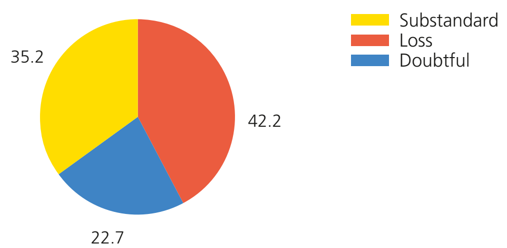


CHART II.15

Shares of foreign currencies in banking sector balance sheet and off-balance sheet
(in %)

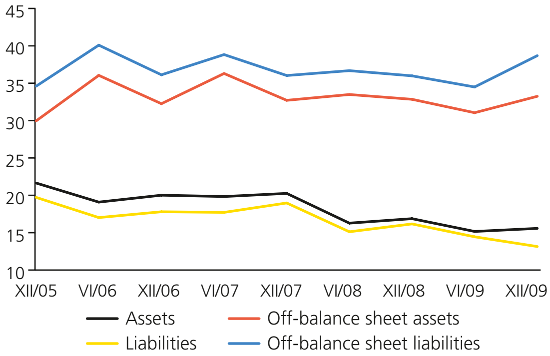


CHART II.16

Shares of foreign currencies in banking sector balance sheet and off-balance sheet in 2009
(in %)

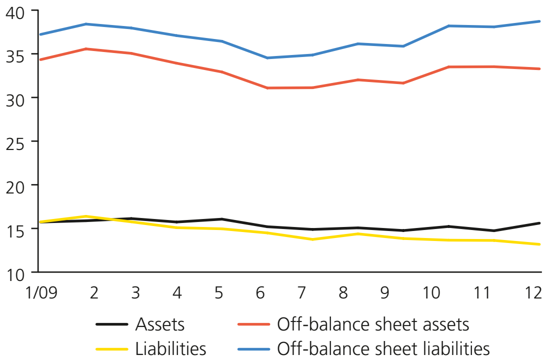
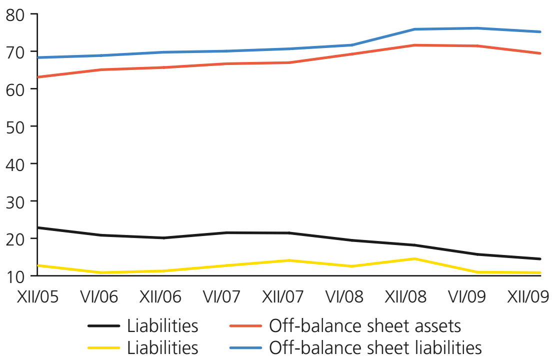


CHART II.17

Shares of non-resident transactions in banking sector balance sheet and off-balance sheet
(in %)



problem loans (2.54%), although the figure was 0.9 percentage point higher than a year earlier. The low degree of risk attached to housing loans is supported by the high reliability of clients when dwellings are used as collateral. The possibility of losing this security encourages timely loan repayment and the finding of alternative solutions. Banks also behave prudently and use sophisticated methods to verify client creditworthiness. For consumer credit the default rate is higher (8.3%). Consumer credit involves high numbers of loans of small amounts for various, often unspecified purposes. It is often also used to repay default loans. The higher degree of risk of such credit is offset by the interest rate level.

2.3.2 Foreign exchange risk

As in previous years, the foreign exchange risk of the domestic banking sector in 2009 was assessed as limited. In 2009, the absolute amounts of the sector's foreign currency assets and liabilities decreased by 5.6% and 16.8% respectively. Their shares in the sector's total assets also declined slightly, by 1.2 percentage points to 16.1% for assets and by 2.9 percentage points to 13.8% for liabilities. In absolute terms, foreign currency assets and liabilities totalled CZK 680.5 billion and CZK 520.5 billion respectively as of 31 December 2009. The development of foreign currency off-balance sheet assets and liabilities was similar. They declined in absolute terms but their share in off-balance sheet assets and liabilities (exceeding 32% for assets and 38% for liabilities) increased as a result of even faster declines in the whole off-balance sheet. The development of foreign currency assets and liabilities (both balance sheet and off-balance sheet) over time is reflected in the net foreign exchange position, which ended the period as long in the balance sheet (CZK +160.0 billion) and short in the off-balance sheet (CZK -258.1 billion). The decline in foreign currency assets and liabilities was affected by the CZK/EUR exchange rate in the given period.

Receivables (in respect of clients and credit institutions), which decreased by 4.5% over the course of 2009, had the largest – almost 74% – share of foreign currency assets. Foreign currency receivables from banks fell by CZK 10.8 billion (5.0%) year on year to CZK 205.4 billion. Foreign currency receivables from clients also recorded a decline of CZK 12.7 billion (4.1%) to CZK 295.8 billion. Foreign currency securities (including ownership interests) held by the banking sector dropped by CZK 8.7 billion to CZK 127.7 billion in 2009.

The foreign currency liabilities of the Czech banking sector saw decreases in all components. Foreign currency liabilities to banks declined by CZK 67.9 billion to CZK 185.2 billion, while foreign currency client deposits fell by CZK 23.6 billion to CZK 250.5 billion.

Roughly 93% and 89% of the growth in the shares of off-balance sheet foreign exchange assets and liabilities respectively were due to derivatives transactions. However, the open position in the off-balance sheet is not growing either.

As of 31 December 2009, the domestic banking sector recorded its largest open foreign exchange position (foreign currency assets and liabilities, including off-balance sheet assets and liabilities, based on currency structure data for capital adequacy analysis purposes, i.e. excluding foreign currency promises and guarantees) vis-à-vis the euro (a short position of CZK 629.7 million), representing 0.2% of total regulatory capital (i.e. bank capital adjusted in accordance with the capital adequacy rules – see section 2.4), followed by the dollar – CZK 370.2 million (a short position). The open position vis-à-vis GBP is the third highest (a short position of CZK 104.9 million), followed by the Swiss franc (a short position of CZK 65.1 million). There were no major year-on-year movements in the absolute values. Banks therefore manage their foreign exchange risk in line with legislation in force. Their net position broken down by currency (forex assets – forex liabilities) is balanced in comparison with the absolute values of forex assets and liabilities and the off-balance sheet.

2.3.3 Territorial risk (country risk)

Domestic banks are mostly local in nature and their activities are mostly focused on domestic clients. Transactions with non-residents are significant mainly in the interbank market, particularly as regards derivatives transactions. In addition, banks hold securities issued by foreign entities. The movements in non-resident assets and liabilities partly correspond to those in foreign currency items; non-resident activities are also concentrated more in the off-balance sheet.

As of 31 December 2009, non-resident assets amounted to CZK 671.1 billion, representing 15.9% of the banking sector's total assets. This is a slight decrease of CZK 135.0 billion compared to the end of 2008. Non-resident liabilities also showed almost the same decrease of CZK 137.3 billion to CZK 506.9 billion in this period.

Interbank transactions dominate both non-resident assets and liabilities. At the end of 2009, liabilities to banks accounted for more than 50% of all financial liabilities of non-residents (CZK 250.4 billion). Receivables from banks (non-residents) were also predominant on the asset side, accounting for 38.1% and amounting to CZK 255.6 billion. Non-residents' liabilities to and receivables from banks recorded annual declines of 20.0% and 15.3% respectively. Receivables from non-resident clients fell by just CZK 2.5 billion to CZK 163.2 billion. The value of non-resident securities registered on the liabilities side, including ownership interests held by domestic banks, reached CZK 131.8 billion at the end of 2009 (down by CZK 50.0 billion year on year). Their share in non-resident assets was close to 20%. Deposits from non-resident clients amounted to CZK 83.2 billion (a decrease of CZK 17.2 billion).

The geographical orientation of the domestic banking sector has long been stable, as shown by the list of ten countries to which the Czech banking sector has the largest exposures as measured by assets. The representations of the countries in the leading positions were the same in 2008 and 2009, and the ranking changed minimally. Except

CHART II.18

Shares of non-resident transactions in banking sector balance sheet and off-balance sheet in 2009
(in %)

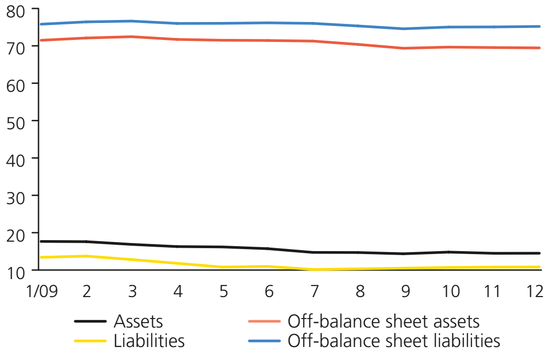


TABLE II.14

The ten countries with the largest exposures of the Czech banking sector as of 31 December 2009
(in CZK billions)

	Assets, total	of which: Receivables from credit institutions	Receivables from clients	Bonds
Netherlands	121.7	77.0	29.7	10.4
United Kingdom	102.0	48.9	3.9	5.8
Austria	66.7	47.4	1.6	1.7
Slovakia	61.4	21.4	28.6	7.0
Poland	51.4	0.5	15.4	16.7
Germany	37.6	15.4	1.6	7.1
Belgium	36.6	14.9	3.6	0.6
Russian Federation	31.4	6.2	24.6	0.4
Greece	24.2	0.9	0.2	23.0
France	19.6	1.4	3.4	8.4

TABLE II.15

Selected liquidity indicators

	2007	2008	2009
TOTAL QUICK ASSETS (in CZK billions)	899	933	1 036
Total quick assets/total assets (in %)	24.0	23.1	25.3
Total quick assets/total client deposits (in %)	36.6	35.9	38.0
Cumulative net balance sheet position to 3 months net of 80% of demand deposits (in %)	-10.9	-13.4	-11.1
Position on interbank market (in CZK billions)	28	-11	1
receivables from banks	464	417	428
liabilities to banks	435	428	427
Loan coverage by primary funds (in %)	135.5	126.4	132.5
Share of demand deposits in total deposits, including banks (in %)	46.39	46.7	48.25

CHART II.19

Quick assets
(in CZK billions and %)

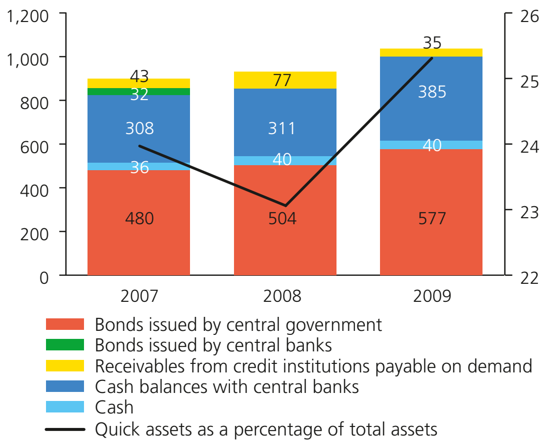


CHART II.20

Quick assets in 2009
(in CZK billions)

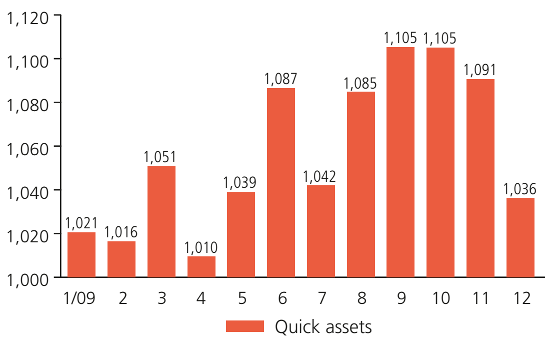
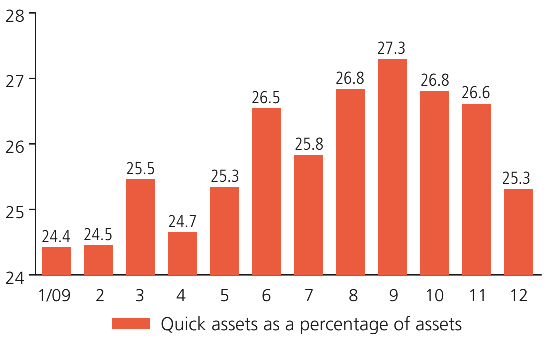


CHART II.21

Quick assets as a percentage of assets in 2009
(in %)



for the Russian Federation, the ten countries to which the Czech banking sector had the largest exposures in this period were all EU countries. Exposure to these ten countries exceeded 81% of the total international exposure. Following its entry into the euro area, exposure to Slovakia recorded a sharp annual fall of CZK 27.5 billion to CZK 66.7 billion due to a substantial decline in the volume of all assets traded, in particular the volume of capital instruments (down by 80%), receivables from credit institutions (down by almost 38%) and bonds (down by one-quarter). Exposure to the Netherlands increased by more than CZK 20 billion and exposure to the Russian Federation rose by more than CZK 3 billion. By contrast, exposure to Belgium was flat. Exposure to other countries declined; apart from Slovakia, the largest decrease was recorded for Germany (CZK 26.4 billion). The list of countries to which domestic banks have the biggest liabilities has been identical in the last two years. The value of liabilities declined for almost all countries except France and Slovakia.[24] The Czech banking sector recorded its largest open net positions (i.e. the difference between assets and liabilities transactions) vis-à-vis Poland (positive, CZK 51.5 billion), the Netherlands (positive, CZK 50.0 billion) and Slovakia (also positive, CZK 45.3 billion) as of 31 December 2009.

2.3.4 Liquidity risk

The Czech banking sector still has enough liquid funds. The sector's liquidity is very good and the liquidity sub-indicators remained stable during 2009. In response to the global financial market crisis, the CNB paid increased attention to monitoring liquidity and found that the liquidity problems did not spill over into the Czech Republic in 2009. Quick assets[25] increased by CZK 103.6 billion (11.1%) year on year to CZK 1,036.3 billion. The share of quick assets in total assets also recorded an annual increase of 1.3 percentage points. The liquidity position was enhanced by an annual increase of CZK 73.3 billion in funds deposited with central banks (the CNB) and also by a rise of CZK 73.2 billion in debt securities held for trading issued by government institutions. By contrast, funds deposited with other banks repayable on demand showed a decline of CZK 42.8 billion. The value of cash stayed approximately the same.

The domestic banking sector as a whole is a net creditor on the interbank market (receivables from banks exceeded liabilities to banks by CZK 1.2 billion at the end of 2009).

24 In the case of liability transactions, only Poland, the Russian Federation and Greece are absent from the list of the ten largest countries. They are replaced by Luxembourg, Ireland and the USA.
25 This indicator expresses the volume of quick assets, i.e. assets that are readily available to cover the bank's liabilities. Quick assets comprise the following items: cash, receivables from central banks, receivables from credit institutions payable on demand and bonds issued by central banks and general government (including securities put into repos). The comparability of the time series is not affected by the current methodology.

2.4 CAPITAL ADEQUACY

Capital adequacy is one of the principal pillars of banking regulation and supervision. Generally, capital adequacy means the ratio of capital to the risks to which a given entity is exposed. This ratio should be high enough so that the capital covers potential losses arising from the entity's activities or, to put it differently, so that such losses are borne by the owners of the capital and not by the creditors of the entity. Capital adequacy can theoretically be calculated for any entity. However, it is of practical importance in the regulation of entities that use a large amount of external funds in their activities as compared to their own funds. The most difficult problem in calculating capital adequacy is identifying the extent of the risks to which an entity is exposed. It is easier to determine the size of its capital, although there are sometimes problems deciding whether or not certain items count as capital. Therefore, the concept of capital adequacy is subject to constant development and revision, with other types of banking risks being included in the calculation and the capital included being revised.

The regulatory capital of the banking sector (i.e. capital adjusted for the purposes of the capital adequacy calculation) increased by CZK 33.9 billion (14.7%) to CZK 264.7 billion in 2009. Tier 1 increases regularly, and rose by 8.1% in 2009. Reserve funds and retained earnings increased by 7.9% year on year. Total retained earnings rose by CZK 8.6 billion in 2009, compared to an increase of CZK 20.5 billion in 2008. Mandatory reserve funds rose by CZK 0.5 billion. Contributions to these funds have been broadly unchanged over recent periods and rose by more than CZK 1.0 billion year on year in 2008. The rise in regulatory capital was quite significantly influenced by an increase in share premium (two banks in total) and a rise in share capital of CZK 6.0 billion.

Tier 2 grew by 18.2%, owing chiefly to a rise in subordinated debt[26] of 19.4% compared to the end of 2008. In 2009, banks partly repaid their subordinated debt (five banks, of which two banks repaid it completely), thereby reducing the value of this capital component. One bank accepted subordinated debt to strengthen its capital, while one bank slightly increased its existing subordinated debt. The share of Tier 2 in the total regulatory capital of the banking sector increased slightly, amounting to 14.3% at the end of 2009 compared to 13.9% a year earlier.

Tier 1 and Tier 2 are net of deductible items, which fell in 2009 due to a decline in capital investment in banks and financial institutions of over 10% to CZK 1.7 billion.

Tier 3 was still not used in the domestic banking sector in 2009.[27]

TABLE II.16

Banking sector capital structure
(in CZK billions)

	2007	2008	2009
A. TIER 1	190.4	219.9	237.6
Paid-up share capital registered in Commercial Register	70.9	73.6	75.4
Paid-up share premium	22.3	27.0	33.0
Reserve funds and retained earnings	110.0	132.8	143.2
mandatory reserve funds	28.3	29.3	29.8
other funds created from retained earnings	6.4	7.4	8.7
retained profits	75.7	96.2	104.8
profit for accounting period after tax	0.0	0.0	0.0
accumulated losses	0.1	0.1	0.1
other eligible items	-0.2	0.0	0.0
Items deductible from Tier 1	12.8	13.5	14.0
current year loss	0.0	0.1	0.9
goodwill	2.7	2.7	2.7
intangible assets other than goodwill	9.9	10.5	10.3
own shares	0.2	0.2	0.2
others	0.1	0.1	0.0
B. TIER 2	31.1	32.1	38.0
Subordinated debt	30.5	31.8	37.9
Other capital funds	0.7	0.4	0.0
Items deductible from Tier 1 and Tier 2	9.6	21.1	10.8
Cap. invest. > 10% in banks and fin. inst.	4.6	13.4	2.8
Cap. invest. < 10% in banks and fin. inst.	0.0	0.0	0.0
Others	5.0	7.7	8.0
C. TIER 3	0.0	0.0	0.0
CAPITAL, TOTAL	212.0	230.9	264.7

26 Subordinated debt A increases the value of the additional capital (Tier 2). It can be no more than 50% of the value of Tier 1.
27 Tier 3 capital consists of subordinated debt with a minimum fixed maturity of two years.

Table II.17

Capital requirements and capital adequacy of the banking sector
(in CZK billions and %)

	2007	2008	2009
TOTAL CAPITAL REQUIREMENTS	146.8	149.9	150.0
A. CAPITAL REQUIREMENT FOR CREDIT RISK	134.6	130.3	131.9
STA cap. req. for credit risk	81.1	49.8	49.2
IRB cap. req. for credit risk	53.5	80.5	82.8
B. CAPITAL REQUIREMENT FOR MARKET RISK	3.9	5.3	3.3
Interest rate risk	2.6	2.2	2.1
Cap. req. for equity risk	0.2	0.1	0.1
Cap. req. for forex risk	0.2	0.3	0.1
Cap. req. for commodity risk	0.1	0.2	0.1
Cap. req. for internal models	0.8	2.4	0.8
C. CAPITAL REQUIREMENT FOR OPERATIONAL RISK	7.7	14.0	14.7
BIA method	0.5	1.1	1.1
TSA method	7.2	8.7	4.6
ASA method	0.0	0.8	0.8
AMA method	0.0	3.4	8.1
E. CAPITAL REQUIREMENT FOR OTHER RISKS	0.5	0.3	0.0
Settlement risk	0.0	0.0	0.0
Trad. port. exp. risk	0.5	0.2	0.0
Other instr. risk	0.0	0.0	0.0
Transitional cap. req.	0.0	0.0	0.0
CAPITAL ADEQUACY	11.55	12.32	14.11

The capital requirements of the banking sector were flat in 2009, increasing by just CZK 102.0 million (0.1%) to CZK 150.0 billion. The introduction of Basel II meant an entirely new approach to the identification of risk and entails new risk measurement methods. Credit risk remains the main risk facing the domestic banking sector. This is reflected in the weight of the capital requirement for this risk, which represented almost 88.0% of the total capital requirement at the end of 2009. Capital requirements for operational risk and market risk account for 9.8% and 2.2% respectively of the total capital requirement of the banking sector. The capital requirements for other risks are negligible (0.02%) and relate to settlement risk.

Banks set the capital requirements so as to cover all risks undertaken by the bank. The capital requirements relating to credit risk are determined mainly on the basis of the evolution of the banking sector's loan portfolio. The new calculation methodology consists of more precise assessment of credit risk in banks. Capital requirements for credit risk are set depending on the credit risk measurement method used. The capital requirements for credit risk set using the standardised STA approach and advanced IRB approach increased by CZK 1.3 billion (3.2%) compared to the values at the end of 2008. Of the total capital requirements for credit risk, requirements relating to the part of the loan portfolio using the STA method account for 37.3% and those using the IRB method 62.7%. For both IRB and STA, the highest capital requirements were set for exposures to corporations, amounting to CZK 47.7 billion and CZK 22.0 billion respectively.

Capital requirements for operational risk have been calculated since 2007. Operational risk is constructed quite differently, being based on an assessment of the risks resulting from banks' operation. The capital requirements for operational risk increased by 4.5% to CZK 14.7 billion in 2009. Thus, a bank's process activities are now risk-assessed.

The capital requirement for market risk (CZK 3.3 billion) includes requirements for interest rate risk, equity risk, foreign exchange risk and commodity risk. These requirements declined year on year, mainly because of the use of internal models. The largest volume of capital requirements (64.1%) relate to interest rate risk.

Growth in regulatory capital of 14.7% in 2009 amid flat capital requirements resulted in an annual rise of 1.79 percentage points in the capital ratio of the banking sector, to 14.11%. Large and small banks recorded increases in their capital ratios (foreign bank branches do not report capital adequacy).

All banks were compliant with the set minimum capital ratio of 8% during 2009. No bank recorded a capital ratio of less than 10% at the end of 2009. All three banks that reported ratios of less than 10% at the end of 2008 exceeded this threshold.

2.5 BANKING SECTOR PERFORMANCE

2.5.1 Profit from financial activities and profit from other operating activities

Banking sector stability is conditional on generating profit, primarily profit from financial activities in the longer term. From the operating profit they generate, banks must be able to cover all operating expenses related to banking activities and also any costs arising from risks they undertake.

The banking sector was profitable in 2009. Compared to 2008, profit from financial activities grew by CZK 30.4 billion (22.0%) to CZK 168.4 billion at the year-end. The majority of the banking institutions operating in the domestic market also posted profits, and 27 banks and foreign bank branches recorded annual increases in profit from financial activities. As regards the individual groups of banks, only foreign bank branches recorded lower profits (down by 0.4%, or CZK 51.3 million). Large banks, one of them in particular, recorded the largest growth in profit from financial activities (29.8%, or CZK 27.0 billion), followed by medium-sized banks (10.7%, or CZK 2.3 billion), building societies (9.3%, or CZK 845.6 million) and small banks (6.1%, or CZK 335.8 million). Large banks accounted for almost 70% of the profit from financial activities generated in the whole sector.

As regards the individual categories of profit from financial activities, interest profit rose by 5.4% (CZK 5.3 billion) year on year to CZK 103.3 billion. Interest profit accounted for more than 61% of total profit from financial activities.

The interest profit of the banking sector rose in 2009 even though interest rates declined.[28] The year-on-year rise in interest profit was a result of an increase in interest profit from operations with other clients (i.e. excluding interest profit from banks, the central bank and general government) of CZK 8.7 billion (12.3%) to CZK 79.5 billion. The growth in interest profit at a time of falling interest rates was fostered by a faster decline in interest expenses (24.2%) than in interest income (9.1%). Interest income fell by CZK 17.5 billion year on year to CZK 174.5 billion. Interest received from other clients accounted for almost 64% of the banking sector's total interest income (for comparison: the 50% level had been exceeded at the end of 2005). The share of interest from general government is constantly falling and was less than 1.4% at the end of 2009. Interest income from central banks and credit institutions dropped considerably in 2009. Their shares in total interest income recorded annual decreases from 7.0% to 3.1% and from 10.9% to 7.7% respectively, amounting to CZK 5.4 billion and CZK 13.4 billion at the end of 2009. Interest on debt securities increased to CZK 31.4 billion, up by 6.8% (CZK 2.0 billion) on 2008.

28 The CNB changed its key interest rate four times during 2009, reducing it by 1.25 percentage points overall.

TABLE II.18

Banking sector performance
(in CZK millions)

	2007	2008	2009
PROFIT FROM FINANCIAL ACTIVITIES	134,392	138,024	168,378
of which:			
interest profit	84,698	98,043	103,299
dividend income	5,886	3,730	9,623
profit from fees and commissions	35,841	36,121	36,441
gains on financial assets not measured at FV through profit or loss	-158	-943	6,327
gains on financial assets held for trading	4,422	-2,685	3,864
gains on financial assets designated at fair value through profit or loss	-2,203	-11,191	1,683
gains from hedge accounting	-536	-272	-330
other gains	6,442	15,220	7,469
ADMINISTRATIVE EXPENSES	59,673	61,676	60,402
DEPRECIATION, PROVISIONS	9,021	7,800	7,485
IMPAIRMENT	6,525	15,221	29,569
PROFIT/LOSS FROM CURRENT ACTIVITIES	59,173	53,327	70,921
other profit/loss	27	722	63
GROSS PROFIT before tax	59,201	54,049	70,984
tax expense	12,213	8,345	11,008
NET PROFIT	46,987	45,705	59,976

CHART II.22

Structure of profit from financial activities by profit type
(in %)

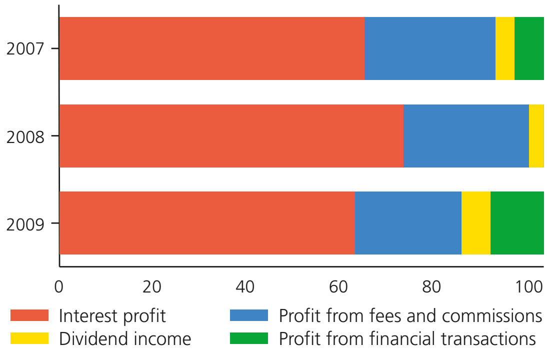


CHART II.23

Interest rate spread
(in %)

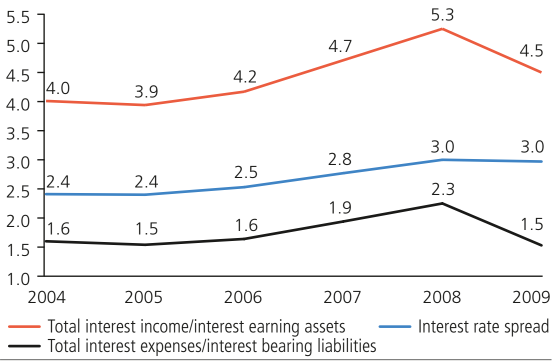


CHART II.24

Interest rate spread in 2009
(in %)

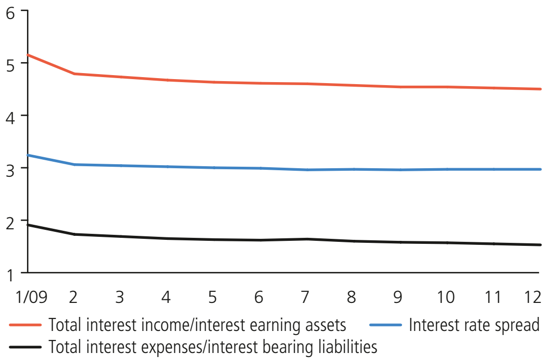
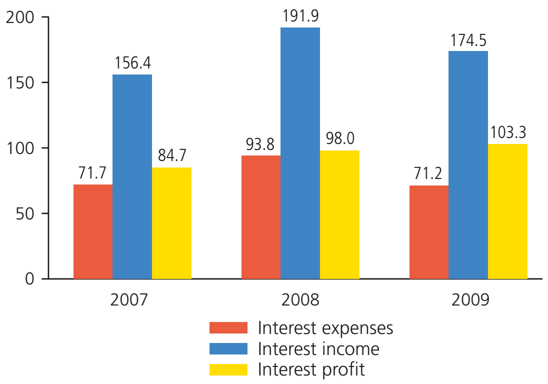


CHART II.25

Interest income and expenses
(in CZK billions)



The banking sector's interest expenses reached CZK 71.2 billion at the end of 2009. Amid falling interest rates and a rising volume of client deposits, interest expenses fell by 24.2% (CZK 22.7 billion) in 2009. As in the case of interest income, interest paid to other clients (excluding credit institutions, central banks and general government) accounted for the largest share (almost 45% of all interest expenses). The amount paid to clients in this way totalled CZK 31.9 billion as of the end of 2009, down by CZK 11.9 billion (27.2%) compared to the end of 2008. As a result of the decline in interest rates, the interest rate spread decreased in Q1 and then fluctuated around 3%. It stood at 2.97% at the end of 2009. The net interest margin decreased as well, reaching 2.84%.[29]

The structure of non-interest profit changed considerably in 2009. The Czech banking sector's profit from fees and commissions rose by 0.9% (CZK 319.5 billion) to CZK 36.4 billion in 2009. A near-stagnation had already been apparent in 2008. In 2001–2004, by contrast, the rate of growth of fees and commission had ranged between 12.0% and 18.9% (between CZK 2.7 billion and CZK 4.9 billion in absolute terms). Dividend income rose by CZK 5.9 billion (158.0%). Gains on financial assets held for trading and other gains on financial assets were included in 2009, significantly affecting profit generation. By contrast, a loss on financial assets of almost CZK 15 billion was recorded in 2008. The banking sector recorded profit from financial operations of CZK 11.9 billion at the end of 2009. In 2009, more than 60% of total fee and commission income was due to payment system fees and commissions, which rose by 4.3%. Banks' total income from payment system fees and commissions was more than CZK 28 billion. Commissions on pledges and guarantees are an increasingly important source of fee revenue. Such commissions amounted to CZK 2.9 billion at the end of 2009, up by 15.5% on a year earlier.

Banks' dividend income amounted to CZK 9.6 billion in 2009. This income category pertained almost exclusively to large banks, which accounted for 99.6% of total dividend income. This income consisted mainly of dividends from subsidiaries and associates within financial groups.[30]

29 These indicators (the interest margin and the interest rate spread) relate to the figures reported for all economic sectors for receivables and liabilities operations. The interest rate spread is the difference between total interest income/interest earning assets and total interest expenses/income bearing liabilities. Gains and losses from hedging interest rate derivatives are not included. This indicator does not take into account any differences in the structure and volume of the assets and liabilities for which it is calculated. The net interest margin is a measure of interest profit relative to interest earning assets. Interest profit is the difference between interest income and interest expenses, excluding any gains and losses from hedging interest rate derivatives. Interest earning assets are given at gross book value.

30 In 2009 this indicator was exceptionally high owing mainly to a dividend received by one of the large banks.

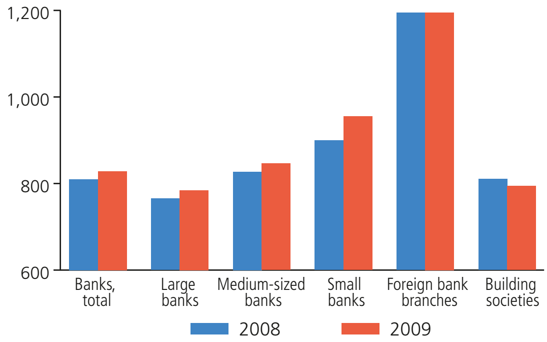
2.5.2 Administrative expenses and impairment

The recession that hit the Czech economy in 2009 affected banks mainly in terms of a deterioration in their loan portfolios and a related increase in impairment costs and induced them to intensively control their administrative expenses. The overall administrative expenses of the banking sector fell slightly during 2009, by CZK 1.3 billion to CZK 60.4 billion. An annual fall in the banking sector's administrative expenses had last been recorded in 2002. Since then, until 2008, these expenses had been rising. As a result of sizeable growth in profit from financial activities, the share of administrative expenses in this profit fell by 8.8 percentage points to 35.9% as of 31 December 2009. Personnel expenses and other administrative expenses have roughly equal shares (51.4% and 48.6% respectively), with the latter rising faster (by 3.7% year on year). The sharpest decline was recorded by other administrative expenses[31] , which fell by CZK 1.4 billion (13.5%) to CZK 8.7 billion. Banks are also reining in wages and salaries, which also declined marginally by 0.3% (CZK 68.4 million) in 2009. Average annual personnel expenses per employee increased by 2.2% to CZK 818,200 at the end of 2009 as a result of a decline in the number of employees.[32] Personnel expenses were reduced most significantly in the category of other personnel expenses, which consists mainly of food allowances, education expenses, travelling costs and staff health care expenses. In contrast, social, health, pension and similar insurance expenses did not decline. As regards other categories of administrative expenses, outsourcing costs again recorded an annual rise (of 34.7%) and totalled CZK 7.3 billion at the end of 2009.

Asset impairment rose by 94.3% (CZK 14.3 billion) year on year, reaching CZK 29.6 billion at the end of 2009. Impairment on loans and receivables – the biggest contributor to impairment – totalled CZK 26.3 billion (up by 83.3%, or CZK 11.9 billion, year on year).[33] Impairment on the banking sector's non-financial assets also increased to CZK 3.2 billion in 2009. A loss arose in the group of large banks from impairment on investments in associates and subsidiaries.

CHART II.26

Personnel expenses per employee
(in CZK thousands)



31 Other administrative expenses comprise, for example, material consumption expenses (energy, fuels, maintenance materials, forms, office supplies, publications, magazines, replacement parts, packing materials, minor tangible assets, raw materials, auxiliary materials and other materials), spending on other contracted outputs not included elsewhere, tax expenses (e.g. road tax, gift tax, real estate tax) and fees charged under special legal rules (e.g. court and notarial fees), local taxes and fees, and customs duties. Other consulting expenses (except legal and tax) are reported here.

32 Calculated from the average converted stock of employees in 2009 (the average number of employees in the given year converted into full-time equivalents). Personnel expenses consist mainly of wages and social and health insurance, but also include employer contributions to health care, private pension schemes and food allowances, etc.

33 This refers to provisioning. The amount of provisions depends on the quality of the loan portfolio. Growth in default receivables is accompanied by provisioning (see section 2.3.1 *Credit risk for details*).

CHART II.27

Shares of bank groups in profit of sector
(in %)

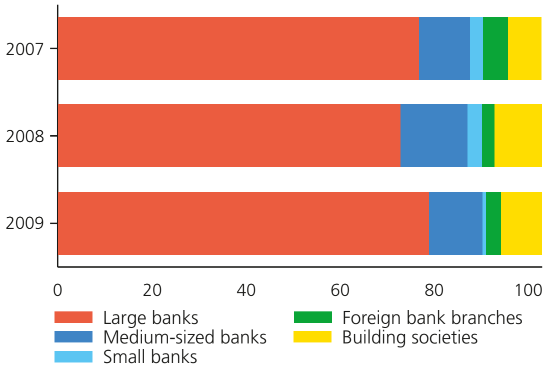


CHART II.28

RoE for bank groups
(in %)

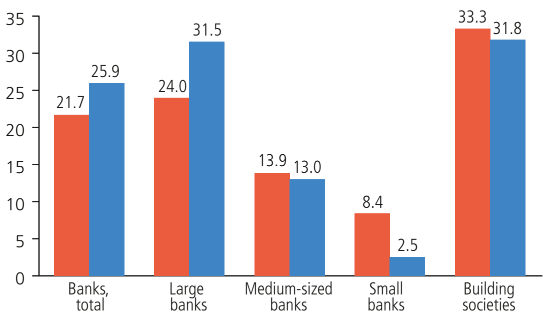
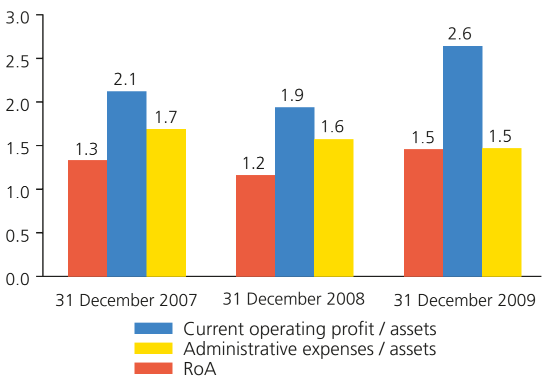


CHART II.29

RoA
(in %)



2.5.3 Net profit

The banking sector was profitable in 2009. Gross (pre-tax) profit totalled CZK 71.0 billion, a year-on-year increase of 31.3%. The 2009 profit was significantly affected by the financial operations of one bank.

The net profit of the banking sector rose by CZK 14.3 billion (31.2%) year on year, to CZK 60.0 billion as of 31 December 2009. Profit from financial activities, which rose by 22.0% in the period under review and reached CZK 168.4 billion at the end of 2009, remained the main source of net profit. At CZK 11.0 billion, total income tax increased by CZK 2.7 billion (31.9%) compared to the 2008 figure (CZK 12.2 billion in 2007 and CZK 8.3 billion in 2008).

The biggest contributor to the sector's net profit was the group of large banks, which generated a net profit of CZK 46.0 billion (up by 42.0% year on year), accounting for 76.7% of total banking sector profit. Medium-sized banks generated a net profit of CZK 6.7 billion (up by 3.7%), while net earnings in small banks recorded an annual decline of 64.9%, totalling just CZK 473.8 million. Foreign bank branches posted a net profit of CZK 1.9 billion (up by 65.4%). Building societies were also profitable as a group (CZK 5.1 billion, up by 12.4%). As regards individual banks, eight recorded a loss in 2009, of which five were foreign bank branches and three small banks. All large banks recorded a profit in 2009.

2.5.4 Profitability, efficiency and productivity

The year 2009 – in which the financial markets were hit by the financial crisis and the domestic economy went through a period of decline – was successful for the banking sector in terms of performance. The banking sector's profitability as measured by net profit generated per unit of capital increased. At the end of 2009, return on Tier 1 (RoE) was 25.9% for the entire sector, up by 4.2 percentage points on 2008. The results within the sector were mixed. RoE increased year on year in eight banks (excluding foreign bank branches). One bank recorded a figure exceeding 60%. Three banks were in the range of 30%–40%, while the largest group was made up of six banks having RoE ratios of between 20% and 30%. Five banks had positive RoE ratios of less than 10%. The three loss-making banks posted negative values.

The banking sector recorded an increase in return on assets (RoA) of 0.30 percentage point. As of 31 December 2009, its RoA was 1.46%. Large banks recorded the highest RoA (1.92%); this was affected by their financial results. As regards the other bank groups, RoA exceeded 1% only in medium-sized banks (1.27%) and building societies (1.15%). The following groups of banks recorded an annual increase in RoA: large banks (up by 0.55 percentage point), foreign bank branches (up by 0.14 percentage point) and building societies (up by 0.09 percentage point). Small banks and foreign bank branches recorded RoA values below 1%.

The ratio of administrative expenses to assets in the banking sector is regularly declining. This share declined by 0.1 percentage point compared to the end of 2008, to 1.47% at the end of 2009. This decline was due to all groups of banks, most notably medium-sized banks (a decrease of 0.39 percentage point).

The growth in net profit per employee of 35.2% to CZK 1,584.0 was due mainly to the rise in net profit. Profit from financial activities per employee increased by 25.7% to CZK 4.4 million, again thanks to growth in profit from financial activities.

2.6 THE CREDIT UNION SECTOR

A total of 17 credit unions were active on the Czech market at the end of 2009. While the number of credit unions was the same as a year earlier, the number of their members rose by one-third to 47,954 in 2009.

Like banks, credit unions are credit institutions pursuant to European legislation and they are subject to basically the same set of prudential rules as banks.[34] The rules governing licensing, qualifying holdings and approval of senior officers are also very similar to those applied to banks.[35] However, a credit union is not a bank,[36] as it differs significantly from a bank as regards its legal form (cooperative versus joint-stock company) and membership principle (credit unions carry on activities for their members,[37] although they can also offer their services to the state and its organisational units) and in terms of a lower minimum capital requirement (CZK 35 million in contrast to CZK 500 million for banks). The credit union sector is much smaller than the banking sector. The total assets of credit unions were only 0.4% of the total assets of the banking sector as of 31 December 2009.

Total assets and liabilities and total loans and deposits of credit unions recorded buoyant growth in 2009. On 31 December 2009, credit unions' assets totalled CZK 17.7 billion, up by 46.6% year on year. Client loans, which rose by 35%, stood at almost CZK 9 billion, and client deposits were CZK 15.8 billion (an increase of 50.8%). Credit union members accounted for the bulk of loans and deposits. As in previous years, the volume of activities for the state and its organisational units was not significant in 2009. The business model of credit unions is based on collecting deposits from their members (deposits accounted for 89.7% of liabilities at the end of 2009, while capital, consisting mainly of members' contributions, represented 9.5%) and allocating these deposits to loans to members (these loans

TABLE II.19

Number of CUs and their members

	2007	2008	2009
No. of active credit unions	19	17	17
No. of members	44,789	35,942	47,954

TABLE II.20

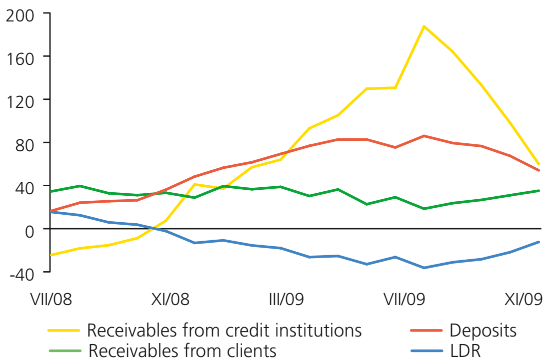
CU assets and liabilities
(in CZK millions)

	2007	2008	2009	Change in % from 2008
TOTAL ASSETS	9,003.3	12,057.3	17,670.4	46.6
Cash and deposits with central banks	127.6	340.6	430.5	26.4
Loans and other receivables	8,562.2	11,147.2	15,872.7	42.4
Tangible assets	145.2	430.0	586.4	36.4
Other assets	168.3	139.6	780.8	459.5
TOTAL LIABILITIES	9,003.3	12,057.3	17,670.4	46.6
Client deposits	7,371.6	10,504.5	15,842.2	50.8
Equity of CUs payable on demand	1,317.8	1,156.3	1,387.5	20.0
Equity, total	197.5	260.6	292.9	12.4
Net income from current year	83.1	50.6	20.8	-59.0
Other liabilities	33.3	85.3	127.1	49.1

34 Decree No. 123/2007 Coll., on prudential rules for banks, credit unions and investment firms, as amended by Decree No. 282/2008 Coll.
35 Decree No. 233/2009 Coll. on applications, approval of persons and the manner of proving professional qualifications, trustworthiness and experience of persons, and on the minimum amount of funds to be provided by a foreign bank to its branch.
36 Article 1(4) of the Credit Unions Act.
37 See the definition of a credit union's objects in Article 3(1) of the Credit Unions Act. Pursuant to Article 3(2) of the Act, credit unions are also authorised, inter alia, to deposit funds in credit unions and banks and to accept loans from credit unions and banks, although solely for the purpose of performing activities for their members. The performance of credit union activities for the state and its organisational units and other public institutions under Article 3(5) of the Act is not conditional on credit union membership.

CHART II.30

Allocation of CU deposits
(year-on-year changes in %)



stood at 51% of assets at the end of 2009). The majority of the funds that are not used for loans are deposited with banks (receivables from credit institutions represented 40% of assets in December 2009). In 2009, members' deposits increased significantly faster than loans to members. As a result, the loan-to-deposit ratio (LDR) declined to 57% as of 31 December 2009. By contrast, this ratio had been 65% in December 2008 and a record 82% in August 2008. The decline in the LDR was reflected in a large increase in receivables from credit institutions, i.e. above all deposits with banks.

The off-balance sheet activities of credit unions are traditionally less significant than their balance-sheet ones, and off-balance sheet assets are much lower than off-balance sheet liabilities. On 31 December 2009, off-balance sheet assets were CZK 475 million, i.e. only 2.7% of balance sheet assets, and off-balance sheet liabilities stood at CZK 12.5 billion, i.e. 71% of balance sheet liabilities. Off-balance sheet assets and liabilities rose rapidly in 2009. The rate of growth of off-balance sheet assets, which was 41.5%, was only slightly lower than that of balance sheet assets, but liabilities grew at a much slower pace (25%). Pledges accepted were by far the largest off-balance sheet item (CZK 11.3 billion). By contrast, receivables and payables from forwards/futures, which were almost balanced, were the smallest item at CZK 208 million. These small volumes

TABLE II.21

CU sector off-balance sheet
(in CZK millions)

	2007	2008	2009	Change in % from 2008
OFF-BALANCE SHEET ASSETS	883.9	335.9	475.2	41.5
Commitments and guarantees given	687.0	154.1	258.2	67.5
Pledges given	30.0	0.0	0.0	0.0
Receivables from futures, forwards, swaps etc.	158.3	172.5	208.2	20.7
OFF-BALANCE SHEET LIABILITIES	7,243.7	10,038.7	12,537.6	24.9
Commitments and guarantees received	790.4	1,471.3	1,061.1	-27.9
Pledges received	6,295.3	8,395.5	11,268.6	34.2
Liabilities from futures, forwards, swaps etc.	158.1	171.9	207.9	20.9

TABLE II.22

CU sector performance
(in CZK millions)

	2007	2008	2009	Change in % from 2008
Financial and operating profit	316.6	437.6	452.7	3.4
Interest profit	286.5	390.5	393.4	0.7
Profit from fees and commissions	36.9	51.0	62.2	22.1
Other operating profit/loss	-6.8	-3.8	-3.0	-21.8
Administrative expenses	202.0	353.1	373.6	5.8
Depreciation	8.3	16.4	19.3	17.5
Provisions	0.2	0.5	0.1	-85.7
Impairment	17.1	13.5	33.7	148.5
Tax expense	5.9	3.4	5.3	55.7
PROFIT OR LOSS AFTER TAXATION	83.1	50.6	20.8	-59.0

illustrate the medium-term trend of low exposure of the credit union sector to forwards/futures.

As of 31 December 2009, profit from the financial and operating activities of the credit union sector rose by 3.4% year on year to CZK 452.7 million. By contrast, after-tax profit fell to CZK 20.8 million, i.e. 41% of the figure recorded in 2008. The fall in net profit was due mainly to two factors. First, 2009 saw an increase in asset impairment losses of CZK 20.1 million, or 150%, compared to 2008. These losses offset the rise in profit from financial and operating activities. Second, the efficiency of allocation of funds into assets declined significantly. Profit from financial and operating activities per unit of assets, interest profit and net profit (RoA) decreased. By contrast, the annual growth in administrative expenses of CZK 20 million can be regarded as favourable as far as efficiency is concerned, as significant economies of scale were exploited and the ratio of these expenses to assets declined from 2.9% to 2.1%.

Liquidity was very good in the credit union sector in 2009. The ratio of quick assets to total assets fluctuated around 29% in the individual months (maximum 36%, minimum 25%). The cumulative net position of receivables and payables due in up to three months, adjusted by subtracting 80% of demand deposits from payables, was around 17% (maximum 19%, minimum 11%). Although this high, positive figure indicates considerable readiness to meet short-term obligations, it also suggests that the credit union sector had significant funds that it failed to use to increase interest profit by providing loans with longer maturities.

The credit expansion in the credit union sector in 2009 was accompanied by a marked deterioration in the quality of receivables. As of 31 December 2009, default receivables accounted for 5.5% of client receivables, up from 3.1% in December 2008. This reflects the fact that credit unions' default receivables totalled CZK 484.4 million at the end of 2009, of which CZK 230 million were substandard loans, CZK 78 million doubtful loans and CZK 176.4 million loss loans. As of 31 December 2008, the respective figures had been CZK 204.5 million, CZK 115.5 million, CZK 60.6 million and CZK 28.4 million.

The capital adequacy ratio of the credit union sector fell by 2.5% year on year to 14.5% at the end of 2009, owing to the capital requirement increasing by 36% to CZK 843 million and regulatory capital rising by only 16% to CZK 1,539 million in 2009. The majority (94%) of capital requirements were allocated to credit risk, while operational risk accounted for 5.7% and market risks only 0.3%. Tier 1 capital, which consists mainly of paid-up member contributions, reserve funds and retained earnings, accounts for 97.5% of the regulatory capital of the credit union sector. Tier 2 capital is represented by subordinated debt of just CZK 40 million. All credit unions reported capital adequacy ratios exceeding the regulatory threshold of 8% at the end of 2009. Leverage in the credit union sector, i.e. assets expressed as the product of the sum of member contributions and equity, was a conservative 10.5.

CHART II.31

CU sector profitability
(%)

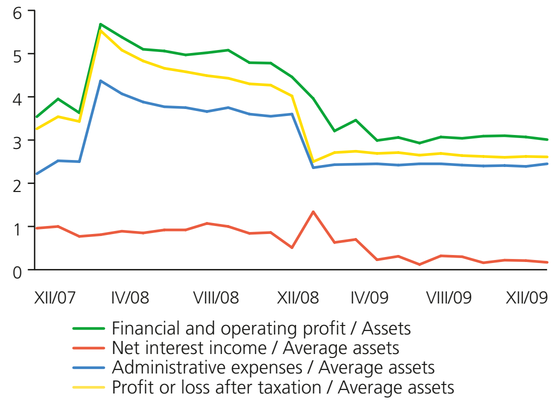


CHART II.32

CU sector liquidity indicators
(in %)

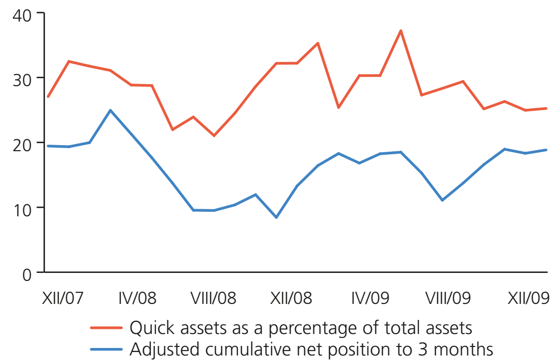


CHART II.33

Quality of CU sector receivables
(in %)

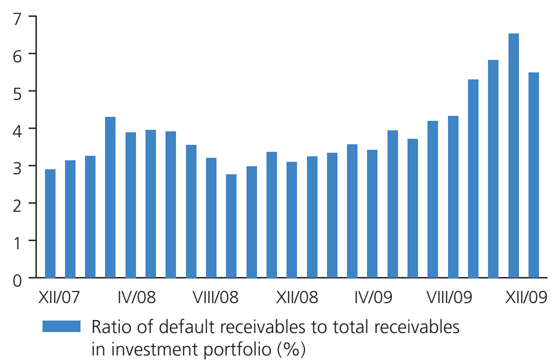
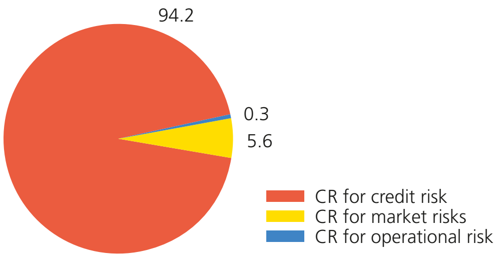


Chart II.34

Capital requirements in CU sector
(in %)



The almost 50% year-on-year growth in the assets of the credit union sector in 2009, driven by growth in deposits, contrasts with the stagnation of total assets of financial institutions in the Czech Republic.[38]

38 See CNB (2010): *Financial Stability Report 2009/2010.*

3. THE CAPITAL MARKET

3.1 INVESTMENT FIRMS

3.1.1 Entities licensed as investment firms

The CNB registered 63 investment firms at the end of 2009, 11 of them banks, 28 non-banks, 14 foreign bank branches and four organisational units of foreign investment firms. Six domestic management companies managing assets of clients under contract (AMCs) held investment firm licences at the end of 2009.

As of 31 December 2009, entities licensed as investment firms[39] had 861,600 clients, of which 719,200[40] were clients of bank investment firms and 142,400 were clients of non-bank investment firms. The latter figure included 1,400 clients of asset management companies.

As regards type of contract, a total of 834,000 mandate or consignment contracts and 27,500 management contracts were concluded between investment firms and their clients.

At the end of 2009, the assets of clients of investment firms totalled CZK 1,927.1 billion, up by 9.6% on the same period a year earlier. The assets of the clients of the 28 non-bank investment firms amounted to CZK 471.2 billion (up by 12.6%). In the case of domestic banks the figure was CZK 1,031.7 billion (up by 3.7%).

As of 31 December 2009, investment firms managed funds totalling CZK 521.8 billion (up by 6.2% on a year earlier), of which CZK 378.8 billion fell to the 28 non-bank investment firms (up by 8.0% on a year earlier), CZK 96.8 billion to asset management companies and CZK 45.7 billion to banks.

3.1.2 Trades for the account of clients carried out by investment firms

Investment firms carried out trades for their clients totalling CZK 12,652 billion[41] in 2009, a year-on-year rise of 28.8%. Of this total, management trades amounted to CZK 812.6 billion and non-management trades to CZK 11,839 billion.

As regards structure, trades in collective investment securities remained predominant (45.3%), followed by bond trades (24.3%), share trades (23.7%) and money market instrument trades (6.8%). The structure of trades for clients for the individual half-years of 2007 to 2009

39 Entities licensed by the CNB and branches of entities registered in another Member State of the European Union and authorised to provide investment services in the Czech Republic.
40 This figure includes customers who executed unit certificate transactions through bank branches. It also includes inactive clients.
41 The overall volume of trades comprises spot operations, custody transfers, repos, buy/sell-back trades and sell/buy-back trades. The rise in volume in 2009 was largely due to an increase in custody transfers of collective investment securities.

CHART III.1

Total number of investment firms
(at end of period)

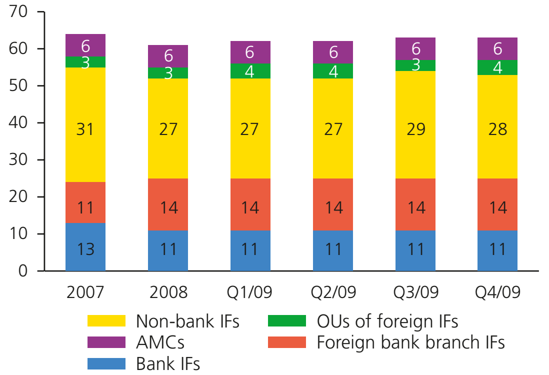
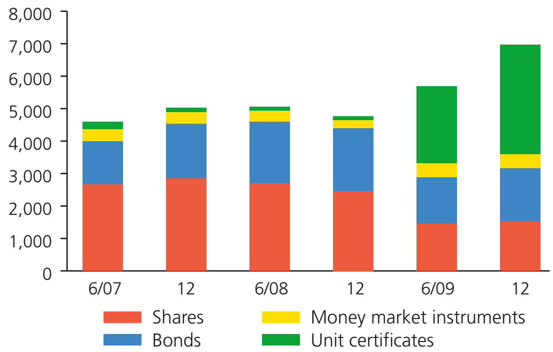


CHART III.2

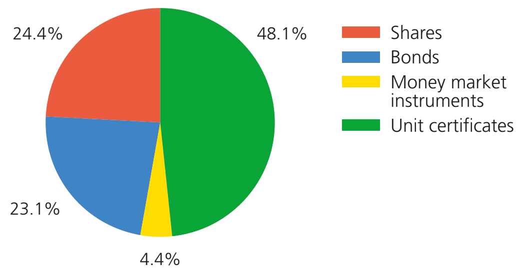
Total volume of trades for clients
(in CZK billions; for half-year under review)



Note: Volume of securities trades significantly affected by unit certificate custody transfers

CHART III.3

Structure of trades for clients in 2009
(non-management contracts; in %)



Note: Volume of securities trades significantly affected by unit certificate custody transfers

CHART III.4

Structure of trades for clients in 2009
(management contracts; in %)

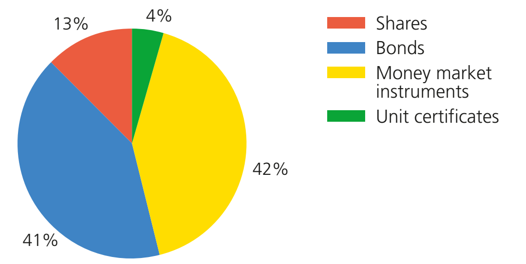
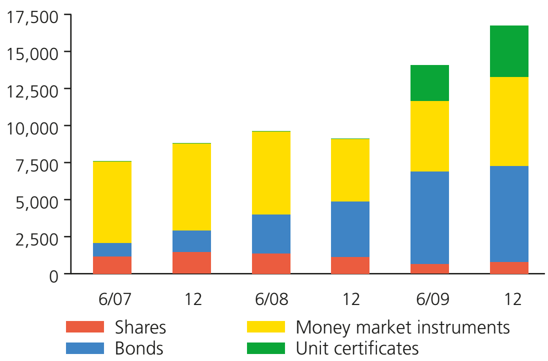


CHART III.5

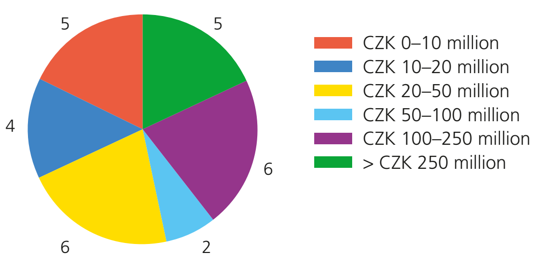
Total volume of trades for own account
(in CZK billions; for half-year under review)



Note: Volume of securities trades significantly affected by unit certificate custody transfers

CHART III.6

Breakdown of 28 non-bank IFs by capital
(as of 31 December 2009)



is shown in Chart III.2, the structure of trades for clients with non-management (consignment, mandate, etc.) contracts with investment firms in 2009 is shown in Chart III.3, and the structure of trades provided by investment firms with which clients have management contracts in 2009 is shown in Chart III.4.

Within securities trades, trades carried out for clients by bank investment firms (including branches) totalled CZK 10,699 billion. Non-bank investment firms (including organisational units) carried out trades for their clients amounting to CZK 1,799.6 billion, while client trades of asset management companies reached CZK 156.5 billion.

3.1.3 Trades for own account carried out by investment firms

During 2009, investment firms carried out trades for their own account totalling CZK 30,280 billion[42] (up by 64.4% year on year), of which 4.8% were share trades, 41.2% bond trades, 35.0% money market instrument trades and 19.0% collective investment security trades.

The vast majority of the trades executed in 2009 were performed by bank investment firms (including foreign bank branches), which carried out trades for their own account amounting to CZK 29,874 billion.

The trades executed by non-bank investment firms for their own account over the same period totalled CZK 946 billion (down by almost 35% year on year).

3.1.4 Capital adequacy of investment firms

The capitalisation of the investment firm sector was good in 2009. The aggregate capital of all investment firms on a solo basis was almost CZK 227 billion at the end of 2009, with bank investment firms accounting for most of this figure. The amount of regulatory capital of the 28 non-bank investment firms was CZK 3.57 billion (up by 33.7% year on year). The highest numbers of investment firms had capital in the range of CZK 20–50 million and CZK 100–250 million. The capital of asset management companies reached CZK 424.1 million.

The total capital requirements for the individual types of risk of all investment firms were CZK 135.9 billion. The capital adequacy ratio thus stood at roughly 13.4% on aggregate. As regards the 28 non-bank investment firms, the capital requirements were CZK 1.17 billion and the capital adequacy ratio reached 24.3%. In the case of asset management companies, the capital adequacy ratio was 34.4% and the capital requirements were CZK 98.7 million. The highest capital requirements overall were for credit and position risk, foreign exchange risk and commodity risk (see Chart III.7).

42 The overall volume of trades comprises spot operations, custody transfers, repos, buy/sell-back trades and sell/buy-back trades. The rise in volume in 2009 was largely due to an increase in custody transfers of collective investment securities.

The domestic investment firm sector generated a net profit of CZK 54.6 billion in 2009, up by 29.8% on the same period a year earlier. This was due largely to an increase in financial and operating profit in bank investment firms, which strengthened by almost 21% year on year. By contrast, the adverse financial market situation affected the performance of the 28 non-bank investment firms, whose net profit declined by more than 53% to CZK 877.1 million.

3.1.5 Concentration in the investment firm sector

Concentration is calculated in terms of the volume of transactions carried out by the individual firms in 2009 and in terms of the total volume of assets managed and the number of clients as of 31 December 2009. The concentration values for the investment firm sector are shown in Table III.1.

CHART III.7

Capital requirements structure of investment firms
(as of 31 December 2009)

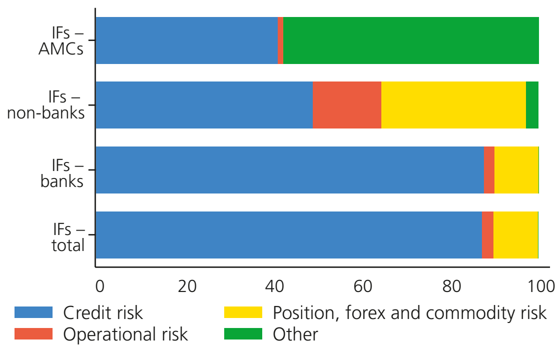


TABLE III.1

Concentration of investment firm market in 2009

	Top 3 a)	Top 5 a)	HHI b)
Volume of securities trades, total	61.73	77.17	1,542
Volume of securities trades for clients	62.01	72.17	2,443
under management contracts	71.13	85.30	2,588
under non-management contracts	66.27	76.85	2,774
Volume of securities trades for own account	63.47	82.80	1,639
Volume of derivatives trades (in value of underlying asset)	99.29	99.50	9,797
Volume of derivatives trades for clients	99.91	99.95	9,961
Volume of derivatives trades for own account	49.33	73.39	1,246
Assets managed, total	67.76	84.54	2,046
Number of clients	83.54	89.53	3,189

a) Top 3 (5) – share of 3 (5) institutions with highest volume of given item in total volume of given item in sector (in %)
b) Herfindahl-Hirschman index (maximum 10,000)

Concentration in the investment firm sector varies considerably, above all depending on whether we are talking about transactions carried out for own account or transactions executed for clients. While in the case of transactions for own account the market is not very concentrated, the segment of transactions for clients shows higher concentration. In other cases the degree of concentration can be extreme, with transactions carried out by only a few institutions. As regards derivatives transactions, almost 99% of the volume of transactions is carried out by a single entity.

CHART III.8

Market shares in management company sector by volume of assets managed
(in %; at end of period)

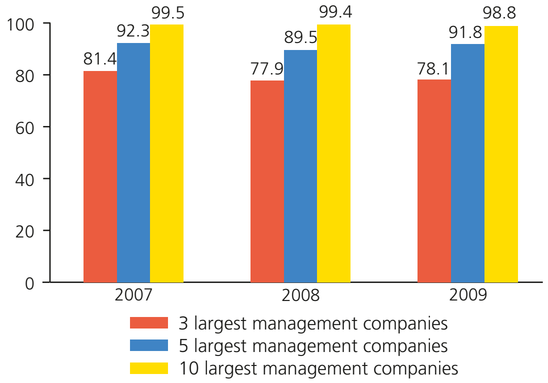


CHART III.9

Assets of CIFs open to the public and selected stock indices
(1/2007 = 100%)

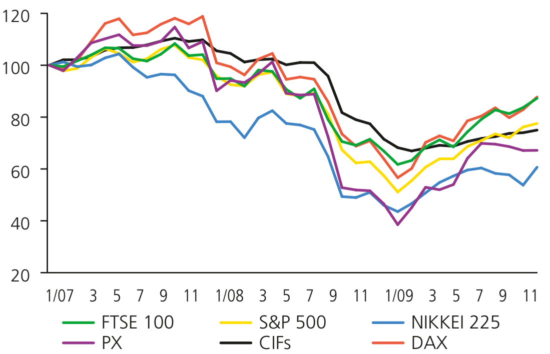
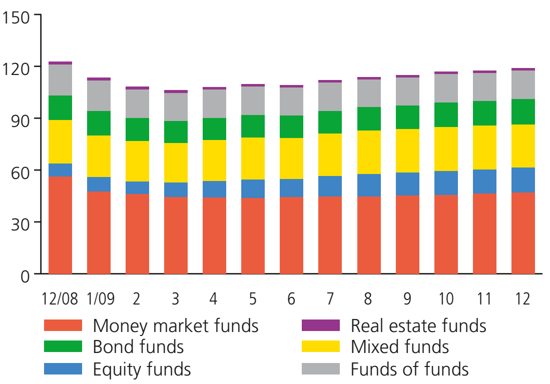


CHART III.10

Assets of CIFs open to the public by fund type
(in CZK billions; at end of period)



3.2 COLLECTIVE INVESTMENT

3.2.1 Collective investment undertakings

A total of 22 management companies were active on the collective investment market at the end of 2009, up by two on a year earlier. In addition, there were 27 investment funds, 139 open-end mutual funds (of which 36 were standard funds) and two closed-end mutual funds. The trend of establishing new collective investment undertakings continued in 2009. During 2009, the CNB received 109 announcements from foreign regulators of notifications of collective investment funds; a total of 1,457 collective investment funds are active under this regime.

Management companies managed assets totalling CZK 119.0 billion in domestic open-end mutual funds at the year-end. The market shares of management companies according to assets managed in their collective investment funds open to the public are shown in Chart III.8.

3.2.2 Assets in mutual funds open to the public

The assets of collective investment funds open to the public amounted to CZK 119.0 billion at the end of 2009, down by just under CZK 4 billion from the end of 2008. Domestic mutual funds open to the public thus lost 3.1% of their assets during the year. The largest fall in value of funds' assets was recorded in Q1; the remainder of the year saw a gradual rise due mainly to an increase in the prices of investment instruments.

A comparison of the volume of assets in domestic mutual funds with selected stock indices (with the values at the beginning of 2007 taken as the starting levels) shows that assets in mutual funds largely tracked developments in the capital markets. The evolution of the indices and of the assets of collective investment funds open to the public is shown in Chart III.9.

As regards fund type, the largest volume of assets is managed by money market funds, whose assets amounted to CZK 47.2 billion at the end of 2009, accounting for almost 40% of the total assets of domestic mutual funds. Mixed funds managed assets amounting to CZK 24.6 billion at the end of 2009 (accounting for 20.7% of the assets of all mutual funds), followed by funds of funds (CZK 16.2 billion, or 13.7%). The assets of bond funds ran to almost CZK 15 billion (12.6%), while those of equity funds totalled CZK 14.6 billion (12.2% of the total assets of all domestic open-end mutual funds). Real estate funds account for a minimal share of total assets (1.1%, or CZK 1.3 billion). Assets by fund type in individual months of 2009 are shown in Chart III.10.

The asset value of open-end mutual funds has fallen by more than CZK 55 billion over the past two years owing to the global financial turmoil. Given the asset structure described above, however, this figure represents not just a decline in the value of assets due to a fall in their market price, but also a negative net value of unit purchases and sales, which negatively affected the value of money market fund assets in particular. The total assets of all types of funds have risen modestly since then. Chart III.11 shows the quarterly changes in the volume of assets by type of fund over the last two years.

The outflow of funds from domestic open-end mutual funds is also reflected in the amounts received for units issued, the amounts paid for units redeemed, and the resulting net value. As in 2008, the net value of unit sales and redemptions was negative, reaching CZK -7.8 billion in 2009. Nevertheless, this is a significant improvement on 2008 (CZK -26.7 billion).

In terms of profit, the performance of domestic collective investment funds can be regarded as good. Domestic open-end mutual funds generated after-tax profit totalling almost CZK 11.6 billion, an improvement of over CZK 32 billion on the loss generated in the previous year.

CHART III.11

Quarter-on-quarter changes in assets of CIFs open to the public by fund type
(in CZK billions; at end of period)

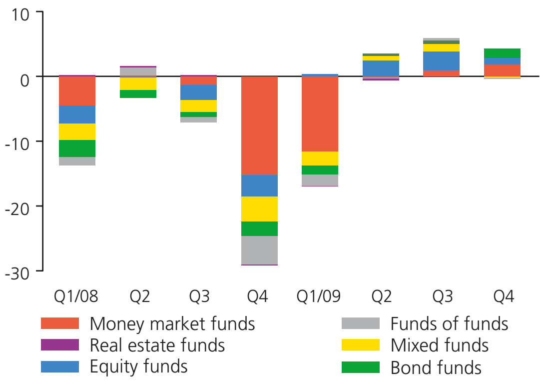


TABLE III.2

Unit sales and purchases in 2009
(in CZK millions)

	Units issued	Units purchased	Balance
Money market	15,618.1	19,978.5	-4,360.4
Equity	3,116.3	2,201.2	915.1
Mixed	1,432.1	2,604.9	-1,172.8
Bond	3,003.7	3,485.1	-481.5
Funds of funds	1,884.7	4,466.0	-2,581.3
Real estate	174.9	336.6	-161.7
OMFs, total	25,229.7	33,072.3	-7,842.6

Note: Does not include data for funds that closed down in 2009.

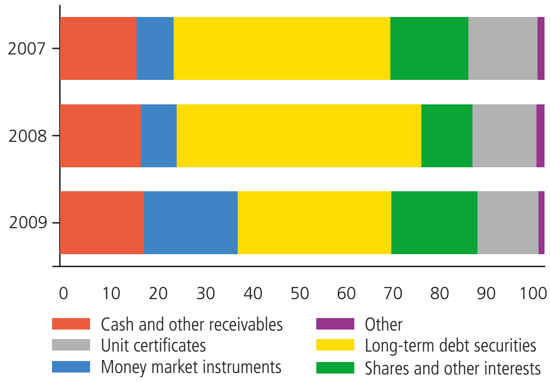
3.2.3 Structure of assets in mutual funds

A total of CZK 37.8 billion, i.e. almost one-third of all assets of domestic mutual funds, was placed in long-term bonds at the end of 2009. Another CZK 22.9 billion was invested in money market instruments (19.3%). Domestic mutual funds had CZK 21.1 billion (17.7%) invested in shares and similar investment securities and CZK 20.7 billion (17.4%) invested in deposits and other receivables. Collective investment fund securities (CZK 15.1 billion, i.e. 12.7%) and other investments had the smallest shares.

Investments in debt securities recorded the largest decline in value in the period under review, falling by 39.1% compared to the end of 2008. By contrast, the value of money market instruments, which rose by more than 154% from the end of 2008, and shares and similar securities, which rose by 62.2%, increased significantly. The percentage shares of financial investments in domestic mutual funds over the last three years are shown in Chart III.12.

CHART III.12

Asset structure of CIFs open to the public
(in %; at end of period)



3.2.4 Funds for qualified investors

The assets managed by funds for qualified investors amounted to CZK 28.3 billion at the end of 2009, up by 19.6% on a year earlier. The majority of this amount was invested in securities and ownership interests (67%), followed by deposits (15%) and fixed assets (14%).

3.3 PENSION FUNDS

The economic condition of pension funds improved further during 2009. This was reflected above all in their equity capital and other economic indicators. The stock and bond market recovery helped pension funds to improve their performance significantly in 2009.

3.3.1. Number of licensed entities

A total of ten pension funds were active on the private pension scheme market in the Czech Republic as of 31 December 2009, the same number as in the previous two years.

3.3.2 Structure of pension fund assets

The total assets managed by pension funds rose by almost CZK 24 billion (12.6%) in 2009, reaching CZK 215.9 billion as of 31 December 2009. The growth in pension fund assets and profit over the past few years is shown in Chart III.13. Chart III.14 shows the concentration ratios in the pension fund sector according to the volumes of planholders' funds recorded in pension funds' liabilities. The market is highly concentrated, with the three largest pension funds administering more than 50% of planholders' funds.

Chart III.15 illustrates the allocation of pension fund investments by asset type at the end of the period under review. The investment policies of pension funds remained highly conservative in 2009. The bulk of their assets were invested in debt securities (CZK 173.7 billion, i.e. more than 80%), while less than 5% were in shares and units (CZK 10.4 billion) and around 10% were in time deposits and on term accounts (less than CZK 22 billion).

The ratio of distribution costs to the number of new private pension policies has been rising over the last few years. In 2009, compensation for intermediation was CZK 3,355 per new private pension policy, which is a considerable increase compared to 2008 (CZK 2,034) and more than double the figure recorded in 2007 (CZK 1,592). Unlike the rate of growth of expenditure on services in this sector, the rate of growth of the number of planholders is not rising.

Expenditure on services used by pension funds is a major expenditure item. Such expenditure is tending to increase even in an environment of global financial crisis and at a time of low returns on funds

CHART III.13

Total assets and profit of pension funds
(in CZK billions; at end of period)

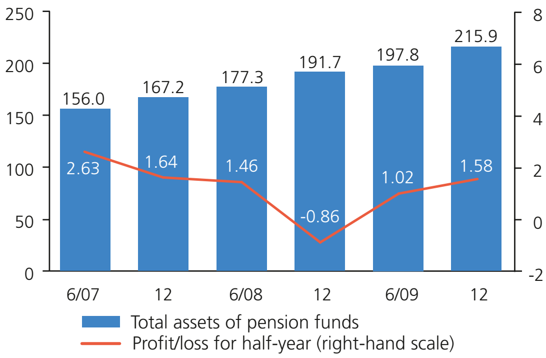
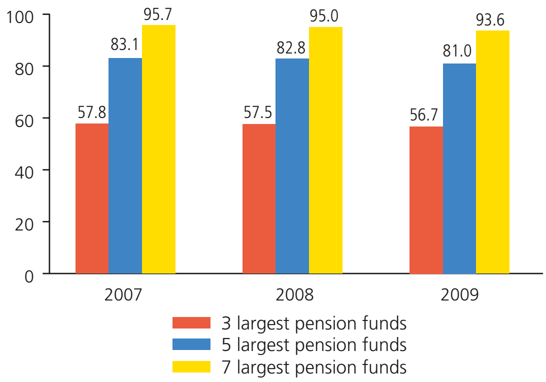


CHART III.14

Market shares in pension fund sector by volume of planholders' funds recorded in liabilities
(in %; at end of period)



invested (year-on-year growth of 27.1%). Marketing (promotion)[43] and distribution of pension fund products,[44] which made up 65.3% of pension funds' expenditure on services in 2009 (compared to 59.4% in 2008), account for the largest part of spending on services.

3.3.3 Own funds of pension funds

Own funds (consisting of invested capital, share premium, reserve funds and other funds created from profit, capital funds, valuation differences, retained earnings/accumulated losses and profit/loss for the current period) are an important indicator of the financial stability of pension funds, reflecting the interest of shareholders in the prudent management of the institution. The own capital of the pension fund sector as a whole amounted to CZK 13.4 billion at the end of 2009, up by more than CZK 10 billion on a year earlier, indicating a considerable stabilisation of the sector.

Chart III.16 shows the main items of own capital for the pension fund sector in the last three years in greater detail. Own capital continues to be affected by valuation differences, but whereas in previous years the negative value of valuation differences had been growing, this item stabilised at the end of 2009 thanks to favourable economic conditions as well as legislative changes to bond valuation methods. Valuation differences amounted to CZK -0.5 billion as of 31 December 2009, up by CZK 7.6 billion year on year. A year earlier, valuation differences had totalled CZK -8.1 billion.

As of 31 December 2009, pension funds generated profit totalling CZK 2.6 billion, up by roughly CZK 2 billion on a year earlier. The formation of income was mostly due to interest and similar income, which amounted to almost CZK 7 billion as of 31 December 2009, compared to CZK 6.2 billion at the end of 2008.

3.3.4 Volume of planholders' funds

The funds of pension planholders, i.e. their deposits including state contributions, employers' contributions and credited returns, also rose, reaching CZK 200.7 billion at the end of 2009. This represents an increase of around CZK 14 billion (or 7.5%) on a year earlier. The structure of planholders' funds recorded in pension fund liabilities and the values of planholders' contributions are shown in Chart III.17.

The number of pension planholders increased further to 4.4 million during 2009. The upward trend in the number of planholders is thus continuing, although it slowed compared to the previous three years. The ratios of funds and assets per planholder are also rising (see Chart III.18; data as of end-December).

43 Advertising expenditure is the amount a pension fund spends advertising its products. It forms part of other administrative expenses in the profit and loss account.
44 Compensation for intermediation of private pension policies is the amount paid to intermediaries in compensation and commissions for the intermediation of private pension policies.

CHART III.15

Structure of placement of pension fund assets
(at end of period)

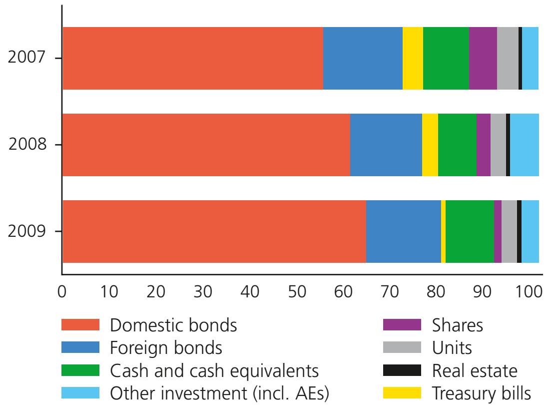


CHART III.16

Structure of pension funds' own capital
(in CZK billions; at end of half-year)

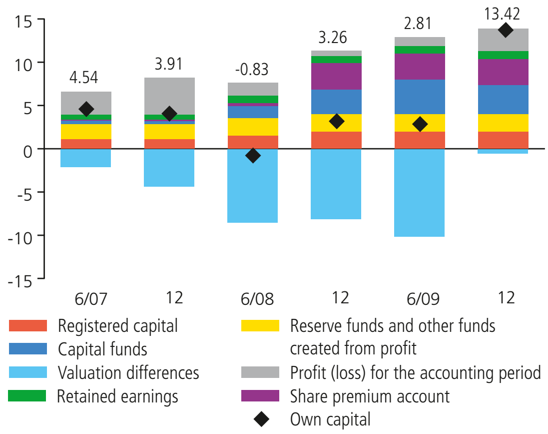


CHART III.17

Planholders' funds
(in CZK billions; at end of period)

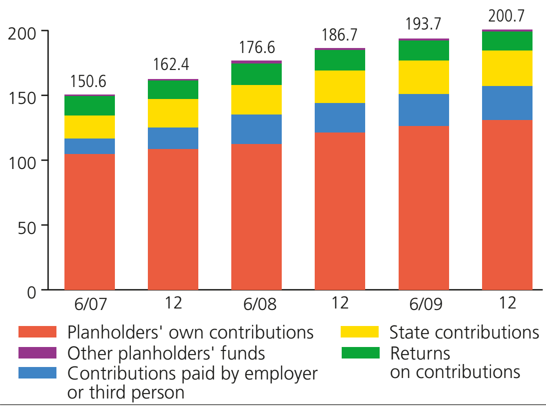


CHART III.18

Number of planholders, funds and assets per planholder
(as of end of period; source: MoF, APF CR, CNB)

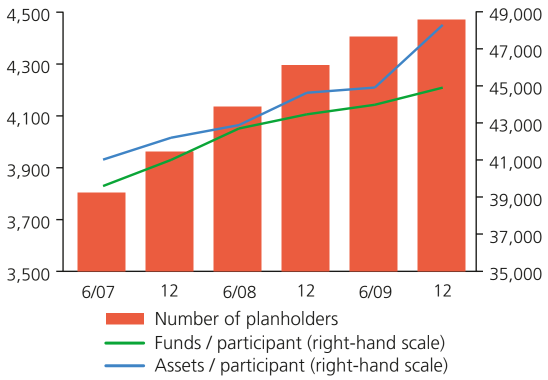


CHART III.19

Monthly trading volumes on PSE (in CZK billions) and PX index in 2009

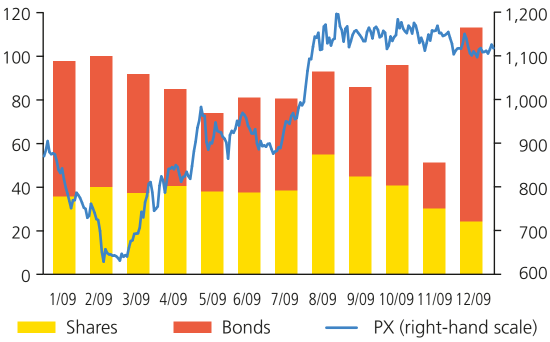
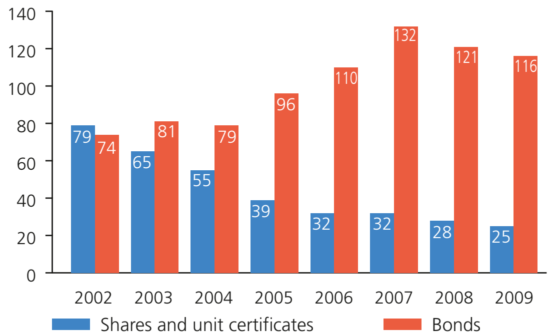


CHART III.20

Numbers of share and bond issues on PSE



Pension funds paid a total of CZK 27.1 billion to their clients in 2009, with lump-sum settlements representing the largest part of this figure (CZK 16.2 billion). Transfers between funds also accounted for a significant share of the money paid (over CZK 5 billion), while termination settlements totalled CZK 3.2 billion. Owing to new legislation adopted in mid-2009 which allows funds to charge fees for transfers and early termination of private pension policies, the amounts paid in this way can be expected to drop in the years ahead.

3.4 REGULATED MARKETS

3.4.1 Trading on regulated markets

Share trading on the Prague Stock Exchange (PSE) decreased considerably year on year, from CZK 852.0 billion to CZK 463.9 billion. This represents a year-on-year fall of 45.6%. One issue (ČEZ) issue accounted for 43.6%, the five most traded issues for 89.6% and the ten most traded issues for 99.1% of the total volume. Around 83% of the total volume of share trades was carried out in SPAD.

The market capitalisation of shares traded on the PSE was CZK 1,293.5 billion on 31 December 2009, a rise of 18.5% compared to the end of 2008. Foreign issues accounted for 36.2% (CZK 468.1 billion) of the market capitalisation. The ČEZ issue alone represented 35.9% of the total market capitalisation. The five issues with the highest market capitalisation accounted for 87.6% and the ten issues with the highest market capitalisation for 97.5% of the total. The year-on-year changes in the prices of the individual share issues fluctuated within a range of -7% to 120.5%.

The total volume of bond trades on the PSE declined by 8.9% compared to 2008, from CZK 643.2 billion to CZK 585.7 billion. Trading in government bonds accounted for 94.8% of the total trading volume. The monthly volumes of share and bond trades on the PSE and the evolution of the PX index are shown in Chart III.19.

A total of 25 share issues were being traded on the PSE at the end of 2009, i.e. three issues less than at the end of 2008. The number of domestic share issues declined by two. There were nine foreign share issues being traded on the PSE at the end of 2009, i.e. down by one from 2008. The number of bond issues traded on the PSE declined from 121 to 116 compared to the previous year. The numbers of equity and bond issues traded on the stock exchange since 2002 are shown in Chart III.20.

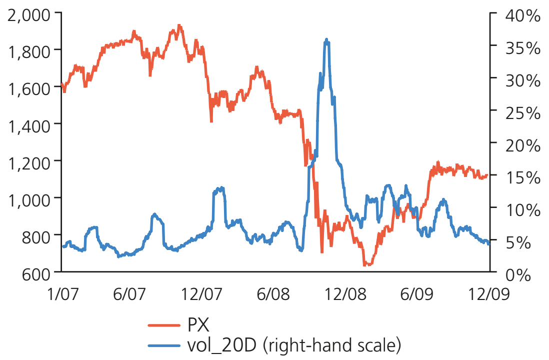
Derivatives trading on the PSE remained negligible at just under CZK 463 million in 2009. The offer of derivatives at the end of 2009 comprised six issues of futures, two issues of warrants and 65 issues of investment certificates.

The PSE's PX index closed 2009 at 1,117.3 points, compared to 858.2 points at the end of 2008. This represented a year-on-year rise of 30.2%. The index recorded its yearly maximum of 1,195.7 points on 24 August; its yearly minimum, recorded on 18 February, was 628.5 points, i.e. just under one-third of the all-time high reached in October 2007. The evolution of the PX index over the last three years and its 20-day historical volatility are shown in Chart III.21.

The number of share issues traded on the other domestic regulated market, RM-SYSTÉM, česká burza cenných papírů a.s. (RM-S) was 65 in 2009. The total annual trading volume on RM-S grew from CZK 8.1 billion in 2008 to CZK 10.5 billion in 2009. Share trading accounted for almost all this figure. Trades in investment certificates were only CZK 2.5 million. The RM index rose from 1,943.9 points at the end of 2008 to 2,340.7 points at the end of December 2009, i.e. by 20.4%.

CHART III.21

PX index and its historical volatility (20D) in 2007–2009



4. THE INSURANCE MARKET

4.1 INSURANCE MARKET STRUCTURE

As of 31 December 2009, the insurance market in the Czech Republic consisted of 35 domestic insurance undertakings, 16 branches of insurance undertakings from the EU and one branch of a third-country insurance undertaking. This figure excludes the Czech Insurers' Bureau[45] and VIG RE zajišťovna, a.s.

TABLE IV.1

Market structure by type of insurance undertaking

	2007	2008	2009
NUMBER OF DOMESTIC INSURANCE UNDERTAKINGS	34	35	35
of which:			
non-life	16	17	17
life	3	3	3
both life and non-life	15	15	15
NUMBER OF BRANCHES OF INSURANCE UNDERTAKINGS FROM EU AND THIRD COUNTRIES	18	18	17
of which:			
non-life	13	12	12
life	3	4	4
both life and non-life	2	2	1
TOTAL NUMBER OF INSURANCE UNDERTAKINGS[a)]	52	53	52
of which:			
non-life	29	29	29
life	6	7	7
both life and non-life	17	17	16

a) excluding insurance undertakings from Member States operating in the Czech Republic under the freedom to provide services

Compared to 2008, the number of branches of foreign insurance undertakings operating in the Czech insurance market decreased by one, whereas the number of domestic insurers remained unchanged. In 2009, two branches were granted a licence and three branches terminated their activities. Branches of the British insurer Stewart Title Limited and the German insurer Deutscher Ring Sachversicherungs-AG were established, focusing on non-life insurance. On the other hand, Wüstenrot pojišťovna, pobočka pro Českou republiku, XL Insurance Company Limited, organizační složka and QBE poisťovňa, a.s., pobočka closed down. Furthermore, AIG EUROPE, S.A., pobočka pro Českou republiku was renamed CHARTIS EUROPE S.A., pobočka pro Českou republiku. Austrian insurance undertakings enjoy the largest representation via branches in the Czech insurance market (five branches), followed by insurance undertakings from the UK and Germany (three branches each). Mondial Assistance International AG – organizační složka is the only branch of an insurance undertaking from a third country (Switzerland). Most branches (a total of 12) focus on non-life insurance. Four insurance undertakings focus on life insurance, while one carries on both life insurance and non-life insurance activities.

As in the previous year, two domestic insurers provided services through foreign branches, namely AXA životní pojišťovna a.s. (branches in Slovakia and Norway) and AXA pojišťovna a.s. (a branch in Slovakia). At the end of 2009, a total of 17 domestic insurance undertakings were authorised to carry on insurance business in other EU or EEA countries under the freedom to provide services. In 2008, the figure had been 15.

In addition to these domestic insurers and branches of foreign insurers, insurance undertakings and branches thereof from other EU/EEA member states may provide services on the Czech insurance market under the freedom to provide services. The number of such institutions rose by another 60 to 614 at the end of 2009. This number

45 The Czech Insurers' Bureau was founded by Act No. 168/1999 Coll., on Vehicle Liability Insurance, as amended, as a professional organisation of insurers licensed to provide motor third party liability insurance. Its main tasks include providing frontier insurance, guaranteeing and providing compensation for personal injury or death caused by the operation of an unidentified vehicle for which an unidentified person is responsible, and providing compensation for damage caused by the operation of a vehicle without liability insurance and other types of compensation under the aforementioned Act. Detailed information on the activity and financial performance of the Czech Insurers' Bureau is available at www.ckp.cz.

was made up of 462 insurance undertakings and 152 branches. These institutions focus mainly on non-life insurance. Most notified entities (162) are based in the United Kingdom. It is followed by Ireland (80) and Germany (48).[46]

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

Insurance market undertakings are divided into four groups for the purposes of the analyses in the following sections. Domestic insurance companies are divided into three groups (large, medium-sized and small) depending on their share in total premiums written on the Czech insurance market. The fourth group consists of branches of foreign insurance undertakings. A list of the individual insurers assigned to these groups is given in Annex 4.

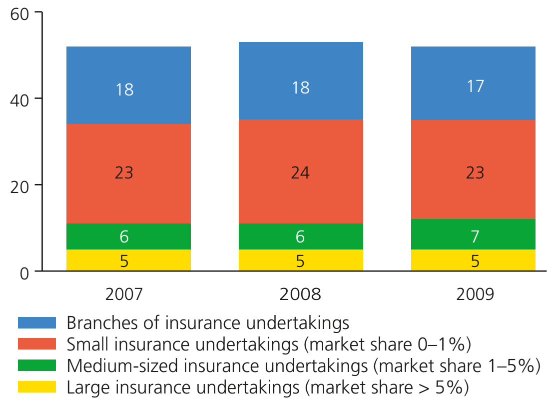
The first group (large insurance undertakings) consists of five domestic insurers whose shares in total gross premiums written on the Czech market are 5% or more. These institutions belong to large international financial groups with a strong capital base and offer a broad range of life insurance and non-life insurance products. With the exception of one insurer, the premiums written of large insurance undertakings are higher in the non-life insurance market segment, reflecting the ratio of non-life to life insurance on the market as a whole. All large insurers are also authorised to carry on cross-border provision of insurance services in selected EU or EEA countries.

The second group (medium-sized insurance undertakings) is made up of seven institutions having market shares in premiums written of between 1% and 5%. In 2009, POJIŠŤOVNA CARDIF PRO VITA, a.s., was moved into this group from the group of small insurers. As in the case of large insurers, these undertakings are universal insurers operating on both the non-life and life insurance markets. Medium-sized insurers generally have higher premiums written in life insurance, but in the case of three medium-sized insurers premiums written from non-life insurance exceed those from life insurance. Three insurers from this group are authorised to provide cross-border insurance in EU/EEA countries. Foreign ownership predominates in six medium-sized insurers.

The group of small insurance undertakings contains 23 domestic insurers with market shares of 1% or less. Three of these insurers focus on life insurance, while 17 specialise in non-life insurance and three

CHART IV.1

Number of insurance undertakings by group



46 A detailed overview of the numbers of notified insurance undertakings and branches broken down by EU and EEA country is given in Annex 22. A complete up-to-date list of insurance undertakings authorised to carry on insurance business under the freedom to provide services is available on the CNB website.

Chart IV.2

Ownership structure of domestic insurance undertakings

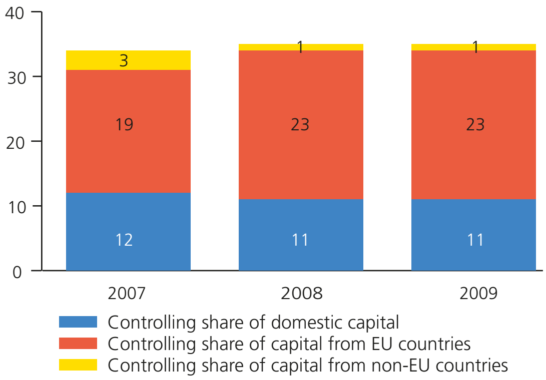


Table IV.2

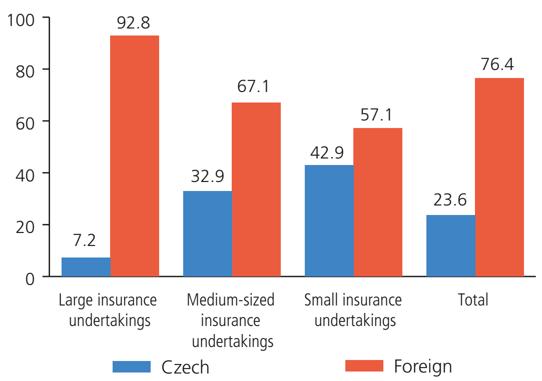
Ownership structure of domestic insurance undertakings by share in registered capital as of 31 December 2009

Country	Amount of participation (CZK thous.)	Share in total registered capital (%)
Czech Republic	4,744,516	23.6
Netherlands[a)]	5,462,000	27.2
Austria	5,144,746	25.6
France	1,657,412	8.3
Belgium	1,284,300	6.4
Germany	526,440	2.6
United Kingdom	435,850	2.2
Slovenia	360,000	1.8
Switzerland	243,150	1.2
Denmark	120,000	0.6
USA	106,000	0.5
TOTAL CAPITAL	20,084,414	100.0

a) including direct shareholder of Česká pojišťovna, a.s.

Chart IV.3

Domestic insurance undertakings by origin of capital as of 31 December 2009
(in %)



are universal insurers. The range of insurance products offered by small insurers is relatively narrow and specialised. It includes, for example, accident and sickness insurance, general liability insurance, credit and guarantee insurance, legal protection insurance and travel insurance. As regards life insurance, their products are focused increasingly on investment life insurance. Foreign capital predominates in 13 small insurance undertakings, while domestic capital prevails in ten. Nine small insurance undertakings may offer products on a cross-border basis in other EU or EEA countries.

The fourth group consists of branches of foreign insurance undertakings. It comprises 17 institutions specialising primarily in non-life insurance. Their market shares are mostly small. However, ING Životní pojišťovna N.V., pobočka pro Českou republiku, has a specific position, ranking fourth by premiums written in life insurance in the whole insurance market.

The only change in 2009 was the relocation of POJIŠŤOVNA CARDIF PRO VITA, a.s. from the group of small insurers to the group of medium-sized insurers. The indicators relating to the groups of insurance undertakings in 2008 and 2007 in the following sections are based on the numbers of insurance undertakings in these groups in 2009 (except branches).

The ownership structure of domestic insurance undertakings is stable. Foreign capital is predominant, accounting for a 76.4% share at the end of 2009. This represents a further modest rise of 1.2 percentage points compared to 31 December 2008. Foreign shareholders have a particularly dominant position in large insurers, where they accounted for 92.8% of registered capital as of 31 December 2009, the same figure as a year earlier. The share of foreign shareholders in medium-sized companies rose by 2.8 percentage points on a year earlier, to 67.1%. This was due chiefly to the aforementioned reclassification of POJIŠŤOVNA CARDIF PRO VITA, a.s. from a small insurance undertaking to a medium-sized one. Foreign capital is also predominant in small insurance undertakings. Its share rose from 51.7% to 57.1% in 2009. This rise was due to increases in registered capital in some foreign-owned insurance undertakings. As of the end of 2009, a total of 24 out of the 35 domestic insurers were controlled by foreign owners, with 18 being wholly foreign owned. In all, 11 insurance undertakings were wholly owned by Czech entities.

The total registered capital of domestic insurance undertakings saw no major changes in terms of shareholder geographical structure in 2009. It recorded an increase of 5.8% during this period. The share of domestic owners fell by another 1.2 percentage points to 23.6%. Shareholders from the Netherlands and Austria have the largest shares in the registered capital of domestic insurance undertakings (27.2% and 25.6% respectively). The large share of Dutch shareholders is due to the fact that a direct shareholder of Česká pojišťovna a.s. has its registered office in the Netherlands. As in 2008, shareholders from France and Belgium accounted for more than 5% of the registered capital.

4.2 BASIC INDICATORS OF THE INSURANCE MARKET[47]

Owing to the recession in the Czech Republic, the insurance market recorded lower growth in gross premiums written than in previous years. The rate of growth of premiums written, which amounted to CZK 144.1 billion for the entire insurance market in 2009, declined to 3.1%. In 2008 it had risen by 5.2% and in 2007 by 8.8%. The growth in gross premiums written was mainly due to life insurance in 2009, whose growth rate rose by 0.8 percentage point to 5.9% despite the economic contraction in the Czech Republic. By contrast, non-life insurance was flat, with the volume of premiums written increasing by just 1.2% year on year.

In absolute terms, total premiums written in life insurance reached CZK 60.2 billion.

Gross premiums written in non-life insurance rose by just CZK 1.0 billion year on year to CZK 83.9 billion.

The share of life insurance in total premiums written increased to its highest-ever level in 2009, rising by 1.1 percentage points compared to the previous period to 41.8%. Despite the positive trend, however, this share is still low compared to the advanced insurance markets in the EU.

Insurance penetration, as measured as the ratio of gross premiums written to GDP at current prices, is an important insurance market indicator. Gross premiums written continued to grow in 2009, albeit more moderately, despite the economic recession and decline in GDP. This was reflected in an increase in insurance penetration, which rose by 0.2 percentage point to 4.0%. As with the share of life insurance in total premiums written, this indicator for the Czech insurance market also lags behind that for advanced Western European countries, where insurance penetration is at higher levels.

Although insurance market concentration (as measured by gross premiums written) is relatively high in the Czech Republic, it is gradually decreasing as a result of growing competition. Historically, concentration is higher in the non-life insurance market than in the life insurance market, but in past years it was declining more quickly in non-life insurance. In 2009, however, the opposite was true. Within the groups analysed (the three, five and ten largest insurers in the market as a whole and separately for the life and non-life insurance segments), market shares declined in all categories in 2009. The largest decline in market concentration was recorded in the life insurance market, where the market share of the three largest insurers fell by 4.9 percentage points (to 46.7%) and that of the five largest insurers by 6.5 percentage points (to 66.2%). Such a marked drop in concentration in the life insurance market was due chiefly to

47 The data for domestic insurance undertakings also include the data for the foreign branches of domestic insurers.

CHART IV.4

Gross premiums written
(in CZK billions)

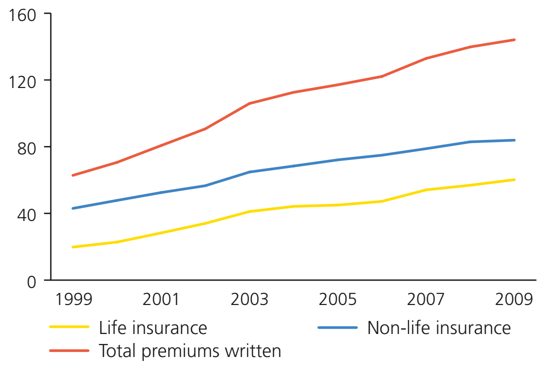


CHART IV.5

Gross premiums written
(in CZK billions)

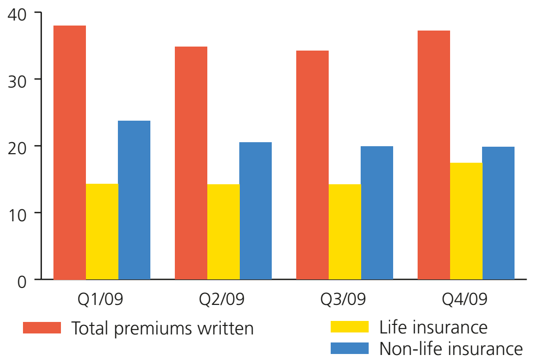


CHART IV.6

Shares of life insurance and non-life insurance in total premiums written

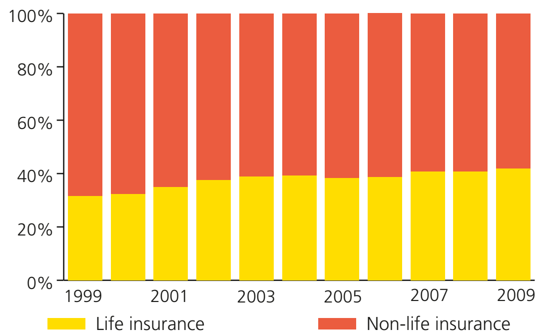


Table IV.3

Total insurance penetration in the Czech Republic

	Amount (CZK billions)			Change %
	2007	2008	2009	2009/2008
Premiums written	133	140	144	3.1
GDP (at current prices)	3,536	3,689	3,627	-1.7
		in %		
Premiums written/GDP	3.8	3.8	4.0	x

Chart IV.7

Shares of premiums written in GDP
(in %)

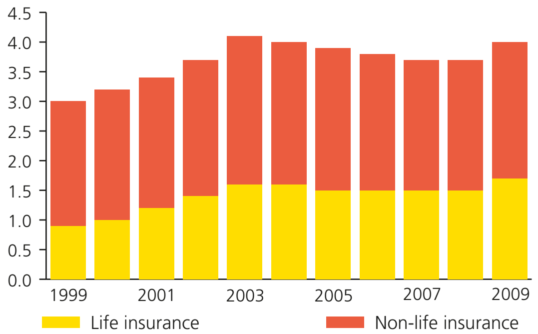
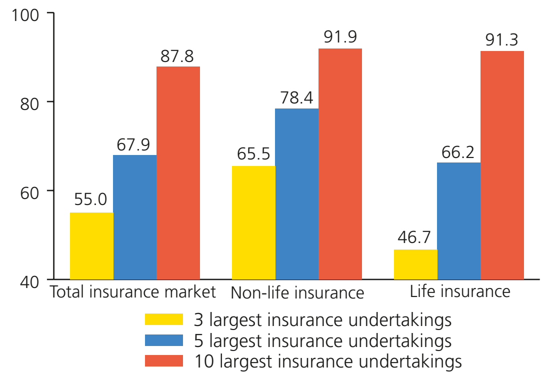


Chart IV.8

Concentration in insurance market by premiums written as of 31 December 2009
(in %)



a significant reduction of activities by the largest foreign branch in this market, ING Životní pojišťovna N.V., pobočka pro ČR, which recorded a decrease in gross premiums written of more than 22%. There was also a relatively large decrease in concentration in the non-life insurance market, especially in the case of the three largest insurers, whose share declined by 3.0 percentage points to 65.5%. Concentration also fell considerably in the insurance market as a whole, with the shares of the three and five largest insurers both falling by 2.9 percentage points to 55.0% and 67.9% respectively. The share of the ten largest insurers declined by exactly 2 percentage points to 87.8%.

Reinsurance is a very important instrument used by insurers to mitigate the risks arising from potential large-scale losses. It is used mainly by non-life insurance undertakings in situations where higher claim limits could jeopardise their financial stability and solvency. Non-life insurance premiums ceded to reinsurers were CZK 22.7 billion in 2009, representing 27.1% of gross premiums written. The share of reinsurers in non-life insurance is relatively stable. It declined by 1.2 percentage points on a year earlier. In the previous period it had increased moderately by 0.5 percentage point. The share of insurance ceded in life insurance is much lower than in non-life insurance. In life insurance, premiums totalling CZK 1.5 billion were ceded to reinsurers, accounting for 2.5% of total premiums written in life insurance. In 2008, this share had been 0.1 percentage point higher.

Large insurance undertakings dominate the Czech insurance market, but their share is gradually falling. The share of large insurers in total premiums written declined by 3.0 percentage point compared to 2008, to 67.9%. The position of large insurers is stronger in the non-life insurance market (77.9%). Their share of the life insurance market is 53.8%. Premiums written of medium-sized insurers are strongest in life insurance, where their share rose by 6 percentage points to 32.4% in 2009. This significant increase was caused by a high rate of growth of premiums written by these insurers, but also by stagnation in the group of large insurers and a reduction of activities in branches. Unlike medium-sized insurers, small insurers are more active in the non-life insurance market, where their share is 7.1%, compared to 3.5% in the life insurance market. Branches of foreign insurance undertakings account for 5.9% of the total market. Branches have a stronger position in the life insurance market (10.2%), mainly thanks to ING Životní pojišťovna N. V., pobočka pro Českou republiku. Their share of the non-life insurance market is very low at 2.8%. The share of branches in life insurance fell significantly during 2009 (by 3.7 percentage points) as a result of a reduction of activities by ING Životní pojišťovna N.V., pobočka pro Českou republiku.

TABLE IV.4

Premiums written by insurance group

	Amount (CZK millions)			Share (%)
	2007	2008	2009	2009
TOTAL PREMIUMS WRITTEN	132,896	139,841	144,134	100.0
Large insurance undertakings	95,167	99,043	97,796	67.9
Medium-sized insurance undertakings	22,491	24,349	29,767	20.7
Small insurance undertakings	6,387	6,238	8,057	5.6
Branches of insurance undertakings	8,851	10,211	8,513	5.9
PREMIUMS WRITTEN – NON-LIFE INSURANCE	78,768	82,940	83,904	100.0
Large insurance undertakings	64,307	66,878	65,365	77.9
Medium-sized insurance undertakings	7,975	9,278	10,231	12.2
Small insurance undertakings	4,910	4,488	5,964	7.1
Branches of insurance undertakings	1,576	2,296	2,345	2.8
PREMIUMS WRITTEN – LIFE INSURANCE	54,128	56,901	60,230	100.0
Large insurance undertakings	30,859	32,165	32,431	53.8
Medium-sized insurance undertakings	14,516	15,071	19,537	32.4
Small insurance undertakings	1,478	1,750	2,094	3.5
Branches of insurance undertakings	7,275	7,915	6,168	10.2

Turning to life insurance products, the upward trend in investment life insurance continued at the expense of standard products, whose share in premiums written declined as in previous years. Nevertheless, premiums written in investment life insurance were also affected by the recession and a preference for more conservative investment alternatives on the part of households, so the rate of growth of investment life insurance fell by 5.6 percentage points year on year to 11.7%. However, its share in the life insurance market rose by another 2.1 percentage points to 40.1%. The main advantage of investment life insurance for clients is that, in contrast to traditional products, they can choose where the saving part of premiums will be invested, according a preferred investment strategy. The disadvantage, however, is that the investment risk is borne by the policyholder, not the insurer. The share of traditional products, such as assurance on death or survival, marriage assurance and assurance on capital operations, in total life insurance premiums written decreased to 44.5%.

CHART IV.9

Shares of classes of life insurance in premiums written

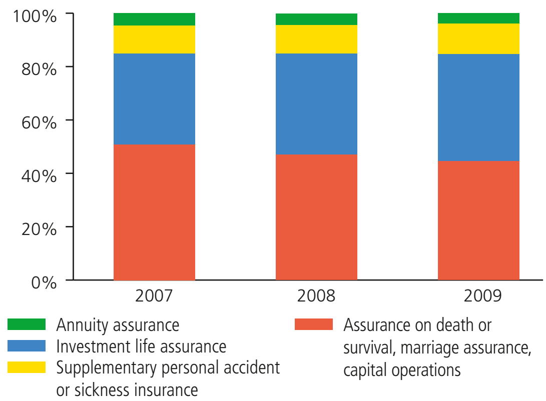


TABLE IV.5

Premiums written by insurance class

	Amount (CZK millions)			Change (%)
	2007	2008	2009	2009/2008
TOTAL LIFE INSURANCE	54,128	56,901	60,230	5.9
Assurance on death or survival, marriage assurance, capital operations	27,481	26,701	26,810	0.4
Annuity assurance	2,577	2,439	2,314	-5.1
Investment life assurance	18,394	21,591	24,126	11.7
Supplementary personal accident and sickness insurance	5,676	6,169	6,980	13.1
TOTAL NON-LIFE INSURANCE	78,768	82,940	83,904	1.2
Liability insurance for damage arising out of use of motor vehicle	23,344	24,116	24,367	1.0
Insurance against damage to or loss of property	17,735	18,835	19,847	5.4
Insurance against damage to or loss of land vehicles	16,214	16,872	16,713	-0.9
General liability insurance for damage[a)]	10,449	11,413	11,642	2.0
Accident and sickness insurance	3,725	4,100	4,626	12.8
Other non-life insurance	7,300	7,603	6,708	-11.8

a) including mandatory employer liability insurance for damage due to accidents at work or occupational disease.

CHART IV.10

Shares of classes of non-life insurance in premiums written

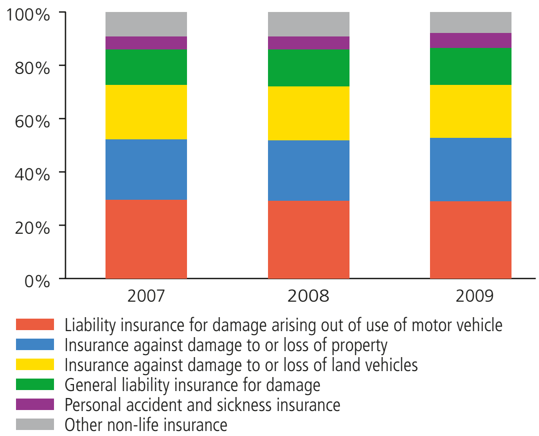
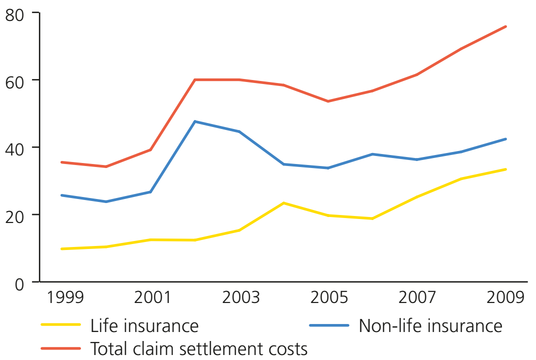


CHART IV.11

Claim settlement costs
(in CZK billions)



The non-life insurance market is still dominated by motor third party liability insurance (with a share of 29.0%), followed by insurance against damage to or loss of property (23.7%) and insurance against damage to or loss of land vehicles (19.9%). Premiums written grew relatively rapidly in 2009 in the cases of insurance against damage to or loss of property (5.4%) and above all accident and sickness insurance (12.8%). However, the value of premiums written for the latter is substantially lower and accounts for 5.5% of total non-life insurance premiums written. A decline in absolute terms was recorded for premiums written in insurance against damage to or loss of vehicles (-0.9%).

The growth rate of claim settlement costs fell by 3.0 percentage points year on year to 9.5%,[48] with total claim settlement costs rising to CZK 75.8 billion. Following relatively high growth in life insurance claim settlement costs in previous years, this growth slowed and claim settlement costs rose at a similar pace in life and non-life insurance in 2009 (by 9.2% in life insurance and by 9.7% in non-life insurance). The largest losses caused by natural disasters in 2009 were linked with the floods in June. Insurers recorded almost 18,000 flood-related insurance losses, with estimated claim settlement costs of CZK 2.1 billion.[49] Non-life insurance claim settlement costs account for 55.9% of the total.

The share of reinsurers in claim settlement costs roughly corresponds to their share in premiums written. While in non-life insurance, where it plays a greater role, reinsurers' share decreased by 1.7 percentage points to 24.3%, in life insurance it rose slightly by 0.1 percentage point to 1.1%. Reinsurers' share in non-life insurance claim settlement costs increased by 2.3% year on year to CZK 10.3 billion. Life insurance saw a sizeable relative increase in reinsurers' claim settlement costs of 17.0% compared to 2008. In absolute terms, however, this figure is much lower than in non-life insurance, with the share of reinsurers in claim settlement costs amounting to less than CZK 0.4 billion in 2009.

The shares of the individual groups of insurance undertakings in claim settlement costs roughly correspond to their shares in premiums written. The shares of large and medium-sized insurers in total claim settlement costs declined in 2009. By contrast, branches of foreign insurers and above all small insurers achieved increased shares in total claim settlement costs, the latter recording an increase of 2.5 percentage points. Large insurers saw the biggest decline compared to the previous year; their share in total claim settlement costs fell by 2.2 percentage points to 70.3%. Medium-sized insurers recorded a decline of 0.7 percentage point to 18.0%. Although the share of the two other groups increased in 2009, it totalled less than 12%. Large insurers have a bigger share of claim settlement costs in non-life

48 In this section, claim settlement costs are given on a gross basis, including the reinsurer's share.
49 Source: Czech Insurance Association (data for member insurers).

insurance (79.1%) than in life insurance (59.2%). In absolute terms, claim settlement costs declined only in the case of medium-sized insurers in the life insurance market (by CZK 107 million).

Table IV.6

Claim settlement costs by insurance group

	Amount (CZK millions)			Share (%)
	2007	2008	2009	2009
TOTAL CLAIM SETTLEMENT COSTS	61,532	69,219	75,802	100.0
Large insurance undertakings	46,044	50,199	53,324	70.3
Medium-sized insurance undertakings	10,025	12,951	13,637	18.0
Small insurance undertakings	2,102	1,995	4,074	5.4
Branches of insurance undertakings	3,361	4,074	4,768	6.3
CLAIM SETTLEMENT COSTS – NON-LIFE INSURANCE	36,336	38,643	42,402	100.0
Large insurance undertakings	31,188	32,830	33,552	79.1
Medium-sized insurance undertakings	3,084	3,641	4,433	10.5
Small insurance undertakings	1,749	1,529	3,514	8.3
Branches of insurance undertakings	315	644	903	2.1
CLAIM SETTLEMENT COSTS – LIFE INSURANCE	25,196	30,576	33,400	100.0
Large insurance undertakings	14,856	17,369	19,772	59.2
Medium-sized insurance undertakings	6,941	9,310	9,204	27.6
Small insurance undertakings	354	467	560	1.7
Branches of insurance undertakings	3,045	3,429	3,864	11.6

4.3 BALANCE SHEET AND FINANCIAL RESULTS OF THE INSURANCE SECTOR

The total assets of insurance undertakings increased by 7.5% to CZK 396.9 billion in 2009. This was a slightly higher pace than a year earlier, when the growth had reached 7.0%. The individual groups of insurers recorded faster total asset growth, with the exception of large insurers, where the growth slowed by 2.3 percentage points to 5.1%. The smallest increase, of 2.8%, was recorded by branches of foreign insurers, while the total assets of medium-sized insurers rose the fastest (15.9%). The largest increase in total asset growth (by 9.7 percentage points to 15%) was recorded by small insurers. The shares of large insurers and branches in total assets fell slightly compared to the previous period (more so in the case of large insurers – 1.5 percentage points), while the shares of medium-sized and small insurers rose moderately (more so in the case of medium-sized insurers – 1.4 percentage points).

As regards specialisation, universal insurers retained a dominant share in total assets. Their share was 83.0% at the end of 2009, down by 0.1 percentage point from 2008. The share of life insurers also remained virtually unchanged at 10.4% (down by 0.2 percentage point). Non-life insurers recorded a slight increase in share of 0.3 percentage point to 6.6%. While in 2008 total assets had risen fastest in the category of universal insurers (7.7%), non-life insurers recorded the strongest total asset growth in 2009 (12.4%). The rate of growth of assets increased in 2009 compared to 2008 in the case of non-life and life insurers, but declined in the case of universal insurers.

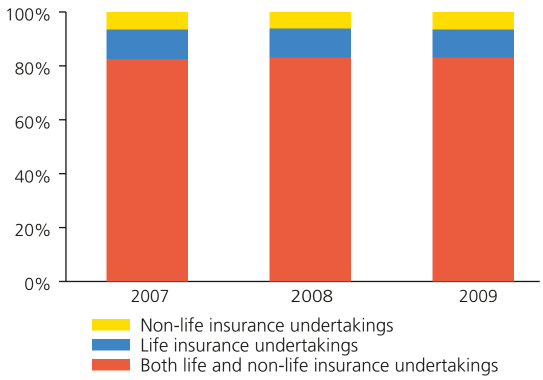
Table IV.7

Shares of individual insurance groups in total assets

	Amount (CZK millions)			Share (%)
	2007	2008	2009	2009
TOTAL ASSETS	345,110	369,184	396,907	100.0
Large insurance undertakings	223,328	239,899	252,170	63.5
Medium-sized insurance undertakings	59,418	64,577	74,857	18.9
Small insurance undertakings	26,241	27,635	31,769	8.0
Branches of insurance undertakings	36,123	37,074	38,112	9.6

CHART IV.12

Shares of insurance undertakings in total assets by type



Financial placement (investment)[50] is the largest asset item for domestic insurance undertakings. Its value grew by 6.2%, down by 0.6 percentage point from the previous year. However, its share in the total assets of the insurance sector is gradually falling, mainly in favour of financial placements of unit-linked life insurance, which expanded by 55.6% in 2009, to 8.6% of total assets. This is in line with the rising popularity of investment life insurance. The decline in the ratio of financial placement to total assets of 1.5 percentage points in 2009 was affected by an absolute decrease in the value of equity securities and deposits. In addition to equity securities, whose share in assets declined by 2.1 percentage points in 2009, and deposits, where the decline was 1.3 percentage points, slight decreases in share were recorded for real estate and ownership interests (of 0.3 and 0.4 percentage point respectively). The other financial placement items recorded no major changes in their ratios to total assets. Debt securities still have the largest share of 63.3%, up by 2.1 percentage points. The value of receivables fell by 14.4%, whereas in 2008 it had risen by 17.1%. This resulted in a decline in their ratio to total assets of 1.3 percentage points to 5.0%. As regards other assets, their share in the total assets of domestic insurance undertakings remained virtually unchanged, rising by just 0.1 percentage point to 4.2%.

TABLE IV.8

Assets of domestic insurance undertakings

	Amount (CZK millions)			Share (%)
	2007	2008	2009	2009
TOTAL ASSETS	308,987	332,110	358,795	100.0
Financial placements (investment)	260,132	277,828	294,997	82.2
of which:				
real estate	4,921	5,266	4,763	1.3
participating interests	11,649	13,929	13,472	3.8
shares, variable-yield securities	27,152	22,671	16,913	4.7
bonds and other fixed-income securities	181,844	203,169	227,083	63.3
deposits at financial institutions	25,936	28,110	25,735	7.2
other financial placements	8,631	4,683	7,032	2.0
Financial placements of unit-linked life insurance	17,810	19,736	30,712	8.6
Debtors (receivables)	17,797	20,839	17,847	5.0
Other assets	13,248	13,707	15,239	4.2

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

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

The structure of financial placement arising from life insurance technical provisions of domestic insurers, which also includes items of financial placement of unit-linked life insurance, is dominated by bonds (78.2%) and equity securities (16.2%). Compared to the previous year, the share of debt securities in total financial placement arising from life insurance technical provisions decreased by 1.4 percentage points. By contrast, the share of equity securities rose by 2.2 percentage points year on year.

As in the case of life insurance, financial placement arising from non-life insurance technical provisions is dominated by bonds (69.9%), followed by reinsurance receivables (14.5%). By contrast, reinsurance receivables have only a negligible share in financial placement arising from life insurance technical provisions. The largest changes in the shares of the individual financial placement categories compared to the previous year occurred in the case of bonds (up by 7.8 percentage points) and reinsurance receivables (down by 4.3 percentage points).

Technical provisions are a specific – and also the largest – liability item for insurance undertakings. They represent the future obligations of insurance undertakings arising from insurance or reinsurance activities which are either likely to be incurred or certain to be incurred but uncertain as to amount or as to the date on which they will arise. Technical provisions are reported gross of reinsurers' share in technical provisions or net of the reinsurers' share. In 2009, the share of net technical provisions (excluding provisions for unit-linked life insurance) in the total liabilities of domestic insurance undertakings fell by 3.5 percentage points year on year to 63.4%. The technical provision for unit-linked life insurance is another rather specific liability item. It is linked with investment life insurance and is the source of financial placement of unit-linked life insurance. This provision developed in line with financial placement of unit-linked life insurance: following an increase of 10.8% in 2008 it surged by 56.2% in 2009. It thus rose by more than CZK 11 billion last year to CZK 30.7 billion. This significant increase is related to the rising popularity of investment life insurance, and above all to the rising value of investment instruments on financial markets. The share of technical provisions for unit-linked life insurance rose by 2.6 percentage points year on year to 8.6% of total liabilities.

Besides technical provisions, equity capital accounts for a relatively large proportion of the liabilities of domestic insurers. It rose by 17.4% in 2009 and its share in total liabilities thus, as in the previous year, increased by 1.6 percentage points to 19.4%. The high growth in equity capital was due to growth in most of its components. However, the largest contributor was an increase in profit for the current financial year, which reached a historical high last year despite the recession in the Czech Republic. Domestic insurance undertakings generated total net profit of CZK 14.4 billion, up by 64.7% on a year earlier. Other capital funds and the reserve fund and other funds created from profit also grew at a relatively strong pace (30.6% and 15.6% respectively). Slight falls were recorded for share premium and retained earnings. Share capital remains the largest equity capital item (28.9%).

CHART IV.13

Investments of domestic insurance undertakings arising from technical provisions

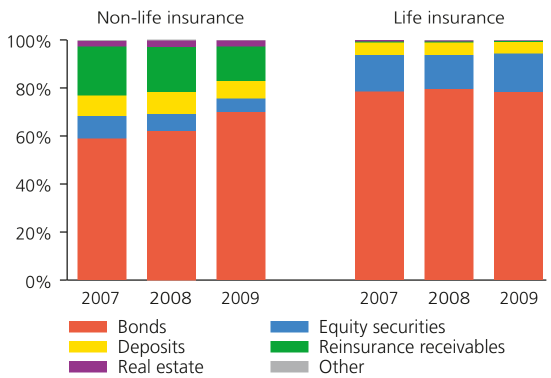


TABLE IV.9

Liabilities of domestic insurance undertakings

	Amount (CZK millions)			Share (%)
	2007	2008	2009	2009
TOTAL LIABILITIES	308,987	332,110	358,795	100.0
Shareholder's equity	52,891	59,203	69,532	19.4
Technical provisions[a]	211,444	222,175	227,534	63.4
Provision for unit-linked life insurance[a]	17,740	19,651	30,695	8.6
Creditors (liabilities)	17,658	22,453	20,514	5.7
Other liabilities	9,253	8,628	10,520	2.9

a) net amount

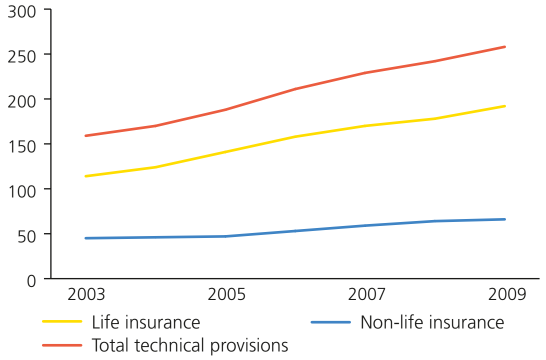
TABLE IV.10

Technical provisions of domestic insurance undertakings

	Amount (CZK millions)			Change (%)
	2007	2008	2009	2009 / 2008
TOTAL GROSS TECHNICAL PROVISIONS	252,284	266,022	282,471	6.2
of which:				
non-life insurace	81,375	87,192	89,505	2.7
life insurance	170,909	178,830	192,966	7.9
TOTAL NET TECHNICAL PROVISIONS	229,185	241,825	258,229	6.8
of which:				
non-life insurace	59,246	63,999	66,271	3.5
life insurance	169,939	177,826	191,958	7.9

CHART IV.14

Net technical provisions of domestic insurance undertakings
(in CZK billions)



The gross technical provisions of domestic insurance undertakings, including the provision for unit-linked life insurance, grew by 6.2% in 2009, up by 0.8 percentage point on a year earlier. Whereas in 2008 gross technical provisions for non-life insurance had risen faster, the situation in 2009 was exactly the opposite. Gross technical provisions in life insurance rose by 7.9%, while those in non-life insurance increased by 2.7%. The share of gross technical provisions in life and non-life insurance in total technical provisions was virtually unchanged. The share of gross technical provisions in non-life insurance decreased by 1.1 percentage points to 31.7%.

The total net technical provisions of domestic insurers rose by 6.8% in 2009. As in 2008, the rate of growth of net technical provisions was higher than that of gross technical provisions, owing to a further decline in the share of reinsurers in technical provisions. This is particularly visible in the area of non-life insurance, as the share of reinsurers in life insurance is negligible. Net technical provisions of domestic insurers arising from non-life insurance were up by 3.5%. As in the case of gross technical provisions, net provisions arising from life insurance increased by 7.9%. The share of net technical provisions in non-life insurance in total net technical provisions of domestic insurers fell by 0.8 percentage point to 25.7%.

Large insurers account for 71.0% of total net technical provisions of domestic insurance undertakings. This share has been falling gradually, and 2009 was no exception (down by 3.2 percentage points). In 2009, the share of large insurers in net technical provisions declined relatively markedly in both the life insurance market (by 2.1 percentage points) and the non-life insurance market (by 6.2 percentage points). By contrast, the shares of medium-sized and small insurers in total net technical provisions of domestic insurers rose to 23.0% and 6.0% respectively, in both cases by 1.6 percentage points. Medium-sized insurers have a stronger position on the life insurance market, where their share is 27.0%, as against a share in net technical provisions for non-life insurance of 11.3%. The opposite holds for small insurers. As of 31 December 2009, their share in life insurance technical provisions was only 2.6%, while their share in non-life insurance technical provisions stood at 16.1%, up by 5.3 percentage points year on year. A decline in net technical provisions in absolute terms occurred only in the case of large insurers in the non-life insurance market (down by CZK 2.4 billion).

TABLE IV.11

Net technical provisions by insurance group

	Amount (CZK millions)			Share (%)
	2007	2008	2009	2009
TOTAL NET TECHNICAL PROVISIONS	229,185	241,825	258,229	100.0
Large insurance undertakings	170,389	179,458	183,318	71.0
Medium-sized insurance undertakings	49,442	51,585	59,324	23.0
Small insurance undertakings	9,353	10,782	15,587	6.0
NET TECHNICAL PROVISIONS – NON-LIFE INSURANCE	59,246	63,999	66,271	100.0
Large insurance undertakings	47,898	50,469	48,119	72.6
Medium-sized insurance undertakings	5,792	6,611	7,476	11.3
Small insurance undertakings	5,556	6,919	10,676	16.1
NET TECHNICAL PROVISIONS – LIFE INSURANCE	169,939	177,826	191,958	100.0
Large insurance undertakings	122,491	128,989	135,199	70.4
Medium-sized insurance undertakings	43,650	44,974	51,848	27.0
Small insurance undertakings	3,797	3,862	4,911	2.6

2009 was a very successful year for the Czech insurance market. Insurance undertakings (including branches of foreign insurers) achieved record financial results despite a recession in which Czech real GDP fell by 4.2%. Net profit was strongly affected by an increase in returns on financial placement and reached CZK 15.5 billion for the insurance undertakings sector as a whole, up by 64.2% on 2008. This strong growth in profit compared to the previous period was due mainly to the technical account for life insurance,[51] which showed a profit of CZK 11.3 billion in 2009 following a loss of CZK 47 million in 2008. The technical account for non-life insurance also improved in year-on-year terms, with profit rising by more than 50% to CZK 7.0 billion.

As regards the individual groups of insurance undertakings, large insurers generate most of the total profit. In 2009 their net profit was CZK 15.2 billion, up by 81.0% on a year earlier. The profit of medium-sized insurers and branches of foreign insurers also recorded year-on-year growth (from CZK 0.6 billion to CZK 2.0 billion and from CZK 0.7 billion to CZK 1.1 billion respectively). By contrast, the loss recorded by small insurers in 2008 deepened by a further CZK 2.6 billion to CZK 2.8 billion in 2009. This loss was largely due to state-owned insurer EGAP, which specialises in insuring export credits against territorial and commercial risks linked with exports of goods and services from the Czech Republic. This insurer suffered a loss of over CZK 2 billion in 2009 after paying out the largest amount in claims in its history as a result of worsened payment discipline around the world.

51 The profit and loss account of insurance undertakings consists of a technical account for non-life insurance, a technical account for life insurance and a non-technical account, to which income and expenses not related to insurance undertakings' primary functions is charged.

CHART IV.15

Profits of insurance undertakings
(in CZK billions)

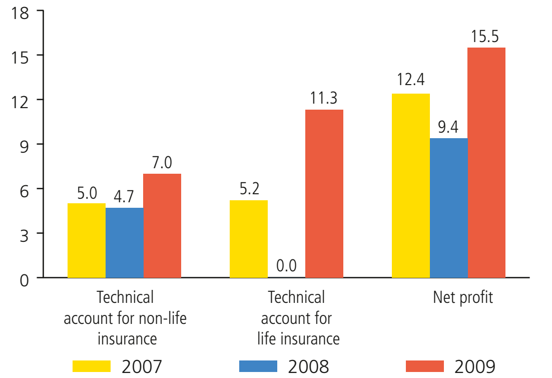


TABLE IV.12

Profit by insurance group

	Amount (CZK millions)			Share (%)
	2007	2008	2009	2009
TOTAL NET PROFIT	12,390	9,445	15,506	100.0
Large insurance undertakings	9,768	8,403	15,209	98.1
Medium-sized insurance undertakings	1,204	552	2,041	13.2
Small insurance undertakings	557	-186	-2,807	-18.1
Branches of insurance undertakings	862	676	1,063	6.9

The increase in the net profit of domestic insurance undertakings in 2009 gave rise to quite a significant improvement in the profitability indicators of the domestic insurance market. Compared to 2008, return on assets rose by 1.4 percentage points to 4.0%, return on equity by 6.0 percentage points to 20.8% and the ratio of net profit to earned premiums[52] by 4.4 percentage points to 12.8%.

The ratio of profit on the technical account for non-life insurance to earned premiums rose by 3.6 percentage point year on year to 11.7%. The ratio of claims incurred, including change in technical provisions, to earned premiums, worsened after improving the previous year, rising by 4.7 percentage points to 59.8%. The ratio of net operating expenses to earned premiums also worsened slightly in 2009, rising by 0.8 percentage point to 28.9%, mainly due to a rise in acquisition costs for insurance contracts.

Table IV.13

Selected profitability and efficiency indicators
(%)

	2007	2008	2009
Net profit / assets (RoA)	3.7	2.6	4.0
Net profit / shareholder's equity (RoE)	21.8	14.8	20.8
Net profit / earned premiums	11.6	8.4	12.8
NON-LIFE INSURANCE			
Profit on technical account for non-life insurance / earned premiums	9.2	8.1	11.7
Claims incurred, including change in TPs / earned premiums	56.3	55.1	59.8
Net operating costs / earned premiums	27.6	28.1	28.9
Acquisition costs for insurance contracts / earned premiums	21.1	21.4	21.5
Administrative expenses / earned premiums	16.1	15.8	15.4
LIFE INSURANCE			
Profit on technical account for life insurance / earned premiums	9.0	-1.8	19.0
Claims incurred, including change in TPs / earned premiums	48.6	57.5	56.1
Net operating costs / earned premiums	22.7	23.9	24.0
Acquisition costs for insurance contracts / earned premiums	14.3	16.4	16.7
Administrative expenses / earned premiums	9.1	8.3	8.0

The result of the technical account for life insurance improved significantly compared to 2008, when it had ended in a loss of CZK 0.9 billion. In 2009 domestic insurers recorded a profit on this account totalling CZK 10.0 billion. This was in line with the ratio of the result of the technical account for life insurance to earned premiums, which rose from -1.8% to 19.0%. Claim settlement costs for life insurance, including change in technical provisions, grew more slowly than earned premiums. This led to an improvement in the relevant ratio, which fell by 1.4 percentage points to 56.1%. By contrast, the ratio of net operating expenses to earned premiums increased by 0.1 percentage points, chiefly due, as in the case of non-life insurance, to rising acquisition costs for insurance contracts.

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

4.4 SOLVENCY OF INSURANCE UNDERTAKINGS

Solvency is the ability of an insurance/reinsurance undertaking to meet liabilities from insurance/reinsurance activities by means of its own funds on an ongoing basis. Insurance undertakings are required to maintain own funds equal to at least the required solvency margin over the entire duration of their activities. The required solvency margin is calculated pursuant to Decree No. 303/2004 Coll., implementing certain provisions of Act No. 363/1999, on Insurance, as amended. An important regulatory requirement contained in the Decree is the separate calculation of solvency for life insurance and non-life insurance. Two separate calculations are therefore performed for undertakings carrying on both life and non-life insurance.

Domestic insurance undertakings submit an annual solvency report to the CNB within 30 days of the preparation of the audit report. As of the cut-off date for this publication, solvency reports as of 31 December 2009 had been submitted by all domestic insurance undertakings except one small non-life insurer. With the exception of one small insurance undertaking, all undertakings were compliant with the required solvency margin and therefore their financial stability and their ability to meet their obligations was not at risk. The insurer whose ratio of available solvency to required solvency was lower than 100% was ordered by the Czech National Bank to submit a recovery plan.

Tables IV.14 and IV.15 show the aggregate available solvency margins (ASMs) and required solvency margins (RSMs) of all domestic insurance undertakings over the past three years, separately for life insurance and non-life insurance. The aggregate ASM is roughly 4.5 times the RSM in non-life insurance and 2.9 times the RSM in life insurance. Compared to the previous period, the ASM/RSM ratio was relatively stable in non-life insurance but rose slightly in life insurance.

Tables IV.16 and IV.17 show the numbers of insurance undertakings according to percentage ASM/RSM ratios, divided into life and non-life insurance. The solvency of undertakings carrying on both life and non-life insurance is incorporated into the respective tables for life and non-life insurance (always the relevant part relating to the given type of insurance). As in previous years, most of the ASM/RSM ratios exceeded 500% in non-life insurance, while life insurance showed a more even distribution. The band above 500% consists mainly of small insurance undertakings, which have smaller ratios of premiums written to shareholders' equity.

TABLE IV.14

Aggregate solvency – non-life insurance
(CZK thousands)

	2007	2008	2009
ASM	34,840,987	42,229,876	43,653,779
RSM	8,847,782	9,171,965	9,721,786

ASM – available solvency margin
RSM – required solvency margin
* data for one non-life insurance undertaking are missing for 2009

TABLE IV.15

Aggregate solvency – life insurance
(CZK thousands)

	2007	2008	2009
ASM	24,419,057	22,697,251	28,568,166
RSM	8,582,565	9,131,998	9,697,104

ASM – available solvency margin
RSM – required solvency margin

TABLE IV.16

ASM/RSM ratios – non-life insurance

Number of insurance undertakings	2007	2008	2009
< 100%	0	0	1
100%–150%	3	2	1
150%–200%	1	2	1
200%–250%	1	1	2
250%–300%	6	2	3
300%–400%	0	5	3
400%–500%	0	2	3
> 500%	20	18	17
TOTAL	31	32	31

* data for one non-life insurance undertaking are missing for 2009

TABLE IV.17

ASM/RSM ratios – life insurance

Number of insurance undertakings	2007	2008	2009
< 100%	0	0	0
100%–150%	3	3	1
150%–200%	3	2	2
200%–250%	3	3	3
250%–300%	2	2	4
300%–400%	3	2	3
400%–500%	0	2	2
> 500%	4	4	3
TOTAL	18	18	18

ABBREVIATIONS

AMA	Advanced Measurement Approaches
AML	anti-money laundering
APF	Association of Pension Funds
ASA	Alternative Standardized Approach
ATM	automated teller machine
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
bn	billion (10^9)
b.p.	basis point
BSC	Banking Supervision Committee
CCR	Central Credit Register
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CESR	Committee of European Securities Regulators
CIF	collective investment fund
ČKP	Czech Insurers' Bureau
CNB	Czech National Bank
Coll.	Collection of Laws of the Czech Republic
COREP	Common Reporting
CR	Commercial Register
CRA	Credit Rating Agency (Regulation (EC) No 1060/2009 of the European Parliament and of the Council, on credit rating agencies)
CRD	Capital Requirements Directive
ČSOB	Československá obchodní banka (a commercial bank)
CSSF	Commission de Surveillance du Secteur Financier, Luxembourg's financial market supervisor
CU	credit union
CZK	Czech koruna
CZSO	Czech Statistical Office
DIF	Deposit Insurance Fund
EBA	European Banking Authority
EBC	European Banking Committee
EC	European Commission
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EEA	European Economic Area
EEC	European Economic Community
EFC	Economic and Financial Committee
EIOPA	European Insurance and Occupational Pensions Authority
ESA95	European System of Accounts 1995

ESCB	European System of Central Banks
ESFS	European System of Financial Supervisors
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EUR	euro
FiCoD	Financial Conglomerates Directive
FINREP	Financial Reporting (harmonised financial statements)
FSC	Financial Services Committee
FV	fair value
GBP	pound sterling
GDP	gross domestic product
H(H)I	Herfindahl (Hirschman) Index
IAIS	International Association of Insurance Supervisors
ICS	internal control system
IF	investment fund
IFRS/IAS	International Financial Reporting Standards/International Accounting Standards
ILG	International Liaison Group
IMF	International Monetary Fund
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commissions
IRB	Internal Ratings Based
IRDS	Instrument Reference Database System (CESR)
IWCFC	Interim Working Committee on Financial Conglomerates
JCFC	Joint Committee on Financial Conglomerates (formerly IWCFC)
JEGR	Joint Expert Group on Reconciliation
JERRS	Unified Register of Regulated and Registered Entities
MAD	Market Abuse Directive (Directive 2003/6/EC of the European Parliament and of the Council, on insider dealing and market manipulation)
MiFID	Markets in Financial Instruments Directive (Directive 2004/39/EC of the European Parliament and of the Council, on markets in financial instruments)
mil.	million (10^6)
ME	Ministry of Education, Youth and Sports
MLSA	Ministry of Labour and Social Affairs
MoF	Ministry of Finance of the Czech Republic
MMoU	Multilateral Memorandum of Understanding (IOSCO)
MoU	Memorandum of Understanding
MTPL	motor third party liability insurance
NBS	National Bank of Slovakia
OECD	Organisation for Economic Cooperation and Development
OTC	over the counter

PC	personal computer
P/L	profit/loss
p.p.	percentage point
PSE	Prague Stock Exchange (Burza cenných papírů Praha, a.s.)
PX	PSE stock exchange index
QA	quick assets
QIS	Quantitative Impact Study
RC	registered capital
RM	RM-S index
RM-S	RM-Systém, a. s.
RoA	return on assets
RoE	return on equity
SDNS	Non-bank Data Collection System
SPAD	Share and Bond Market Support System
SR	Slovak Republic
STA	Standardised Approach
SVYT	Transaction Settlement System
TREM	Transaction Reporting Exchange Mechanism
UC	unit certificate
UCITS	Undertakings for Collective Investment in Transferable Securities
USA	United States of America
USD	US dollar
WGCR	Working Group on Credit Registers
WGDB	Working Group on Developments in Banking
WGMA	Working Group on Macroprudential Analysis

USEFUL WEBSITES:

Czech National Bank	www.cnb.cz

1. Czech

Association of Credit Unions of the Czech Republic	www.asociacedz.cz
Association of Czech Insurance Brokers	www.acpm.cz
Association of Financial Intermediaries and Financial Advisers of the Czech Republic	www.afiz.cz
Association of Pension Funds of the Czech Republic	www.apfcr.cz
Central Securities Depository	www.centralnidepozitar.cz
Chamber of Auditors of the Czech Republic	www.kacr.cz
Chamber of Independent Loss Adjusters	www.ckslpu.cz
Czech Association of Investment Firms	www.caocp.cz
Czech Banking Association	www.czech-ba.cz
Czech Capital Market Association	www.akatcr.cz
Czech Chamber of Independent Loss Adjusters	www.ckslpu.com
Czech Insurance Association	www.cap.cz
Czech Insurers' Bureau	www.ckp.cz
Czech Republic – official website	www.czech.cz
Czech Society of Actuaries	www.actuaria.cz
Czech Statistical Office	www.czso.cz
Deposit Insurance Fund of the Czech Republic	www.fpv.cz
Financial Arbitrator of the Czech Republic	www.finarbitr.cz
Ministry of Finance of the Czech Republic	www.mfcr.cz
Prague Securities Centre	www.scp.cz
Prague Stock Exchange	www.pse.cz
RM-Systém, a.s.	www.rms.cz
Securities Brokers Guarantee Fund	www.gfo.cz

2. International

Bank for International Settlements	www.bis.org
Comité Européen des Assurances	www.cea.eu
Committee of European Banking Supervisors	www.c-ebs.org
Committee of European Insurance and Occupational Pensions Supervisors	www.ceiops.org
Committee of European Securities Regulators	www.cesr-eu.org
European Central Bank	www.ecb.int
European Commission	www.ec.europa.eu
European Fund and Asset Management Association	www.efama.org
Eurostat	ec.europa.eu/eurostat
Federation of European Securities Exchanges	www.fese.be
International Association of Insurance Supervisors	www.iaisweb.org
International Capital Market Association	www.icma-group.org
International Monetary Fund	www.imf.org
International Organization of Securities Commissions	www.iosco.org
Organisation for Economic Cooperation and Development	www.oecd.org
World Bank	www.worldbank.org
World Federation of Exchanges	www.world-exchanges.org

PART C – ANNEXES

Annex 1

MAIN INDICATORS OF MONETARY AND ECONOMIC DEVELOPMENTS IN THE CZECH REPUBLIC

		2005	2006	2007	2008	2009
Gross domestic product [1) 2)]	Volume (in CZK billions)	2,983.9	3,222.4	3,535.5	3,689.0	3,627.2
	Increase (in per cent)	6.3	6.8	6.1	2.5	-4.2
Output – percentage increase	Industry (sales) [1)]	6.9	8.5	14.1	-0.3	-15.1
	Construction [2)]	5.2	6.0	7.1	0.0	-1.0
Prices [3)]	Inflation rate (in per cent)	1.9	2.5	2.8	6.3	1.0
Unemployment [4)]	Unemployment rate (in per cent)	9.0	8.1	6.6	5.5	8.0
Foreign trade [2)]	Exports of goods and services (in per cent)	11.6	15.8	15.0	6.0	-10.2
	Imports of goods and services (in per cent)	5.0	14.3	14.3	4.7	-10.2
Average wage [2)]	Nominal (in per cent) [6)]	5.1	6.4	7.3	8.4	3.5
	Real (in per cent) [6)]	3.1	3.8	4.4	2.0	2.5
Balance of payments	Current account (in CZK billions)	-39.8	-77.2	-111.3	-22.9	-37.0
	Financial account (in CZK billions)	154.8	92.4	125.8	59.0	95.1
State budget balance	(in CZK billions)	-56.3	-97.6	-66.4	-19.4	-192.4
State budget balance/GDP	(in per cent)	-1.9	-3.0	-1.9	-0.5	-5.3
Exchange rates [5)]	CZK/USD	23.95	22.61	20.31	17.04	18.37
	CZK/EUR	29.78	28.34	27.76	24.94	26.47
Average interbank	7-day	1.97	2.18	2.87	3.59	1.69
deposit rate (PRIBOR)	3-month	2.01	2.30	3.09	4.04	2.19
in per cent [5)]	6-month	2.05	2.42	3.21	4.11	2.39
Discount rate [7)]	(in per cent)	1.00	1.50	2.50	1.25	0.25
Lombard rate [7)]	(in per cent)	3.00	3.50	4.50	3.25	2.00
2W repo rate [7)]	(in per cent)	2.00	2.50	3.50	2.25	1.00
PX capital market index		1,473.0	1,588.9	1,815.1	858.2	1,117.3

Source: CZSO (macroeconomic indicators) data as of 10 May 2010, PSE, CNB
1) Current prices
2) Percentage increase on a year earlier in real terms
3) Inflation rate, average
4) Average registered unemployment rate; based on existing methodology since 2004
5) Annual averages from monthly averages
6) For natural persons excluding economic agents over limit
7) As of 31 December of given year

Annex 2

ORGANISATIONAL STRUCTURE OF CNB FINANCIAL MARKET SUPERVISION AS OF 31 DECEMBER 2009

Bank Board

- Zdeněk Tůma, Governor
- Mojmír Hampl, Vice-Governor
- Miroslav Singer, Vice-Governor
- Robert Holman, Chief Executive Director
- Pavel Řežábek, Chief Executive Director
- Vladimír Tomšík, Chief Executive Director
- Eva Zamrazilová, Chief Executive Director

560 Financial Market Regulation and Analyses Department
- 561 **Financial Market Regulation Division**
- 562 **Financial Market Analyses Division**
- 563 **Supervisory Support Division**

570 Licensing and Enforcement Department
- 571 **Licensing Division**
- 572 **Securities and Regulated Markets Division**
- 573 **Enforcement Division**

580 Financial Market Supervision Department
- 581 **Credit Institutions Supervision Division**
- 582 **Insurance Sector Supervision Division**
- 583 **Capital Market Supervision Division**
- 584 **Risk Management Control Division**
- 585 **Proceedings Rules and Professional Care Control Division**

170 Consumer Protection Department

Annex 3

BREAKDOWN OF BANKS INTO GROUPS
(as of 31 December 2009)

I. Large banks	**IV. Foreign bank branches**
1. Česká spořitelna, a. s.	1. ABN AMRO Bank N. V.
2. Československá obchodní banka, a. s.	2. AXA Bank Europe, organizační složka
3. Komerční banka, a. s.	3. Bank of Tokyo-Mitsubishi UFJ (Holland) N. V. Prague Branch, organizační složka
4. UniCredit Bank Czech Republic, a. s.	4. BRE Bank S. A., organizační složka podniku
	5. CALYON S. A., organizační složka
II. Medium-sized banks	6. Citibank Europe plc, organizační složka
1. Českomoravská záruční a rozvojová banka, a. s.	7. COMMERZBANK Aktiegesellschaft, pobočka Praha
2. GE Money Bank, a. s.	8. Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka
3. Hypoteční banka, a. s.	9. Fortis Bank SA/NV, pobočka Česká republika
4. Raiffeisenbank a. s.	10. HSBC Bank plc - pobočka Praha
	11. ING Bank N. V.
III. Small banks	12. Oberbank AG pobočka Česká republika
1. Banco Popolare Česká republika, a. s.	13. Poštová banka, a. s., pobočka Česká republika
2. Česká exportní banka, a. s.	14. PRIVAT BANK AG der Raiffeisenlandesbank Oberösterreich, pobočka Česká republika
3. Evropsko-ruská banka, a. s.	15. Raiffeisenbank im Stiftland eG pobočka Cheb, odštěpný závod
4. J&T BANKA, a. s.	16. Saxo Bank A/S, organizační složka
5. LBBW Bank CZ a. s.	17. Všeobecná úverová banka a. s., pobočka Praha (zkráceně VUB, a. s., pobočka Praha)
6. PPF banka a. s.	18. Waldviertler Sparkasse von 1842 AG
7. Volksbank CZ, a. s.	
8. Wüstenrot hypoteční banka a. s.	**V. Building societies**
	1. Českomoravská stavební spořitelna, a. s.
	2. Modrá pyramida stavební spořitelna, a. s.
	3. Raiffeisen stavební spořitelna a. s.
	4. Stavební spořitelna České spořitelny, a. s.
	5. Wüstenrot - stavební spořitelna a. s.

Annex 4

BREAKDOWN OF INSURANCE UNDERTAKINGS INTO GROUPS
(as of 31 December 2009)

I. Large insurance undertakings
1. Allianz pojišťovna, a.s.
2. Česká pojišťovna, a.s.
3. ČSOB Pojišťovna, a.s., člen holdingu ČSOB
4. Generali Pojišťovna a.s.
5. Kooperativa pojišťovna, a.s., Vienna Insurance Group

II. Medium-sized insurance undertakings
1. AXA životní pojišťovna a.s.
2. Česká podnikatelská pojišťovna, a.s., Vienna Insurance Group
3. Komerční pojišťovna, a.s.
4. Pojišťovna České spořitelny, a.s., Vienna Insurance Group
5. PRVNÍ AMERICKO - ČESKÁ POJIŠŤOVNA, a.s. FIRST AMERICAN CZECH INSURANCE COMPANY
6. UNIQA pojišťovna, a.s.
7. POJIŠŤOVNA CARDIF PRO VITA, a.s.

III. Small insurance undertakings
1. AEGON Pojišťovna, a. s.
2. Aviva životní pojišťovna, a.s.
3. AXA pojišťovna a.s.
4. Cestovní pojišťovna ADRIA Way družstvo
5. Česká pojišťovna Zdraví a.s.
6. D.A.S. pojišťovna právní ochrany, a.s.
7. DIRECT Pojišťovna, a.s.
8. Euler Hermes Čescob, úvěrová pojišťovna a.s.
9. Evropská Cestovní Pojišťovna, a.s.
10. Exportní garanční a pojišťovací společnost, a.s.
11. HALALI, všeobecná pojišťovna,a.s.
12. Hasičská vzájemná pojišťovna, a.s.
13. ING pojišťovna, a.s.
14. Komerční úvěrová pojišťovna EGAP, a.s.
15. MAXIMA pojišťovna, a.s.
16. Pojišťovna VZP, a.s.
17. Servisní pojišťovna a.s.
18. Slavia pojišťovna a.s.
19. Triglav pojišťovna,a.s.
20. VICTORIA VOLKSBANKEN pojišťovna, a.s.
21. Vitalitas pojišťovna, a.s.
22. Wüstenrot pojišťovna a.s.
23. Wüstenrot, životní pojišťovna, a.s.

IV. Branches of foreign insurance undertakings
1. ACE European Group Ltd, organizační složka
2. CHARTIS EUROPE S.A., pobočka pro Českou republiku
3. Atradius Credit Insurace N. V., organizační složka
4. CG Car-Garantie Versicherungs-Aktiengesellschaft organizační složka pro Českou republiku
5. Coface Austria Kreditversicherung AG, organizační složka Česko
6. DEUTSCHER RING Lebensversicherungs-Aktiengesellschaft, pobočka pro Českou republiku
7. Deutscher Ring Sachversicherungs-AG, pobočka pro Českou republiku
8. HDI Versicherung AG, organizační složka
9. ING Životná poisťovňa, a.s., pobočka pro Českou republiku
10. ING Životní pojišťovna N.V., pobočka pro Českou republiku
11. INTER PARTNER ASSISTANCE, organizační složka
12. Mondial Assistance International AG - organizační složka
13. Niederösterreichische Versicherung AG, organizační složka
14. Österreichische Hagelversicherung - Versicherungsverein auf Gegenseitigkeit, organizační složka
15. QBE Insurance (Europe) Limited, organizační složka
16. Skandia Lebensversicherungs AG, organizační složka
17. Stewart Title Limited, pobočka pro Českou republiku

Annex 5

LICENSED INVESTMENT FIRMS
(as of 31 December 2009)

I. Investment firms – banks

1. Česká spořitelna, a.s.
2. Českomoravská záruční a rozvojová banka, a.s.
3. Československá obchodní banka, a. s.
4. GE Money Bank, a.s.
5. J&T BANKA, a.s.
6. Komerční banka, a.s.
7. LBBW Bank CZ a.s.
8. PPF banka a.s.
9. Raiffeisenbank a.s.
10. UniCredit Bank Czech Republic, a.s.
11. Volksbank CZ, a.s.

II. Investment firms – non-banks

1. A&CE Global Finance, a.s.
2. AKCENTA CZ, a.s.
3. ATLANTA SAFE, a.s.
4. ATLANTIK finanční trhy, a.s.
5. BH Securities a.s.
6. brokerjet České spořitelny, a.s.
7. CAPITAL PARTNERS a.s.
8. CITCO - Finanční trhy a.s.
9. Colosseum, a.s.
10. Conseq Investment Management, a.s.
11. CYRRUS, a.s.
12. CYRRUS CORPORATE FINANCE, a.s.
13. ČSOB Asset Management, a.s., člen skupiny ČSOB
14. EFEKTA CONSULTING, a.s.
15. FINANCE Zlín, a.s.
16. Fio, burzovní společnost, a.s.
17. Generali PPF Asset Management a.s.
18. Global Brokers,a.s.
19. ING Investment Management (C.R.), a.s.
20. KEY INVESTMENTS a.s.
21. Merx, a.s.
22. Patria Direct, a.s.
23. Patria Finance, a.s.
24. Pioneer Asset Management, a.s.
25. PROVENTUS Finance, a.s.
26. RSJ Invest, a.s.
27. SARF a.s.
28. WOOD & Company Financial Services, a. s.

III. Investment firms – branches of foreign banks

1. ABN AMRO Bank N. V.
2. Bank of Tokyo-Mitsubishi UFJ (Holland) N.V. Prague Branch, organizační složka
3. BRE Bank S.A., organizační složka podniku
4. CALYON S.A., organizační složka
5. Citibank Europe plc, organizační složka
6. COMMERZBANK Aktiengesellschaft, pobočka Praha
7. Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka
8. Fortis Bank SA/NV, pobočka Česká republika
9. HSBC Bank plc - pobočka Praha
10. ING Bank N.V.
11. Oberbank AG pobočka Česká republika
12. PRIVAT BANK AG der Raiffeisenlandesbank Oberösterreich, pobočka Česká republika
13. Saxo Bank A/S, organizační složka
14. Všeobecná úverová banka a.s., pobočka Praha; zkráceně: VUB, a.s., pobočka Praha

IV. Investment firms – organisational units of foreign non-bank IFs

1. JER Real Estate Advisors (UK) limited, organizační složka
2. Wallich & Matthes B.V. - organizační složka
3. X-TRADE BROKERS DOM MAKLERSKI SPOLKA AKCYJNA, organizační složka
4. Jung, DMS & Cie. GmbH, organizační složka

V. Management companies carrying on asset management

1. ATLANTIK Asset Management investiční společnost, a.s.
2. AXA investiční společnost a.s.
3. Investiční kapitálová společnost KB, a.s.
4. Investiční společnost České spořitelny, a.s.
5. Pioneer investiční společnost, a.s.
6. WOOD & Company investiční společnost, a.s.

Annex 6

PENSION FUNDS
(as of 31 December 2009)

1. AEGON Penzijní fond, a.s.
2. Allianz penzijní fond, a.s.
3. AXA penzijní fond a.s.
4. ČSOB Penzijní fond Progres , a. s., člen skupiny ČSOB
5. ČSOB Penzijní fond Stabilita, a. s., člen skupiny ČSOB
6. Generali penzijní fond a.s.
7. ING Penzijní fond, a.s.
8. Penzijní fond České pojišťovny, a.s.
9. Penzijní fond České spořitelny, a.s
10. Penzijní fond Komerční banky, a.s.

Annex 7

MANAGEMENT COMPANIES
(as of 31 December 2009)

1. AKRO investiční společnost, a.s.	12. FORS CAPITAL investiční společnost a.s.
2. AMISTA investiční společnost, a.s.	13. Fortius Global Investments, investiční společnost, a.s.
3. ATLANTIK Asset Management investiční společnost, a.s.	14. Hanover Asset Management, investiční společnost, a.s.
4. Avant Fund Management investiční společnost, a.s.	15. Investiční kapitálová společnost KB, a.s.
5. AXA investiční společnost a.s.	16. Investiční společnost České spořitelny, a.s.
6. Bayerische Investment Fonds a.s. - investiční společnost	17. J&T ASSET MANAGEMENT, INVESTIČNÍ SPOLEČNOST, a.s.
7. Conseq investiční společnost, a.s.	18. ORION CAPITAL MANAGEMENT investiční společnost, a.s.
8. ČP INVEST investiční společnost, a.s.	19. Pioneer investiční společnost, a.s.
9. ČSOB Investiční společnost, a.s., člen skupiny ČSOB	20. PROSPERITA investiční společnost, a.s.
10. EUFI - Asset Management investiční společnost a.s.	21. REICO investiční společnost České spořitelny, a.s.
11. FINESKO investiční společnost, a.s.	22. WOOD & Company investiční společnost, a.s.

Annex 8

BANKING SECTOR BALANCE SHEET

(for banks with licences as of 31 December 2009; including foreign bank branches; CZK millions)

	31 December 2007	31 December 2008	31 December 2009		
	Data adjusted for provisions and reserves	Data adjusted for provisions and reserves	Data not adjusted for provisions and reserves	Provisions and reserves	Data adjusted for provisions and reserves
Total balance sheet assets	3,750,649	4,044,477	4,227,220	132,464	4,094,756
Cash and deposits with central banks	344,521	351,256	424,415	0	424,415
Cash	36,418	39,805	39,636	0	39,636
Deposits with central banks	308,104	311,451	384,779	0	384,779
Financial assets held for trading	366,309	360,081	249,943	0	249,943
Derivatives held for trading (positive FV)	88,388	192,817	108,230	0	108,230
Equity instruments held for trading	3,516	1,175	573	0	573
Debt instruments held for trading	150,758	129,411	109,545	0	109,545
Loans and advances held for trading	123,646	36,679	31,596	0	31,596
Loans and advances held for trading to credit institutions	119,181	31,259	26,599	0	26,599
Loans and advances held for trading to clients	4,413	5,361	4,996	0	4,996
Other loans and advances held for trading (not divided by sector)	53	58	0	0	0
Financial assets designated at FV through P/L	66,247	62,068	46,735	0	46,735
Equity instruments designated at FV through P/L	10,308	8,115	2,831	0	2,831
Debt instruments designated at FV through P/L	55,102	51,024	36,005	0	36,005
Loans and advances designated at FV through P/L	836	2,930	7,899	0	7,899
Loans and advances designated at FV through P/L to credit institutions	0	2,797	7,777	0	7,777
Loans and advances designated at FV through P/L to clients	836	133	122	0	122
Other loans and advances designated at FV through P/L (not divided by sector)	0	0	0	0	0
Available-for-sale financial assets	284,554	335,496	394,622	93	394,529
Available-for-sale equity instruments	1,887	12,511	3,876	93	3,783
Available-for-sale debt instruments	282,667	322,985	390,746	0	390,746
Available-for-sale loans and advances	0	0	0	0	0
Available-for-sale loans and advances to credit institutions	0	0	0	0	0
Available-for-sale loans and advances to clients	0	0	0	0	0
Other available-for-sale loans and advances (not divided by sector)	0	0	0	0	0
Loans and receivables	2,215,545	2,471,780	2,552,907	65,419	2,487,488
Debt instruments	41,978	30,175	22,473	0	22,473
Loans and advances	2,173,567	2,441,605	2,530,434	65,419	2,465,015
Loans and advances to credit institutions	342,060	380,846	391,405	229	391,176
Loans and advances to clients	1,802,279	2,040,419	2,113,272	64,363	2,048,908
Other loans and advances (not divided by sector)	29,227	20,340	25,757	826	24,931
Held to maturity investments	326,844	286,845	315,611	267	315,345
Debt instruments held to maturity	317,088	276,220	307,945	0	307,945
Loans and advances held to maturity	9,756	10,625	7,666	267	7,400
Loans and advances held to maturity to credit institutions	2,401	2,104	2,779	0	2,779
Loans and advances held to maturity to clients	7,355	8,521	4,888	267	4,621
Other loans and advances held to maturity (not divided by sector)	0	0	0	0	0
Derivatives – hedge accounting (positive FV)	10,914	20,621	21,960	0	21,960
Derivatives – hedge accounting of FV (positive FV)	108	77	729	0	729
Derivatives – hedge accounting of cash flows (positive FV)	8,072	8,902	9,475	0	9,475
Derivatives – hedge accounting of net investments in foreign units (positive FV)	0	0	0	0	0
Derivatives – hedge accounting of interest rate risk – FV (positive FV)	619	1,115	921	0	921
Derivatives – hedge accounting of interest rate risk – cash flows (positive FV)	2,116	10,527	10,834	0	10,834
FV changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0
Tangible assets	33,376	32,946	68,472	36,851	31,621
Property, plant and equipment	33,102	32,666	67,701	36,315	31,385
Investment property	274	279	771	536	235
Intangible assets	12,979	13,535	39,152	25,721	13,432
Goodwill	2,805	2,745	3,063	370	2,693
Other intangible assets	10,174	10,789	36,090	25,351	10,738
Investments in associates, subsidiaries and joint ventures	66,488	71,211	71,182	3,657	67,524
Tax assets	3,712	3,870	1,973	0	1,973
Current tax assets	676	1,632	166	0	166
Deferred tax assets	3,036	2,238	1,808	0	1,808
Other assets	18,190	34,218	38,935	2	38,933
Noncurrent assets and disposal groups classified as held for sale	969	550	1,313	454	858

Annex 8

BANKING SECTOR BALANCE SHEET – (continued)

(for banks with licences as of 31 December 2009; including foreign bank branches; CZK millions)

	31 December 2007	31 December 2008	31 December 2009		
	Data adjusted for provisions and reserves	Data adjusted for provisions and reserves	Data not adjusted for provisions and reserves	Provisions and reserves	Data adjusted for provisions and reserves
Total balance sheet liabilities and equity	3,750,649	4,044,477			4,094,756
Liabilities, total	3,493,955	3,752,068			3,774,913
Deposits, loans and other financial liabilities vis-à-vis central banks	11	38,044			2,910
Financial liabilities held for trading	101,950	216,261			138,339
Derivatives held for trading (negative FV)	79,892	189,955			105,302
Short positions	9,726	4,139			11,940
Deposits, loans and other financial liabilities held for trading	12,331	22,167			21,097
Deposits, loans and other financial liabilities held for trading from credit institutions	6,346	10,101			7,764
Deposits, loans and other financial liabilities held for trading from clients	5,985	12,060			13,332
Other financial liabilities held for trading (not divided by sector)	0	6			0
Debt certificates (incl. bonds intended for repurchase in short term)	0	0			0
Financial liabilities designated at FV through P/L	149,772	67,305			115,949
Deposits, loans and other financial liabilities designated at FV through P/L	142,681	59,290			110,265
Deposits, loans and other financial liabilities designated at FV through P/L from credit institutions	103,192	19,493			23,210
Deposits, loans and other financial liabilities designated at FV through P/L from clients	39,477	39,794			87,055
Other financial liabilities designated at FV through P/L (not divided by sector)	12	3			0
Debt certificates (including bonds) designated at FV through P/L	7,091	8,015			5,684
Subordinated liabilities designated at FV through P/L	0	0			0
Financial liabilities measured at amortised cost	3,156,087	3,357,384			3,449,979
Deposits, loans and other financial liabilities measured at amortised cost	2,774,224	2,967,340			3,055,804
Deposits, loans and other financial liabilities measured at amortised cost from credit institutions	325,693	398,875			396,151
Deposits, loans and other financial liabilities measured at amortised cost from clients	2,414,428	2,545,279			2,627,611
Other financial liabilities measured at amortised cost (not divided by sector)	34,102	23,186			32,043
Debt certificates (including bonds) measured at amortised cost	346,631	356,392			354,415
Subordinated liabilities measured at amortised cost	35,232	33,652			39,759
Financial liabilities associated with transferred assets	0	0			0
Derivatives – hedge accounting (negative FV)	9,172	13,464			18,053
Derivatives – hedge accounting of FV (negative FV)	1,914	1,796			2,281
Derivatives – hedge accounting of cash flows (negative FV)	3,201	4,438			7,339
Derivatives – hedge accounting of net investments in foreign units (negative FV)	0	0			0
Derivatives – hedge accounting of interest rate risk – FV (negative FV)	967	767			903
Derivatives – hedge accounting of interest rate risk – cash flows (negative FV)	3,090	6,463			7,531
FV changes of the hedged items in portfolio hedge of interest rate risk	0	0			0
Provisions	11,620	10,736			11,382
Provisions for restructuring	140	291			244
Provisions for taxes and litigation	3,630	3,026			4,124
Provisions for pensions and similar liabilities	102	102			118
Provisions for off-balance-sheet items	4,152	4,331			4,183
Provisions for disadvantageous contracts	366	159			137
Other provisions	3,230	2,827			2,576
Tax liabilities	1,095	1,242			2,287
Current tax liabilities	1,033	397			1,205
Deferred tax liabilities	62	845			1,083
Other liabilities	64,249	47,632			36,013
Equity of credit unions payable on demand					
Liabilities included in disposal groups classified as held for sale	0	0			0
Equity, total	256,694	292,409			319,843
Issued capital	74,277	74,014			75,408
Paid-up capital	73,871	73,608			75,408
Non-paid-up capital	406	406			0
Share premium	23,140	26,955			32,963
Other equity	42	52			52
Equity component of financial instruments	0	0			0
Other equity instruments	42	52			52
Revaluation reserves and other valuation differences	-3,462	11,676			6,849
Valuation differences from tangible assets	0	0			0
Valuation differences from intangible assets	0	0			0
Hedge accounting of net investments in foreign units	51	143			194
Hedge accounting of cash flows	-1,557	2,977			963
Valuation differences from available-for-sale financial assets	-1,972	6,684			5,681
Valuation differences from noncurrent assets and discontinued operations classified as held for sale	0	0			0
Other valuation differences	15	1,872			13
Reserves	35,184	36,677			38,540
Retained earnings	80,675	97,480			106,201
Treasury shares (minus)	150	150			150
Net income from current year	46,987	45,705			59,979

Annex 9

BANKING SECTOR PROFIT AND LOSS ACCOUNT

(for banks with licences as of 31 December 2009; including foreign bank branches; CZK millions)

	31 December 2007	31 December 2008	31 December 2009
Financial and operating income and expenses	134,392	138,024	168,374
Interest income	156,436	191,917	174,460
Interest on cash balances with central banks	11,331	13,360	5,414
Interest on financial assets held for trading	9,215	7,517	7,846
Interest on financial assets designated at FV through P/L	2,549	2,927	2,072
Interest on available-for-sale financial assets	8,951	11,656	13,569
Interest on loans and receivables	103,160	133,110	122,706
Interest on held to maturity investments	12,717	12,049	12,460
Profit on interest rate derivatives – hedge accounting	8,320	10,670	10,334
Interest on other assets	192	628	59
Interest expenses	71,738	93,874	71,161
Interest on deposits, loans and other financial liabilities vis-à-vis central banks	12	75	41
Interest on financial liabilities held for trading	537	1,320	3,813
Interest on financial liabilities designated at FV through P/L	5,282	4,432	1,776
Interest on financial liabilities measured at amortised cost	56,916	75,733	53,601
Loss on interest rate derivatives – hedge accounting	6,601	10,125	9,715
Interest on other liabilities	2,391	2,189	2,215
Expenses on equity payable on demand	0	0	0
Dividend income	5,886	3,730	9,623
Dividend income on financial assets held for trading	19	23	2
Dividend income on financial assets designated at FV through P/L	554	868	310
Dividend income on available-for-sale financial assets	184	506	397
Dividend income from associates	5,130	2,334	8,914
Fee and commission income	44,830	46,779	46,754
Fees and commissions from financial instrument transactions for clients	1,713	1,666	1,487
Fees and commissions for arranging issues	57	68	49
Fees and commissions for procuring financial instruments	1,549	1,458	1,291
Fees and commissions for consulting activities	107	139	147
Fees and commissions from clearing and settlement	569	503	496
Fees and commissions for asset management	208	163	179
Fees and commissions for custody of values	746	722	596
Fees and commissions from commitments and guarantees	2,464	2,513	2,903
Fees and commissions from payments	25,666	27,072	28,223
Fees and commissions from structured financing	25	61	37
Fees and commissions from securitisation	0	0	0
Fees and commissions from other services	13,440	14,079	12,832
Fee and commission expenses	8,989	10,658	10,314
Fees and commissions for financial instrument transactions	571	606	500
Fees and commissions for asset management	0	26	35
Fees and commissions for custody of values	45	41	74
Fees and commissions for securitisation	334	363	453
Fees and commissions for clearing and settlement	35	36	44
Fees and commissions for other services	8,003	9,585	9,207
Realised gains (losses) on financial assets & liabilities not measured at FV through P/L, net	-158	-943	6,327
Gains (losses) on available-for-sale financial assets	46	-894	7,331
Gains (losses) on loans and receivables	-638	-301	-1,561
Gains (losses) on held to maturity investments	33	-13	-141
Gains (losses) on financial liabilities measured at amortised cost	163	-18	1
Gains (losses) on other liabilities	237	283	697

Annex 9

BANKING SECTOR PROFIT AND LOSS ACCOUNT – (continued)

(for banks with licences as of 31 December 2009; including foreign bank branches; CZK millions)

	31 December 2007	31 December 2008	31 December 2009
Gains (losses) on financial assets and liabilities held for trading, net	4,422	-2,685	3,864
Gains (losses) on equity instruments and equity derivatives	-87	-352	105
Gains (losses) on interest rate instruments (including interest rate derivatives)	790	-3,554	1,867
Gains (losses) on foreign currency instruments (including foreign currency derivatives)	3,403	696	1,061
Gains (losses) on credit instruments (including credit derivatives)	267	276	744
Gains (losses) on commodities and commodity derivatives	48	249	88
Gains (losses) on other instruments, including hybrid instruments	0	0	0
Gains (losses) on financial assets and liabilities designated at FV through P/L, net	-2,203	-11,191	1,683
Gains (losses) from hedge accounting, net	-536	-272	-330
Exchange differences, net	7,760	11,938	8,017
Gains (losses) on derecognition of assets other than held for sale, net	253	4,191	581
Other operating income	2,218	3,062	2,817
Other operating expenses	3,789	3,971	3,948
Administration costs	59,673	61,676	60,403
Staff expenses	30,918	31,195	31,051
Wages and salaries	21,477	22,387	22,319
Social and health insurance	7,165	6,592	6,668
Pensions and similar expenses	461	479	509
Temporary employee expenses	149	203	226
Remunerations - equity instruments	6	61	42
Other staff expenses	1,660	1,473	1,286
Other administration costs	28,755	30,481	29,353
Advertising costs	4,180	4,458	3,716
Consultancy costs	1,399	1,513	1,248
IT costs	4,758	5,474	4,556
Outsourcing costs	4,235	5,425	7,308
Rent	3,461	3,507	3,787
Other administration costs	10,723	10,104	8,738
Depreciation	7,904	7,345	7,452
Depreciation of property, plant and equipment	4,189	3,859	3,938
Depreciation of real estate investments	0	4	7
Depreciation of intangible assets	3,715	3,482	3,507
Provisions	1,117	455	34
Impairment	6,525	15,221	29,569
Impairment on financial assets not measured at FV through P/L	6,932	15,207	26,350
Impairment on financial assets at acquisition price	0	0	0
Impairment on available-for-sale financial assets	0	513	80
Impairment on loans and receivables	6,932	14,323	26,253
Impairment on held to maturity investments	0	370	17
Impairment on non-financial assets	-407	15	3,219
Impairment on property, plant and equipment	-145	-225	-228
Impairment on real estate investments	0	0	0
Impairment on goodwill	1	1	1
Impairment on intangible assets	13	-33	7
Impairment on shares in associates and joint ventures	-277	262	3,357
Impairment on other non-financial assets	0	9	82
Negative goodwill immediately recognised in P/L	0	0	0
Share of P/L of associates and joint ventures	0	0	0
Profit or loss from noncurrent assets and disposal groups	27	722	63
Total profit or loss before tax from continuing operations	59,201	54,049	70,979
Tax expense	12,213	8,345	11,001
Profit or loss from continuing operations after taxation	46,987	45,705	59,979
Profit or loss from discontinued operations after taxation	0	0	0
Total profit or loss after taxation	46,987	45,705	59,979

Annex 10

BALANCE SHEET – DOMESTIC INSURANCE UNDERTAKINGS *)
(total excluding the Czech Insurers' Bureau; CZK millions)

	31 December 2007	31 December 2008	31 December 2009		
	Data adjusted for provisions and reserves	Data adjusted for provisions and reserves	Data not adjusted for provisions and reserves	Provisions and reserves	Data adjusted for provisions and reserves
Total assets	308,987	332,110	384,916	26,121	358,795
Receivables for subscribed share capital	74	0	300	0	300
Long-term intangible assets	2,820	2,180	11,978	9,691	2,286
Start-up costs	12	8	33	29	4
Goodwill	888	198	3,709	3,554	154
Financial placement (investments)	260,132	277,828	294,997	0	294,997
Land and buildings (real estate)	4,921	5,266	4,763	0	4,763
Real estate used in operations	3,684	4,324	4,092	0	4,092
Financial placements in third-party companies	11,649	13,929	13,472	0	13,472
Participating interests in affiliates	9,378	12,532	11,695	0	11,695
Bonds and loans – affiliated companies	213	24	124	0	124
Participating interests with substantial influence	1,569	876	1,169	0	1,169
Bonds – companies with substantial influence	489	497	484	0	484
Other financial placements	243,562	258,632	276,762	0	276,762
Shares and other variable-yield securities, other interests	27,152	22,671	16,913	0	16,913
Bonds and other fixed-income securities	181,844	203,169	227,083	0	227,083
Financial placements in investment associations	972	510	374	0	374
Other loans	6,677	2,990	4,448	0	4,448
Deposits with financial institutions	25,936	28,110	25,735	0	25,735
Other financial placements	982	1,182	2,209	0	2,209
Deposits with ceding undertakings	1	1	1	0	1
Financial placement of unit-linked life assurance where policyholders bear the investment risk	17,810	19,736	30,712	0	30,712
Debtors	17,797	20,839	30,561	12,714	17,847
Receivables arising out of direct insurance operations	9,634	11,125	14,015	4,991	9,024
Policyholders	9,381	10,765	13,199	4,570	8,629
Intermediaries	254	360	816	421	395
Receivables arising out of reinsurance operations	4,562	3,007	4,618	202	4,416
Other receivables	3,601	6,707	11,928	7,522	4,407
Other assets	3,568	2,898	6,871	3,715	3,156
Long-term tangible assets other than land, buildings (real estate) and stocks	2,179	1,420	4,966	3,714	1,251
Cash at financial institutions and cash in hand	1,388	1,476	1,904	0	1,904
Other assets	1	2	1	0	1
Temporary accounts of assets	6,786	8,629	9,496	0	9,496
Interest and annuities	102	70	47	0	47
Deferred acquisition costs for insurance contracts	5,032	6,369	7,156	0	7,156
in life assurance	3,030	4,131	5,014	0	5,014
in non-life insurance	2,002	2,238	2,142	0	2,142
Other temporary accounts of assets	1,652	2,190	2,293	0	2,293
Estimated receivables	739	974	874	0	874

*) Domestic insurance corporations excluding branches of foreign insurance corporations.

Annex 10

BALANCE SHEET – DOMESTIC INSURANCE UNDERTAKINGS – (continued)

(total excluding the Czech Insurers' Bureau; CZK millions)

	31 December 2007	31 December 2008	31 December 2009		
	Net	Net	Gross	Reinsurers' share in TPs	Net
Total liabilities	308,987	332,110			358,795
Shareholders' equity	52,891	59,203			69,532
Share capital	18,380	18,985			20,084
Movements in share capital	126	0			450
Own stocks or own interim certificates, own business shares	0	0			0
Share premium account	881	1,817			1,693
Revaluation reserve fund	0	0			0
Other capital funds	6,612	8,191			10,693
Reserve fund and other profit funds	7,807	9,902			11,449
Retained earnings	7,683	11,540			11,170
Profit (loss) for the accounting period	11,528	8,769			14,443
Subordinated liabilities	252	253			253
Technical provisions	211,444	222,175	251,776	24,242	227,534
Provision for unearned premiums	16,787	17,990	21,749	4,202	17,546
related to life assurance	1,750	1,616	1,629	111	1,518
related to non-life insurance	15,037	16,374	20,120	4,092	16,028
Life assurance provision	143,731	148,343	151,977	47	151,930
Outstanding claims provision	36,909	40,030	64,767	19,806	44,961
related to life assurance	3,584	4,148	5,386	849	4,536
related to non-life insurance	33,325	35,883	59,381	18,957	40,425
Provision for bonuses and rebates	1,223	1,476	1,867	73	1,795
related to life assurance	513	449	947	1	946
related to non-life insurance	710	1,027	920	72	848
Equalisation provision	4,870	5,217	3,329	0	3,329
Provision for the fulfilment of the commitments from the technical interest rate applied	2,582	3,562	2,252	0	2,252
Non-life insurance provision	246	284	319	0	318
related to life assurance	38	58	79	0	79
related to non-life insurance	207	226	239	0	239
Provisions for the fulfilment of the commitments from the guarantee of the CIB	5,097	5,272	5,358	35	5,323
Other provisions	0	0	157	79	79
related to life assurance	0	0	0	0	0
related to non-life insurance	0	0	157	79	79
Technical provision for unit-linked life assurance	17,740	19,651	30,695	0	30,695
Provision for other risks and losses	1,610	1,615			3,191
Provision for pensions and similar liabilities	6	3			3
Tax provision	1,010	1,109			2,750
Other provisions	595	503			438
Passive reinsurance deposits	183	178			684
Creditors	17,658	22,453			20,514
Liabilities arising out of direct insurance	7,143	8,330			8,166
Liabilities arising out of reinsurance	6,086	5,561			7,131
Debenture loans	0	0			0
Convertible loans	0	0			0
Liabilities to financial institutions	13	19			61
Other liabilities	4,416	8,543			5,156
Tax liabilities and payables due to social security insurance institutions	904	576			591
Guarantee fund of the Czech Insurers' Bureau	0	0			0
Temporary accounts of liabilities	7,208	6,581			6,392
Accrued expenses and revenues	2,984	2,450			1,840
Other temporary accounts of liabilities	4,224	4,131			4,552
Estimated payables	4,214	4,116			4,369

Annex 11

PROFIT AND LOSS ACCOUNT – DOMESTIC INSURANCE UNDERTAKINGS *)
(total excluding the Czech Insurers' Bureau; CZK millions)

Technical account for non-life insurance	31 December 2007	31 December 2008	31 December 2009
Result of technical account for non-life insurance	4,940	4,625	7,047
Earned premiums, net of reinsurance	53,924	57,180	60,401
Premiums written, net of reinsurance	56,155	58,522	59,971
Gross premium written	77,192	80,644	81,559
Gross premium written ceded to reinsurers	-21,037	-22,122	-21,588
Change in provision for unearned premiums, net of reinsurance	-2,232	-1,342	430
Change in the gross provision for unearned premiums	-2,343	-1,561	494
Change in the gross provision for unearned premiums, reinsurance share	112	219	-64
Allocated investment return transferred from the non-technical account	861	400	3,651
Other technical income, net of reinsurance	1,562	3,011	3,608
Claims incurred including change in provision, net of reinsurance	-30,359	-31,524	-36,129
Claims incurred, net of reinsurance	-27,005	-28,242	-31,685
Gross claims paid	-36,021	-37,999	-41,499
Claims paid – reinsurers' share	9,016	9,758	9,814
Change in provision for claims, net of reinsurance	-3,354	-3,282	-4,444
Change in gross provision for claims	-3,918	-3,615	-4,654
Change in provision for claims – reinsurers' share	563	333	210
Change in other technical provisions, net of reinsurance	-192	-223	-88
Bonuses and rebates, net of reinsurance	-1,250	-1,809	-3,037
Operating expenses, net amount	-14,866	-16,068	-17,466
Acquisition expenses for insurance contracts	-11,670	-12,317	-12,969
Change in deferred acquisition expenses	293	71	-40
Administrative expenses	-8,706	-9,013	-9,294
Reinsurance commissions and profit participation	5,218	5,191	4,836
Other technical expenses, net of reinsurance	-4,410	-5,994	-5,780
Change of equalisation provision	-329	-347	1,887

Technical account for life assurance	31 December 2007	31 December 2008	31 December 2009
Result of technical account for life assurance	4,100	-881	10,017
Earned premiums, net of reinsurance	45,714	47,679	52,664
Premiums written, net of reinsurance	45,498	47,545	52,567
Gross premium written	46,853	48,986	54,062
Gross premium written ceded to reinsurers	-1,355	-1,441	-1,495
Change in provision for unearned premiums, net of reinsurance	216	134	97
Change in gross provision for unearned premiums	207	126	94
Change in provision for unearned premiums – reinsurers' share	9	8	3
Income from financial placements	19,260	23,197	22,187
Income from participating interests	140	159	769
Income from other financial placements	8,416	7,652	9,531
Income from land and buildings (real estate)	244	120	92
Income from other investments (except real estate)	8,172	7,532	9,439
Change in value of financial placements - income	156	444	61
Gains on the realisation of financial placements	10,548	14,942	11,825
Unrealised gains on financial placements	-586	8,436	9,840
Other technical income, net of reinsurance	725	1,008	1,126
Claims incurred including change in provision, net of reinsurance	-22,219	-27,407	-29,555
Claims paid, net of reinsurance	-21,825	-26,846	-29,185
Gross claims paid	-22,151	-27,147	-29,536
Claims paid – reinsurers' share	325	301	351

*) Domestic insurance corporations excluding branches of foreign insurance corporations.

Annex 11

PROFIT AND LOSS ACCOUNT – DOMESTIC INSURANCE UNDERTAKINGS *) – (continued)

(total excluding the Czech Insurers' Bureau; CZK millions)

Technical account for life assurance	31 December 2007	31 December 2008	31 December 2009
Change in provision for claims, net of reinsurance	-394	-561	-370
Change in gross provision for claims	-371	-597	-386
Change in provision for claims – reinsurers' share	-23	37	16
Change in other technical provisions, net of reinsurance	-11 762	-7 575	-13 491
Change in balance of life assurance provision, net of reinsurance	-9 346	-4 885	-4 576
Change in balance of gross life assurance provision	-9 350	-4 880	-4 581
Change in balance of life assurance provision – reinsurers' share	5	-5	5
Change in balance of other technical provisions (except life assurance provision), net of reinsurance	-2 416	-2 690	-8 915
Bonuses and rebates, net of reinsurance	-106	-103	-685
Operating expenses, net amount	-10 360	-11 384	-12 622
Acquisition expenses for insurance contracts	-7 869	-8 830	-9 693
Change in deferred acquisition expenses	1 311	1 022	906
Administrative expenses	-4 148	-3 940	-4 217
Reinsurance commissions and profit participation	346	365	383
Expenses related to financial placements	-11 073	-17 489	-11 549
Administration expenses on financial placements, including interest	-1 193	-782	-829
Change in value of financial placements - expenses	-205	-1 905	140
Realisation expenses on financial placements	-9 675	-14 802	-10 860
Unrealised losses on financial placements	-4 586	-15 762	-5 551
Other technical expenses, net of reinsurance	-606	-946	-1 270
Transfer of income from financial placement to the non-technical account	-302	-536	-1 077

Non-technical account	31 December 2007	31 December 2008	31 December 2009
Profit or loss for the accounting period	11,528	8,769	14,443
After-tax profit or loss on ordinary activities	11,644	8,797	14,419
Result of technical account for non-life insurance	4,940	4,625	7,047
Result of technical account for life assurance	4,100	-881	10,017
Income from financial placements	11,515	15,580	7,981
Income from participating interests	2,321	507	117
Income from other financial placements	2,461	2,432	1,662
Income from land and buildings (real estate)	135	140	136
Income from other investments (except real estate)	2,327	2,293	1,526
Changes in value of financial placements - expenses	1,208	1,769	2,251
Gains on the realisation of financial placements	5,525	10,872	3,952
Transferred income from financial placements from technical account for life assurance	302	536	1,077
Expenses related to financial placements	-5,120	-8,149	-4,710
Administration expenses on financial placements, including interest	-453	-308	-116
Change in value of financial placements - expenses	-1,258	-2,646	-701
Realisation expenses on financial placements	-3,409	-5,195	-3,893
Transfer of income from financial placements to non-life technical account	-861	-400	-3,651
Other income	1,367	1,985	786
Other expenses	-1,507	-2,615	-723
Income tax on ordinary activities	-3,091	-1,885	-3,405
Extraordinary profit or loss	65	25	40
Extraordinary income	609	61	43
Extraordinary expenses	-544	-36	-3
Income tax on extraordinary activities	-7	-2	0
Other taxes	-174	-51	-17

*) Domestic insurance corporations excluding branches of foreign insurance corporations.

Annex 12

PENSION FUND SECTOR BALANCE SHEET
(for pension funds with licences as of the given date; CZK millions)

	31 December 2007	31 December 2008	31 December 2009
Total assets	167,198	191,705	215,871
Cash and deposits with central banks	1	1	0
Receivables from banks and credit unions	16,069	17,569	23,736
payable on demand	7,963	6,343	3,726
other receivables	8,106	11,226	20,010
Receivables from non-banking institutions	17	25	56
payable on demand	0	0	0
other receivables	17	25	56
Debt securities	126,787	151,236	173,741
issued by government institutions	98,590	121,226	139,757
issued by other entities	28,197	30,009	33,984
Shares, units and other interests	17,383	11,893	10,407
Shares	9,808	5,730	3,491
Units	7,576	6,163	6,917
Other interests	0	0	0
Substantial interests	0	0	0
in banks	0	0	0
in other entities	0	0	0
Controlling interests	0	0	0
in banks	0	0	0
in other entities	0	0	0
Long-term intangible assets	130	116	106
Start-up costs	1	0	0
Goodwill	0	0	0
Other long-term intangible assets	128	116	106
Long-term tangible assets	1,424	1,741	2,118
Land and buildings for operations	152	147	143
Other long-term tangible assets	1,272	1,594	1,975
Receivables from state budget – state contribution	1,006	875	974
Other assets	906	2,689	837
Receivables from subscribed registered capital	0	1,495	0
Deferred revenues and accrued expenses	3,475	4,065	3,895
Acquisition expenses for pension plans	3,450	4,035	3,881
Other deferred revenues and accrued expenses	25	30	15

Annex 12

PENSION FUND SECTOR BALANCE SHEET – (continued)
(for pension funds with licences as of the given date; CZK millions)

	31 December 2007	31 December 2008	31 December 2009
Total liabilities	167,198	191,705	215,871
Liabilities to banks and credit unions	0	0	0
payable on demand	0	0	0
other receivables	0	0	0
Liabilities to non-banking institutions	5	6	6
payable on demand	0	0	0
other receivables	5	6	6
Planholders' money	162,445	186,698	200,735
Planholders' contributions	147,296	169,171	184,722
Planholders' own contributions	108,485	121,403	130,887
Contributions paid by employer	16,682	22,704	26,180
Contributions paid by third parties for planholder	257	361	367
State contributions	21,872	24,703	27,289
Financial means for pension payments	233	302	372
Revenues on planholders' contributions	14,202	16,025	14,597
Unallocated planholders' contributions	578	623	587
Payables from eligible unpaid lump sums	136	577	455
Liabilities to state budget – state contribution	75	230	257
Liabilities to state budget – tax liabilities	35	54	76
Other liabilities	656	1,076	1,262
Deferred revenues and accrued expenses	12	11	13
Provisions	63	74	101
Provisions for pensions and similar payables	60	72	95
Provisions for taxes	0	0	0
Other provisions	3	2	6
Subordinated liabilities	0	300	0
Registered capital	1,133	1,989	1,989
Paid up capital	1,133	1,989	1,989
Own shares	0	0	0
Share premium account	149	3,036	3,036
Reserve funds and other funds created from profit	1,698	1,997	2,011
Statutory reserve funds and risk funds	1,349	1,573	1,596
Other reserve funds	0	0	0
Other funds created from profit	349	424	415
Pension reserve fund	169	237	234
Revaluation reserve fund	0	0	0
Capital funds	393	2,869	3,374
Valuation differences	-4,297	-8,079	-445
Valuation differences from assets and liabilities	-4,285	-7,975	-439
Valuation differences from hedging derivatives	-12	-104	7
Valuation differences from recalculated shares	0	0	0
Other valuation differences	0	0	-14
Retained earnings (accumulated losses)	562	845	881
Profit (loss) for the accounting period	4,269	598	2,573

Annex 13

PENSION FUND SECTOR PROFIT AND LOSS ACCOUNT

(for pension funds with licences as of the given date; CZK millions)

	31 December 2007	31 December 2008	31 December 2009
Profit from financial activities	**5,472**	**1,887**	**3,779**
Interest income and similar income	4,753	6,242	6,983
debt securities	4,429	5,597	6,607
other assets	324	645	375
Interest expenses and similar expenses	0	9	19
debt securities	0	0	5
other liabilities	0	9	14
Income from shares and other equity instruments	456	318	226
substantial interests	0	0	0
controlling interests	0	0	0
other	456	318	226
Fees and commission income	2	4	7
Fee and commission expenses	1,285	1,524	2,212
Expenses associated with care for safety and administration of securities	306	281	408
Expenses associated with sale or other disposal of securities	22	17	14
Expenses for pension plans	933	1,201	1,764
Other fee and commission expenses	23	26	26
Profit (loss) from financial operations	1,392	-3,228	-1,533
Other operating income	166	360	353
Other operating expenses	12	277	25
Administrative expenses	1,113	1,192	1,104
Personnel expenses	344	366	344
Social security and health insurance	82	82	75
Wages and remuneration – employees and statutory bodies	249	267	254
Other social expenses	13	16	16
Other administrative expenses	768	826	760
Release of provisions and allowances for tangible and intangible assets	0	3	0
Depreciation, creation and use of provisions and allowances for tangible and intangible assets	72	74	76
Depreciation of tangible assets	38	35	33
Creation and use of provisions and allowances for tangible assets	-1	0	0
Depreciation of intangible assets	22	27	31
Creation and use of provisions and allowances for intangible assets	13	13	13
Release of provisions and allowances for receivables and guarantees, recoveries of receivables previously written off	0	0	60
Depreciation, creation and use of provisions and allowances for receivables and guarantees	5	1	74
Release of allowances for interests with substantial and controlling influence	0	0	0
Losses from the transfer of interests with substantial and controlling influence, creation and use of allowances for interests	0	0	0
Release of other provisions, including pension provisions	7	2	3
Creation and use of other provisions, including pension provisions	14	19	35
Shares of profits (losses) from interests with substantial and controlling influence	0	0	0
Profit (loss) for the accounting period before taxation	**4,275**	**607**	**2,553**
Extraordinary income	0	0	0
Extraordinary expenses	0	0	0
Extraordinary profit (loss) for the accounting period before taxation	**0**	**0**	**0**
Income tax	6	9	-20
Profit (loss) for the accounting period after taxation	**4,269**	**598**	**2,573**

Annex 14

COLLECTIVE INVESTMENT FUND SECTOR BALANCE SHEET
(for collective investment funds as of the given date; CZK millions)

	31 December 2007	31 December 2008	31 December 2009
Total assets	174,262	122,872	119,010
Cash	0	0	0
Receivables from banks	27,255	17,962	20,313
payable on demand	9,622	7,890	10,282
other receivables	17,633	10,072	10,030
Receivables from non-banking institutions	363	2,642	324
payable on demand	22	16	25
other receivables	341	2,625	299
Debt securities	91,160	71,089	60,758
issued by government institutions	31,785	27,941	28,999
issued by other entities	59,375	43,148	31,759
Shares, units and other interests	52,909	29,161	36,147
Shares	28,195	12,821	20,589
Units	24,714	16,154	15,048
Other interests	0	187	510
Interests with substantial and controlling influence	745	760	623
Long-term intangible assets	0	0	0
Start-up costs	0	0	0
Goodwill	0	0	0
Other long-term intangible assets	0	0	0
Long-term tangible assets	0	40	35
Land and buildings for operating activities	0	0	0
Other long-term tangible assets	0	40	35
Other assets	1,808	1,195	792
Receivables from shareholders for subscribed capital	0	0	0
Deferred expenses and accrued income	21	22	18

Note: Collective investment funds open to the public (domestic open-end mutual funds). Data taken as market historical data. i.e. including entities that terminated their activities before 31 December 2009.

Annex 14

COLLECTIVE INVESTMENT FUND SECTOR BALANCE SHEET – (continued)
(for collective investment funds as of the given date, CZK millions)

	31 December 2007	31 December 2008	31 December 2009
Total liabilities	174,262	122,873	119,010
Liabilities to banks	12	0	3
payable on demand	12	0	3
other liabilities	0	0	0
Liabilities to non-banking institutions	194	229	201
payable on demand	19	66	12
other liabilities	175	163	189
Other liabilities	1,193	1,404	1,513
Accrued expenses and deferred income	83	54	56
Provisions	32	54	60
Provisions for pensions and similar liabilities	0	0	0
Provisions for taxes	3	3	4
Other provisions	29	50	56
Subordinated liabilities	0	0	0
Registered capital	0	0	0
Paid up capital	0	0	0
Treasury shares	0	0	0
Share premium account	24,212	10,444	7,382
Reserve funds and other funds from profit	10,791	12,205	7,988
Statutory reserve funds and risk funds	0	0	0
Other reserve funds	0	0	9
Other funds from profit	10,791	12,205	7,979
Revaluation reserve fund	0	0	0
Capital funds	128,342	112,228	88,706
Valuation differences	298	-54	16
Valuation differences from assets and liabilities	170	-54	16
Valuation differences from hedging derivatives	0	0	0
Valuation differences from recalculated shares	0	0	0
Other valuation differences	127	0	0
Retained earnings (accumulated losses)	6,888	6,737	1,489
Profit (loss) for the accounting period	2,217	-20,429	11,598

Note: Collective investment funds open to the public (domestic open-end mutual funds). Data taken as market historical data. i.e. including entities that terminated their activities before 31 December 2009.

Annex 15

COLLECTIVE INVESTMENT FUND SECTOR PROFIT AND LOSS ACCOUNT
(for collective investment funds as of the given date; CZK millions)

	31 December 2007	31 December 2008	31 December 2009
Profit from financial activities	**3,010**	**-19,766**	**12,171**
Interest income and similar income	4,928	5,061	2,698
debt securities	3,401	3,420	2,128
other assets	1,527	1,641	570
Interest expenses and similar expenses	347	783	275
Income from shares and other equity instruments	820	1,005	646
substantial and controlling interests	0	0	0
other	820	1,005	646
Fees and commission income	2	6	11
Fee and commission expenses	1,608	1,383	1,053
Profit or loss from financial operations	-778	-23,665	10,136
Other operating income	3	5	10
Other operating expenses	11	12	2
Administrative expenses	553	485	440
Personnel expenses	0	0	0
Wages and salaries of employees	0	0	0
Social security and health insurance of employees	0	0	0
Other social expenses	0	0	0
Other administrative expenses	553	485	440
Release of provisions and allowances for tangible and intangible assets	0	0	0
Depreciation, creation and use of provisions and allowances for tangible and intangible assets	0	0	1
Release of provisions and reserves for receivables and guarantees, recoveries of receivables previously written off	4	11	5
Depreciation, creation and use of provisions and allowances for receivables and guarantees	-10	5	5
Release of allowances for interests with substantial and controlling influence	0	0	0
Losses from transfers of interests with substantial and controlling influence, creation and use of allowances for interests	0	0	0
Release of other provisions	0	0	0
Creation and use of other provisions	4	22	5
Share of profits (losses) from interests with substantial and controlling influence	0	0	0
Profit (loss) for the accounting period before taxation	**2,466**	**-20,266**	**11,727**
Extraordinary income	0	0	0
Extraordinary expenses	0	0	0
Extraordinary profit (loss) for the accounting period before taxation	**0**	**0**	**0**
Income tax	249	163	129
Profit (loss) for the accounting period after taxation	**2,217**	**-20,429**	**11,598**

Note: Collective investment funds open to the public (domestic open-end mutual funds). Data taken as market historical data. i.e. including entities that terminated their activities before 31 December 2009.

Annex 16

LISTED BONDS ISSUED IN 2009

Issue date	ISIN	Issuer	Maximum size
24 April 2009	CZ0002002082	Wüstenrot hypoteční banka a.s.	50,000,000 EUR
22 June 2009	CZ0000000237	Home Credit B.V.	6,000,000,000
29 June 2009	CZ0002002090	Wüstenrot hypoteční banka a.s.	62,500,000 EUR
1 October 2009	CZ0003501660	ZONER software, a.s.	200,000,000
8 October 2009	CZ0002002124	Raiffeisenbank a.s.	100,000,000 EUR
30 November 2009	CZ0003501678	VIG RE zajišťovna, a.s.	200,000 EUR
10 December 2009	CZ0003501694	ISTROKAPITAL CZ a.s.	150,000,000 EUR
18 December 2009	CZ0003702268	Česká spořitelna, a.s.	4,000,000,000
20 April 2009	CZ0001002505	MINISTERSTVO FINANCÍ ČR	45,287,650,000
23 March 2009	CZ0001002471	MINISTERSTVO FINANCÍ ČR	70,687,690,000
25 May 2009	CZ0001002547	MINISTERSTVO FINANCÍ ČR	43,025,020,000
Government bonds, total			**159,000,360,000**

Annex 17

LISTED INVESTMENT CERTIFICATE ISSUES ADMITTED AS OF 31 DECEMBER 2009

Issuer	ISIN	Name
Barclays Bank PLC	XS0322226415	KOMODITY PLUS
Österreichische Volksbanken-Aktiengesellschaft	AT000B055918	ELEKTGAR2VB-AFT
Österreichische Volksbanken-Aktiengesellschaft	AT000B054564	ALT ENERG GAR II
Österreichische Volksbanken-Aktiengesellschaft	AT000B057427	BONUS GARANT CZK
Österreichische Volksbanken-Aktiengesellschaft	AT000B054739	BUX VB-AFT
Österreichische Volksbanken-Aktiengesellschaft	AT000B053517	CECE BONUS III
Österreichische Volksbanken-Aktiengesellschaft	AT000B054705	CECE VB-AFT
Österreichische Volksbanken-Aktiengesellschaft	AT000B054358	CROX INDEX CERT
Österreichische Volksbanken-Aktiengesellschaft	AT000B054085	CSS INDEX CERT
Österreichische Volksbanken-Aktiengesellschaft	AT000B055488	ELEKTRINAGARVB-AFT
Österreichische Volksbanken-Aktiengesellschaft	AT000B054861	EUROPA BONUS CZK
Österreichische Volksbanken-Aktiengesellschaft	AT000B057484	GOLD SHARK GAR CZK
Österreichische Volksbanken-Aktiengesellschaft	AT000B054275	CHINA BONUS III
Österreichische Volksbanken-Aktiengesellschaft	AT000B054721	PX INDEX CERT.
Österreichische Volksbanken-Aktiengesellschaft	AT000B054515	SRX INDEX CERT
Österreichische Volksbanken-Aktiengesellschaft	AT000B059225	TOP ČESKÝ BON CZ
Österreichische Volksbanken-Aktiengesellschaft	AT000B059407	TOP ČESKÝ BON CZII
Österreichische Volksbanken-Aktiengesellschaft	AT000B056551	TOP5 ENERGY GARANT
Österreichische Volksbanken-Aktiengesellschaft	AT000B054713	WIG VB-AFT
Raiffeisen Centrobank AG	AT0000489778	BRENT CRUDE OIL
Raiffeisen Centrobank AG	AT0000A07SD6	BRENT INDEX SHORT
Raiffeisen Centrobank AG	AT0000A0CU64	BRENT TL
Raiffeisen Centrobank AG	AT0000A0BNV7	BRENT TL+
Raiffeisen Centrobank AG	AT0000A09JM2	BRENT TS 151,07
Raiffeisen Centrobank AG	AT0000A0CXX0	CECE BANKING 200
Raiffeisen Centrobank AG	AT0000A0DRW2	CECE BANKING 450
Raiffeisen Centrobank AG	AT0000A0BL33	CECE OIL TL 500
Raiffeisen Centrobank AG	AT0000A0D2F6	CECE TEL TL 540
Raiffeisen Centrobank AG	AT0000A00M07	CECEXT
Raiffeisen Centrobank AG	AT0000A0F8R6	CEETX BON 1950 CAP
Raiffeisen Centrobank AG	AT0000A0F7M9	CEETX INDEX LONG
Raiffeisen Centrobank AG	AT0000A0F7L1	CEETX TL 1200
Raiffeisen Centrobank AG	AT0000A0F7K3	CEETX TL 800
Raiffeisen Centrobank AG	AT0000A0D2J8	CEZ TL 340
Raiffeisen Centrobank AG	AT0000A0BL58	CEZ TL 500
Raiffeisen Centrobank AG	AT0000454186	CTX
Raiffeisen Centrobank AG	AT0000A04QY3	DAX INDEX LONG
Raiffeisen Centrobank AG	AT0000A056Y4	DAX INDEX SHORT
Raiffeisen Centrobank AG	AT0000340146	DJ EURO STOXX 50
Raiffeisen Centrobank AG	AT0000A0D7E8	ERSTE TL 6,5
Raiffeisen Centrobank AG	AT0000489398	GOLD
Raiffeisen Centrobank AG	AT0000A0AN24	GOLD INDEX SHORT
Raiffeisen Centrobank AG	AT0000A00BQ9	GOLD TURBO LONG
Raiffeisen Centrobank AG	AT0000A0DS42	HTX TL 1800
Raiffeisen Centrobank AG	AT0000A07N66	INDUSTRY BASKET
Raiffeisen Centrobank AG	AT0000A0E384	KB DISC 2900 CAP
Raiffeisen Centrobank AG	AT0000A0CY03	KB TL 1300
Raiffeisen Centrobank AG	AT0000A0D360	NWR TL 50
Raiffeisen Centrobank AG	AT0000A0E418	O2 DISC 550 CAP
Raiffeisen Centrobank AG	AT0000A0BMJ4	O2 TL 200
Raiffeisen Centrobank AG	AT0000A0BMK2	O2 TL 300
Raiffeisen Centrobank AG	AT0000A0DSJ7	PTX TL 600
Raiffeisen Centrobank AG	AT0000A0AN81	PX BONUS 114+
Raiffeisen Centrobank AG	AT0000A0AN73	PX BONUS 125 CAP
Raiffeisen Centrobank AG	AT0000A0BUV2	PX BONUS 127 CAP
Raiffeisen Centrobank AG	AT0000A0D3F4	PX TL 450
Raiffeisen Centrobank AG	AT0000A0BLZ2	PX TL 500
Raiffeisen Centrobank AG	AT0000A0DSQ2	PX TS 1300
Raiffeisen Centrobank AG	AT0000481221	RDX
Raiffeisen Centrobank AG	AT0000481403	ROTX INDEX LONG
Raiffeisen Centrobank AG	AT0000A0DSM1	ROTX TL 3700
Raiffeisen Centrobank AG	AT0000A04KP4	S-BOX DIMAX
Raiffeisen Centrobank AG	AT0000A00BF2	SETX INDEX LONG
Raiffeisen Centrobank AG	AT0000A0DSN9	SETX TL 850
Raiffeisen Centrobank AG	AT0000A0BML0	UNIPETROL TL 70
Raiffeisen Centrobank AG	AT0000A0BMM8	UNIPETROL TL 90

Annex 18

BOND PROGRAMMES APPROVED IN 2009

Issuer	Maximum size	Duration
Raiffeisenbank, a.s.	EUR 1 billion	30 years
Wüstenrot hypoteční banka, a.s.	CZK 30 billion	20 years
Letiště Praha, a.s.	CZK 15 billion	10 years

Annex 19

PUBLICLY OFFERED UNLISTED SHARES IN 2009

Issuer/Offeror	Face value	Size
Alibo Praha, a.s.	3,000 shares at CZK 1,791; 3,896 shares at CZK 846; 5,711 shares at CZK 540; 18,740 shares at CZK 252 and 9,518 shares at CZK 180	18,188,676
Dopla PAP, a.s.	CZK 1,000	52,227,000
QWER, a.s.	CZK 1	19,181,463
Logistické centrum, a.s.	1 share at CZK 962,800.56; 26,133 shares at CZK 262,80; 1,642 shares at CZK 250,20 and 46,855 shares at CZK 212,04	18,176,516
OLMA, a.s.	CZK 455	107,477,370
První opavská, a.s.	CZK 43	18,249,759

Annex 20

MANDATORY TAKEOVER BIDS IN 2009

Bidder	Target company	Decision
ČESKÝ OLEJ, a.s. + collaborators	SETUZA, a.s.	Approved

Annex 21

GROSS PREMIUMS WRITTEN BY CLASSES OF INSURANCE IN 2009

(total excluding the Czech Insurers' Bureau; CZK millions)

PART A		
CLASSES OF LIFE ASSURANCE		**Premiums written**
1. a)	Assurance on death only, assurance on survival only, assurance on survival or earlier death, joint life assurance, money back term assurance	24,330
1. b)	Annuity assurance	2,314
1. c)	Personal accident and sickness assurance (if supplementary to life assurance)	6,980
2.	Marriage assurance or insurance of benefits for child maintenance	2,241
3.	Assurance classes under 1.a), 1.b) and 2. which are linked to an investment fund	24,126
4.	Permanent health insurance not subject to cancellation in accordance with Article 2(1)(d) of Directive 2002/83/EC of the European Parliament and of the Council	0
5.	Tontines whereby associations of subscribers are set up with a view to jointly capitalising their contributions and subsequently distributing the assets thus accumulated among the survivors or among the beneficiaries of the deceased	0
6.	Capital redemption operations based on actuarial calculation	240
7.	Management of group pension funds	0
8.	Activities pursuant to Article 2(2)(e) of Directive 2002/83/EC of the European Parliament and of the Council	0
9.	Assurance relating to the length of human life	0

PART B		
CLASSES OF NON-LIFE INSURANCE		**Premiums written**
1.	Accident insurance	2,678
2.	Sickness insurance	1,948
3.	Insurance against damage to or loss of land vehicles other than railway rolling stock	16,713
4.	Insurance against damage to or loss of railway rolling stock	15
5.	Insurance against damage to or loss of aircraft	133
6.	Insurance against damage to or loss of vessels	15
7.	Insurance of goods in transit including luggage and other property irrespective of means of transport used	376
8.	Insurance against damage to or loss of property other than referred to in 3 through 7 above	11,941
9.	Insurance against damage to or loss of property other than referred to in 3 through 7 above due to hailstorm or frost, or any other event (such as robbery, theft or damage caused by forest animals) unless these are included in class 8, inclusive of insurance against damage to or loss of farm animals caused by infection or by other causes	7,906
10.	Liability insurance for damage arising out of use of land motor vehicle and its trailer, use of rail vehicle and the activity of the carrier	24,367
11.	Liability insurance for damage arising out of ownership or use of aircraft, including carrier's liability	82
12.	Liability insurance for damage arising out of ownership or use of inland or sea vessel, including carrier's liability	10
13.	General liability insurance for damage other than referred to in classes 10 through 12	11,642
14.	Credit insurance	2,297
15.	Suretyship insurance	187
16.	Insurance of miscellaneous financial losses	1,389
17.	Legal expenses insurance	284
18.	Assistance insurance to persons who get into difficulties while travelling or while away from their residence, including insurance of financial losses directly connected to the travelling (assistance services)	1,921

Annex 22

NUMBERS OF FOREIGN FINANCIAL UNDERTAKINGS PROVIDING CROSS-BORDER FINANCIAL SERVICES IN THE CZECH REPUBLIC UNDER THE FREEDOM TO PROVIDE SERVICES (WITHOUT ESTABLISHING A BRANCH)

(as of 31 December 2009)

	Total number					
Home country of head office of financial institution	**Banks1)**	**Insurance undertakings2)**	**Standard funds3)**	**Special funds4)**	**Investment firms5)**	**Management companies6)**
Austria	2	13	173	21	2	2
Belgium	-	2	-	-	1	-
Bulgaria	2	17	-	-	3	-
Cyprus	1	2	-	-	2	-
Denmark	4	6	-	-	2	-
Estonia	19	41	4	-	9	5
Finland	5	6	-	-	4	-
France	13	80	123	-	18	-
Germany	2	-	-	-	-	-
Gibraltar	9	23	-	-	1	-
Greece	2	-	-	-	16	-
Hungary	7	13	-	-	3	-
Iceland	1	4	-	-	-	-
Ireland	-	1	-	-	-	-
Italy	19	29	995	5	4	11
Latvia	9	10	2	-	3	2
Liechtenstein	5	11	-	-	2	-
Lithuania	41	48	5	-	11	5
Luxembourg	12	35	-	-	18	-
Malta	2	3	-	-	11	-
Netherlands	2	16	-	-	1	-
Norway	1	-	-	-	-	-
Poland	48	35	138	-	15	10
Portugal	-	4	-	-	1	-
Romania	1	1	-	-	1	-
Slovakia	2	10	13	1	10	3
Slovenia	-	5	-	-	1	-
Spain	3	16	-	-	-	-
Sweden	3	21	-	-	2	1
UK	61	162	-	-	883	2
Total	**276**	**614**	**1,453**	**27**	**1,024**	**41**

1) Foreign financial or credit institutions and branches of foreign financial or credit institutions providing cross-border services in the Czech Republic
2) Foreign insurance undertakings and branches of insurance undertakings providing cross-border services in the Czech Republic
3) Foreign standard funds offering securities to the public in the Czech Republic
4) Foreign special funds offering securities to the public in the Czech Republic
5) Foreign investment firms providing cross-border services in the Czech Republic (excluding banks)
6) Foreign management companies providing cross-border services in the Czech Republic

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