



FINANCIAL MARKET SUPERVISION REPORT

2011

FINANCIAL MARKET SUPERVISION
REPORT IN 2011

ISBN 978-80-87225-40-0

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The Czech National Bank has issued a Financial Market Supervision Report each year since 2006¹, when on the basis of an 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 2011 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 the CNB's international cooperation in the supervisory area. Part B describes developments in the individual segments of the financial market, i.e. credit institutions, insurance undertakings, pension funds 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 2011. Like the individual Financial Market Supervision Reports for 2006–2010, the Financial Market Supervision Report for 2011 will be published on the CNB website in Czech and English along with other information about the financial market.

The report was discussed and approved by the CNB Bank Board on 31 May 2012.

¹ The Financial Market Supervision Reports for 2006–2010 are published on the CNB website at www.cnb.cz/ – *Supervision – Aggregate Information on the Financial Sector – Financial Market Supervision Reports*.

In 2011, the CNB was involved in the implementation of the changing European system of financial regulation, helped to prepare new laws and drafted a series of decrees and explanatory and methodological opinions for the financial market regulation area. One major legislative change was an amendment of the Act on Banks, the Credit Unions Act and the Capital Market Undertakings Act transposing the amended capital requirements directive (CRD III). The Act on Retirement Savings and the Act on Supplementary Pension Savings, which are part of the planned pension reform, represent a fundamental legislative change in 2011. In the area of proposed regulatory rules at the EU level, the CNB was involved, among other things, in the discussion of the draft directive and regulation on capital requirements (CRD IV), the draft implementing measure for the Solvency II directive and the draft Omnibus II directive.

As regards cooperation with foreign regulators in supervisory colleges, the main attention in 2011 was paid to completing the Joint Risk Assessment and Decision Process, i.e. the assessment of the risk profiles of the individual members of a financial group and the issuing of a joint decision on the minimum capital that the group as a whole and its individual members should hold. The conclusions of the assessment of the risk profiles of domestic subsidiaries, including the minimum capital adequacy requirement for the supervised entity, were sent by the CNB to partner home supervisors, which took these requirements into account in preparing proposals for joint decisions on the capital of the individual groups. In supervisory colleges, increased attention was also paid to the impact of the euro area financial and debt crisis on the stability and financial position of parent bank groups and to the preparedness of supervised bank groups for the latest changes in European bank regulation.

An IMF mission took place in the Czech Republic at the end of 2011 as part of the Financial Sector Assessment Program (FSAP). The primary objective of the FSAP is to identify the financial sector's strengths and weaknesses, its systemic problems, and areas which need to be improved to safeguard its development and stability. The FSAP focused chiefly on the banking sector and on the compliance of financial regulation and supervision in the Czech Republic with fundamental international principles. According to an interim report, financial regulation and supervision in the Czech Republic have a solid basis and have achieved a high degree of compliance with internationally acknowledged standards for effective financial supervision.

The Czech financial market as a whole and its individual sectors were stable and achieved good financial results in 2011. The impacts of the crisis in international financial markets did not endanger the stability of the domestic financial market. The banking sector is sound and well capitalised. It continued to generate profit in 2011 and had enough liquid funds. The credit union sector recorded a further increase in business activities and member numbers. Investment firms increased their securities trading volumes in 2011. The sector has sufficient capital and clients' assets also recorded year-on-year growth. Collective investment funds open to the public saw a year-on-year decline in assets, whereas the assets of funds for qualified investors increased. Pension funds were characterised by stable financial results and growth in the value of assets as well as in the number of participants. 2011 was not as successful for the Czech insurance market as the previous year, but the sector recorded relatively good financial results despite the economic slowdown and a modest decline in premiums written.

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,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. The Committee does not deal with matters concerning specific financial market entities.

The composition of the Committee underwent some changes in 2011. Tomáš Síkora served as chairman. The members also included Petr Marsa and Luděk Niedermayer, who replaced Radek Urban (the chairman and two members are elected by the Budget Committee of the Chamber of Deputies from candidates proposed by financial market professional organisations).

The committee members also included the Financial Arbitrator of the Czech Republic – František Klufa and then Monika Nedelková in 2011 – and two representatives of the Ministry of Finance – Monika Nedelková (before she was appointed Financial Arbitrator), Dušan Hradil and Radek Urban (originally as a member elected by the Budget Committee of the Chamber of Deputies).

The CNB is represented by Vice-Governor Vladimír Tomšík.

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.

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 (www.cnb.cz) The Committee members can, at their discretion and responsibility, consult financial market professional associations on most of the documents under discussion.

The Committee met twice in 2011: on 11 April and 10 October. 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 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.

In 2011 the Committee dealt, among other things, with the assessment of the results of the Office of the Financial Arbitrator and subsequently with organisational changes connected with an amendment to the Financial Arbitrator Act (widening of competences, change of registered address, change in financing). It also discussed the objectives of the Office of Financial Arbitrator after its relocation from the CNB to the Ministry of Finance.

In 2011 the CNB's management again informed the FMC regularly about the current situation in the Czech financial market in the context of the recent financial crisis and about measures taken in the financial market supervision area. In this regard, the Committee also discussed the changes made in the structure of regulation and supervision of the European financial sector and their implications for the domestic financial market.

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.

Promotion of financial literacy and consumer protection are other significant topics addressed by the Committee on a regular basis. FMC members also acquainted themselves with the CNB's regular document on current procedures and methods in the area of enforcement policy on the financial market.

In 2011, FMC members also dealt several times with the preparation of an amendment to the Act on Insurance Intermediaries.

Opinion of the Financial Market Committee on the CNB's Financial Market Supervision Report for 2011

The Financial Market Committee has a statutory duty to discuss the CNB's Financial Market Supervision Report for the previous year. The Report is then 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.

Based on the results of the financial market for 2011, the Committee stated that the economy had recorded growth, although to a lesser extent than in the previous period. Economic growth had started to slow in 2011 Q2, mainly because of falling household and government consumption. Financial market tensions had begun to increase in mid-2011, and inflation had continued to rise. The economy had been strongly affected by the situation on the labour market, which had recorded an average registered unemployment rate of almost 9% after a decrease of 0.4 percentage point. Slowing average nominal wage growth had been accompanied by convergence of wage growth rates in the private and public sectors. Based on its assessment of economic developments, the CNB had left its key interest rates unchanged in 2011.

The Financial Market Committee, being aware that the final version of the Financial Market Supervision Report for 2011 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

Financial market supervision contributes significantly to the stability of the financial system. In 2011, the Czech National Bank conducted financial market supervision in challenging external and internal economic conditions. 2011 saw a major change in the institutional environment for financial market supervision in the EU, as the European System of Financial Supervision (ESFS) started up on 1 January 2011.³ The CNB was actively involved in developing cooperation between supervisory authorities in this system and sought support for its visions for financial market supervision among other members. In 2012, the CNB will continue to apply the approach that has proven successful in the recent difficult conditions.

The external economic conditions in most EU countries in 2011 were characterised by low economic growth, high unemployment rates and low nominal interest rates of the euro and other major world currencies. The debt crisis in the euro area continued, escalating in the second half of 2011 in combination with a crisis of confidence on the euro area interbank market. Compared to some EU countries, the trends in the Czech economy were favourable, as the unemployment rate was falling slightly and the economy was growing, although the rate of growth slowed during 2011. Nominal koruna interest rates were at all-time lows. Close links between the lending and other activities of financial institutions and the domestic economy, together with the latter's link to the euro area market, exerted pressure for efficiency and high-quality risk management. The domestic financial system, and particularly the banking sector (which forms the basis of that system), remained stable and the financial market operated smoothly and soundly.

Microprudential supervision and market conduct supervision performed by the CNB also contributed to the stability of the financial sector. The supervisory work was governed by the principle of capacity allocation based on the supervised entities' risk profiles and consistent rectification of shortcomings detected. Consumer protection on the financial market is an important element of financial market supervision. In 2011, the CNB helped to defend the legitimate interests of many clients of financial institutions and to improve financial literacy.

The task of the new institutional framework for European financial supervision in the microprudential supervision area is to create uniform standards and recommendations for financial market supervision for all Member States so that they consistently apply the EU's rules for financial regulation. Besides indisputable positive effects in the form of a strengthened institutional basis of supervisory colleges as platforms for cooperation and information sharing, the new supervisory framework also generated negative aspects related to ambitious plans to overburden EU financial markets with excessive new regulatory rules and tendencies towards shifting the powers of national supervisors of EU Member States responsible for the situation on their financial markets to EU level. The CNB therefore strived to further strengthen its relationships with partner authorities with the aim of gradually enforcing the principle of optimal regulation of EU financial markets and achieving balance between the powers of the Member States' supervisory authorities at the national level and their responsibilities for the stability of financial systems. The recent financial crisis has shown that balanced regulation and appropriate and consistent conduct of supervision are important – but not the only – factors that foster financial stability in the EU as a whole. Such stability must be based on sound financial systems of the individual Member States.

³ The European System of Financial Supervision (see section 5 *International cooperation* for details) comprises the European Systemic Risk Board as macroprudential supervisor, European supervisory authorities for the banking, insurance and occupational pensions sectors and for securities and markets, the Joint Committee of the European supervisory authorities, and the supervisory authorities of all 27 EU Member States for microprudential supervision, market conduct supervision and consumer protection.

PART A
FINANCIAL MARKET SUPERVISION IN 2011

1. LEGISLATIVE CHANGES IN THE FINANCIAL MARKET SUPERVISION AREA IN 2011

1.1 ASSESSMENT OF THE SITUATION IN FINANCIAL MARKET REGULATION

In 2011, the CNB contributed to the implementation of the EU's rapidly changing regulations in the financial market area and to changes in the regulatory framework in the Czech Republic. The CNB's activities included working mainly with the Czech Ministry of Finance (MF) and also with other state administration bodies on the preparation of new laws. The CNB prepared a number of decrees and explanatory and methodological opinions interpreting the application of regulatory requirements pertaining to financial market participants.

1.2 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. This cooperation is based on an 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 2006.⁴

Several laws regulating the business activities of financial institutions and other entities subject to regulation and supervision were prepared in 2011 with the active involvement of the CNB.

Amendments to the Act on Banks, the Credit Unions Act and the Capital Market Undertakings Act

Amendments to the Act on Banks, the Credit Unions Act and the Capital Market Undertakings Act transposing the amended capital requirements directives (directives 2006/48/EC and 2006/49/EC, known as CRD III) and defining new powers of the CNB, for example determination of the significance of branches, remedial measures to ensure a sufficient amount and appropriate structure of capital, and activities of supervisory colleges, were promulgated in the Collection of Laws on 28 February 2011.

Amendment to the Payment System Act

The Czech Republic transposed into Czech law Directive 2009/110/EC on the taking up, pursuit and prudential supervision of the business of electronic money institutions and the relevant part of the amendment to the settlement finality directive by amending the Payment System Act. The amended act has improved the conditions for the business of electronic money institutions, simplified small-scale electronic money issuance, created a level playing field for all market participants and regulated the protection of interconnected payment systems. The amendment was promulgated in the Collection of Laws on 27 May 2011.

Amendment to the Act on Collective Investment

This amendment transposes Directive 2009/65/EC (UCITS IV) and contains provisions simplifying the cross-border activities of management companies (by allowing a management company to establish standard funds in a state other than the one in which its registered office is situated) and streamlining asset management by maximising the volume of portfolios managed (cross-border mergers, asset pooling, master-feeder structure). The amendment was promulgated in the Collection of Laws on 9 June 2011.

Amendment to the Capital Market Undertakings Act

This amendment to the Capital Market Undertakings Act includes the transposition of an amendment to Directive 2003/71/EC on the prospectus to be published when securities are offered to the public. The revisions include changes in definitions in the regulation of public offers, a reduction in the regulatory burden for offers of securities to

⁴ See www.cnb.cz/cs/legislativa/postaveni_cnb/download/dohoda_CNB_MF

a limited group of persons and for offers of limited value, unification of the procedure of an investor when publishing a supplement to a prospectus and the removal of the issuer's duty to publish a summary of the data published over the preceding 12 months. The amendment was promulgated in the Collection of Laws on 9 June 2011.

Act on Retirement Savings and Act on Supplementary Pension Savings

The Act on Retirement Savings and the Act on Supplementary Pension Savings are part of the pension reform and regulate the transformation of the existing pension funds and the establishment of new pension management companies and lay down conditions for participation in retirement and participation funds and rules for the operation of retirement and participation funds. The acts were promulgated in the Collection of Laws on 28 December 2011.

1.3 CNB DECREES AND PROVISIONS

The CNB is entitled to issue implementing legal rules in the form of decrees and provisions on the basis of authorisations specified in individual laws.

1.3.1 Decrees and provisions issued

In 2011, the CNB completed legislative work on decrees relating chiefly to new laws in the financial market area. These were usually issued on the day the laws took effect or immediately thereafter. The CNB issued the following decrees and provisions in 2011:

- Decree No. 89/2011 Coll., amending Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms. This amendment lays down rules for risk transfer (limits on investment in securitisations) and the scope of application of the rules for investment firms' exposures.
- Decree No. 141/2011 Coll., on the pursuit of business of payment institutions, electronic money institutions, small-scale payment service providers and small-scale electronic money issuers. This decree governs applications and notifications on entering the sector, the acquisition of qualifying holdings and capital adequacy rules.
- Decree No. 142/2011 Coll., on reporting by payment institutions, electronic money institutions, small-scale payment service providers and small-scale electronic money issuers to the Czech National Bank.
- Decree No. 191/2011 Coll., amending Decree No. 234/2009 Coll., on protection against market abuse and transparency. This amendment governs the recognition of equivalence of the law of issuers from third countries for the purposes of compliance with information duties.
- Decree No. 192/2011 Coll., amending Decree No. 233/2009 Coll., on applications and application forms. The amendment governs applications in the collective investment area.
- Decree No. 193/2011 Coll., on the minimum requisites of the statute of a collective investment fund, containing the transposition of relevant provisions of the UCITS IV directive and the adaptation of the EC regulation on the disclosure of key information to investors.
- Decree No. 194/2011 Coll., on more detailed regulation of certain rules in collective investment, comprising prudential rules, rules for effective management of assets and rules of conduct and information disclosure.
- Decree No. 195/2011 Coll., amending Decree No. 115/2007 Coll., on the details of compliance with the duties of a depository. This amendment lays down the requisites of depository agreements of a standard fund.

1. LEGISLATIVE CHANGES IN THE FINANCIAL MARKET SUPERVISION AREA IN 2011

- Provision No. 1 of 18 November 2011 amending Provision No. 1 of 19 October 2010, on reporting by credit unions to the Czech National Bank.
- CNB Provision No. 2 of 18 November 2011, stipulating the submitting of statements by banks and foreign bank branches to the CNB.

1.4 OFFICIAL INFORMATION

The CNB issues official information documents containing important facts for financial market participants regarding the implementation of legal rules. In 2011, the CNB issued the following official information documents:

- Official information of 29 March 2011 regarding the prudential rules for banks, credit unions and investment firms – Exposures of an investment firm – Exposures to institutions.
- Official information of 5 April 2011 regarding the prudential rules for banks, credit unions and investment firms – Rules for the transfer of risk in the trading of securitised exposures.
- Official information of 19 April 2011 regarding registration of representations of foreign banks and financial institutions carrying on banking activities
- Official information of 21 April 2011 regarding the prudential rules for banks, credit unions and investment firms – Disclosure of information.
- Official Information of 13 July 2011 determining the languages in which documents may be published and submitted to the Czech National Bank for the purposes of certain provisions of Act No. 189/2004 Coll., on collective investment, as amended by Act No. 188/2011 Coll.
- Official information of 28 July 2011 on the list of minimum records to be kept by liable entities pursuant to the Capital Market Undertakings Act.
- Official Information of 17 October 2011 regarding the rules of proceedings in recognising the comparability of duties of an issuer from a third state.
- Official Information of 16 December 2011 regarding the conditions for admissibility of incentives in providing investment services and in collective investment.
- Official Information of 19 December 2011 on certain requirements relating to transformation of pension funds.
- Official information of 27 December 2011 regarding the evaluation of an auditor in a bank, credit union, insurance and reinsurance company by the Czech National Bank

The CNB provided market participants and the public with information in the form of opinions and replies to queries, which it published on its website. A number of explanatory opinions regarding financial market regulation were published in this way in 2011.

A complete and up-to-date list of the CNB's decrees, provisions, official information and opinions relating to the financial market can be found in the Supervision – Legislation section of the CNB website.

1.5 REGULATORY CHANGES UNDER PREPARATION⁵

1.5.1 Draft laws

Intensive preparations for a number of other regulatory changes took place in 2011, mostly in order to implement EU regulations. These regulations are planned to be submitted to the Czech Parliament in 2012. The CNB's major priorities in this area are measures to prevent systemic risk, inter-sector harmonisation, and the removal of unwarranted differences in the regulation of financial institutions.

Amendment to the Insurance Act

The CNB was involved in the preparation of the transposition of Directive 2009/138/EC (Solvency II) into the Insurance Act. The CNB prepared and discussed with the Ministry of Finance some comments on the draft law, most of which were accepted by the Ministry. The main comments included authorising provisions for the issuance of a decree connected with the essential elements of applications for the granting or changing of authorisations to carry on insurance activities and applications for consent to acquire or increase a qualifying holding, and revisions of the text connected with the publication of annual reports (the obligation of insurance companies to submit an annual report no later than four months following the end of the accounting period).

Amendment to the Act on Banks and the Credit Unions Act

The CNB worked with the Ministry of Finance to prepare an amendment containing a tightening of the business regime for third-country bank branches in the Czech Republic, authorisation for the CNB to stipulate details of individual prudential rules for such branches, and some technical adjustments concerning credit unions (e.g. the obligation to decide on the coverage of the loss of a credit union when approving each financial statement; the execution of just one disadvantageous trade, rather than the repeated execution of such trades, will constitute a shortcoming in activities). In addition to the CNB's proposals, the draft contains a right to breach banking secrecy by the BIS. The amendment was approved by the Czech Government and started to be debated in the Chamber of Deputies in December 2011.

New Collective Investment Act

The CNB drew up an opinion on a Ministry of Finance consultative paper regarding the implementation of Directive 2011/61 on alternative investment fund managers (AIFMD). Comments were made regarding the proposed group of persons to which the new regime should apply, the possibility of limiting the investment strategies of funds for qualified investors and the extension of the group of persons authorised to act as depositories.

The CNB subsequently prepared an opinion on another Ministry of Finance consultative paper regarding the new Collective Investment Act. The opinion supported timely transposition of the AIFMD and an extension of the possibilities in the collective investment area along the lines of fund centres. The CNB advocated a balance between the development of the sector and the regulatory and supervisory burden on the CNB and funds themselves (with the aim of substantially reducing the oversight of non-public funds).

Amendment to the Act on Insurance Intermediaries

This amendment was submitted to the Czech Government. The Government's Legislative Council advised against adopting the amendment in the proposed form, postponed its debate and tasked the CNB with incorporating the council members' comments. The CNB discussed how the comments should be incorporated with the Ministry of Finance in November and December 2011. The main objection was that – in view of the postponement of the Act – it would not be possible for technical reasons to switch over to the system of tied agents in the near future (because of concurrence with the basic registers project). The CNB recommended waiting for clarification of the changes at the EU level (the IMD2 and PRIIPS directives) or, if the Ministry of Finance insists on implementing the amendment, to at least postpone the part regarding tied agents to 2014.

⁵ See section 2 *European regulation* for details on planned changes to the regulations relating to EC proposals (in the areas of capital requirements, Solvency II, markets in financial instruments, crisis management, etc.).

1. LEGISLATIVE CHANGES IN THE FINANCIAL MARKET SUPERVISION AREA IN 2011

Amendment to the Act on Bonds

The CNB worked with the Ministry of Finance to prepare an amendment to the Act on Bonds, which was approved by the Czech Government and submitted to the Chamber of Deputies in November 2011. The amendment liberalises the bond issuance regime. The CNB will have the same powers in relation to bonds as it currently has with regard to shares, i.e. it will supervise offers of bonds to the public, but not the issuance conditions and other obligations of issuers; they will be for creditors to assess.

Amendment to the Foreign Exchange Act

The CNB sent to the Ministry of Finance a suggestion regarding the Foreign Exchange Act which would tighten the rules of conduct towards clients for bureaux de change and limit some negative phenomena in their business (e.g. the provision of insufficient or misleading information to clients in bureau-de-change transactions) that are encountered mainly by foreigners. The MF generally agreed with the proposal to regulate the rules for bureaux de change in the form of a separate act on bureau-de-change activity. The debate on the new draft law will continue in 2012.

1.5.2 Draft decrees

In connection with the planned amendment of laws, legislative work commenced in 2011 on decrees which are expected to be completed in 2012. These include:

- A decree amending 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.
- A decree amending Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms.
- A decree on the minimum requisites of the statute of a participation fund and a retirement fund.
- A decree on more detailed regulation of the activities of a pension management company, a retirement fund and a participation fund.
- A decree on professional qualifications for distribution on the financial market.
- A decree on the activities of a depository of a retirement fund and a participation fund.
- A decree on the remuneration for conservators, liquidators and insolvency trustees of some service providers on the capital market and on the reimbursement of their cash expenditures.

2. EU REGULATIONS IN 2011

Intensive work continued in 2011 at the level of the European Commission, the Council and the European Parliament on new and amended European financial market regulations with the aim of eliminating the causes of the global economic crisis and maintaining the growth and competitiveness of the EU. The CNB paid special attention to the European Commission's proposals and prepared relevant opinions on an ongoing basis. CNB representatives in EU committees and working groups actively promoted the CNB's positions.

2.1 DIRECTIVES AND REGULATIONS ON CAPITAL REQUIREMENTS

In the second half of 2011, a Council working group opened discussions on a draft directive and regulation on capital requirements (CRD IV). The Member States' comments concerned maximum/minimum CRD IV harmonisation, liquidity regulation, leverage ratios, the definition of capital, penalties, credit risk and counterparty risk, governance, countercyclical buffers, selected aspects of Pillar 2, home/host issues, the scope of delegated acts for the European Commission, the scope of the requirements to be further regulated by binding technical standards and whether the deadlines for preparing such standards are realistic. The CNB prepared comments on an ongoing basis and discussed them with the Ministry of Finance in order to present a single position (e.g. in the area of proportionality of governance requirements, sanctions against natural persons and unification of reporting formats).

Implementing measure for the Solvency II directive

On 1 November 2011, the European Commission distributed to the Member States a consolidated version of the draft implementing measure for the Solvency II directive. The CNB analysed the draft and prepared a general opinion that included comments provided by the Ministry of Finance, which participates in the meetings of the relevant working group. These comments related, for example, to the unclear definition of the limits of contracts for the calculation of technical provisions and disagreement with the introduction of surcharges for the basic risk-free yield curve. After the Omnibus II directive is published in November 2012, the European Commission will officially present the draft implementing regulation (Level 2). It is expected to be approved in spring 2013.

Omnibus II directive

The draft Omnibus II directive amends the Solvency II directive following the establishment of EIOPA and defines the areas in which EIOPA is authorised to submit proposals for binding technical standards to the European Commission. In the discussion of the draft, the CNB prepared comments on the Finance Ministry's instructions. In 2011, agreement was achieved on the general approach of the Council (a compromise between the Member States), which was endorsed by ECOFIN.

Crisis management regulation

The CNB prepared comments for the meetings of EU committees and working groups emphasising the need for due representation of host countries in crisis management coordination authorities and the need to avoid having too many coordination authorities and disagreeing with the introduction of binding EBA mediation between supervisors of parent institutions and supervisors of subsidiaries on crisis management issues.

A CNB representative also attended the meetings of the EBA Subgroup on Intervention, Resolution and Deposit Guarantee Schemes. As the Commission is to publish the legislative proposal of the EU legal framework for crisis management in the financial sector in 2012, the working group began preliminary work on the technical standard for the content of recovery and restructuring plans.

Mortgage loan directive

The CNB prepared comments on a draft directive on mortgage loan provision and mediation, mainly from the point of view of consumer protection. The text of the directive is still controversial from the CNB's perspective. Following pressure from the Member States, most of the proposed delegated powers of the Commission and the EBA have been eliminated (only the authorisation to issue an implementing regulation for the calculation of the APRC and the amount of insurance liability of intermediaries remain). However, the proposal still includes controversial provisions regarding, for example, the applicability of the directive to all loans for financing all types of property, not only those for house purchase, the EBA's decision-making powers in disputes between supervisors, and breach of banking secrecy.

2.2 DIRECTIVE AND REGULATION ON MARKETS IN FINANCIAL INSTRUMENTS

On 20 October 2011, the Commission published a proposal for a new directive on markets in financial instruments (MiFID II) and a regulation on markets in financial instruments (MiFIR). These statutes are meant to replace the existing Directive 2004/39/EC on markets in financial instruments. The CNB prepared an opinion on the two documents, which was discussed by the Bank Board. The CNB has a number of reservations about the proposed new regulation, mainly regarding the strengthening of the ESMA's powers, the limits on derivatives trading positions, the tightening of the rules for trades executed outside trading venues, unjustified interventions in corporate governance, the setting of pre-trade transparency for all instruments, and the stipulation of detailed rules for imposing sanctions. The opinion was used in the elaboration of the general position of the Czech Republic for the Parliament and the Ministry of Finance's instructions at the meetings of the Council working group.

2.3 REGULATION AND DIRECTIVE ON INSIDER TRADING AND MARKET MANIPULATION

The draft regulation and directive on insider trading and market manipulation (MAR) and the related directive on criminal sanctions for market abuse were published by the European Commission on 20 October 2011. The CNB prepared an opinion on the two documents, which was discussed by the Bank Board. The opinion was used in the elaboration of the general position of the Czech Republic for the Parliament and the Ministry of Finance's instruction at the meetings of the Council working group. The CNB's reservations mainly concerned the change of the directive into a regulation, the broad powers of the European Commission to issue delegated acts, the inclusion of spot commodity contracts and emission allowances in the scope of the regulation, the special regulations for small and medium-sized enterprises and the harmonisation of sanctions at the EU level.

2.4 REVISION OF THE TRANSPARENCY DIRECTIVE

On 26 October 2011, the European Commission published a draft transparency directive governing public disclosure of information by issuers whose securities are admitted to trading on a regulated market. The CNB prepared comments on the draft general position of the Czech Republic for the Parliament and on the Ministry of Finance's instructions at the meetings of the Council working group. The CNB advocated relaxing unnecessarily restrictive rules (e.g. the need to publish quarterly reports) and tightening up the existing definitions (e.g. notification of voting rights). It also expressed reservations about the granting of broad powers to the European Commission to issue delegated acts, objected to the harmonisation of sanctions at the EU level and called for a wider discussion of the interoperability of national mechanisms for the storage of regulated information.

3. FINANCIAL MARKET SUPERVISION IN 2011

3.1 LICENSING, APPROVAL AND AUTHORISATION ACTIVITIES

Credit institutions

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

	As of 31 Dec. 2010	Entries	Exits	As of 31 Dec. 2011
Banks	22 (of which 5 building societies)	1	0	23 (of which 5 building societies)
Foreign bank branches (under the single licence)	19	2	0	21
Credit unions	14	0	0	14
Credit institutions, total	55	3	0	58

In 2011, a banking licence was granted to Air Bank a.s., and the following branches were established: Bank Gutmann Aktiengesellschaft, pobočka Česká republika and Volksbank Löbau-Zittau eG, pobočka. The Royal Bank of Scotland plc announced its intention to provide services in the Czech Republic through an organisational unit, but it has not yet been incorporated and is therefore not included among the entries of foreign bank branches.

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

Continuing from 2010	Opened	Completed	As of 31 Dec. 2011
8	47	46	9

Of the 55 administrative proceedings conducted by the CNB in the credit institution sector, 12 related to banks and 43 to credit unions. A total of 46 administrative decisions were issued in 2011. The important decisions included the granting of a banking licence to Air Bank a.s., an extension of the banking licence of Volksbank CZ, a. s. to include provision of investment services for derivatives and money market instruments, and an extension of the banking licence of Česká exportní banka, a. s. to include trading in foreign currency on a client's account.

The application of AnaCap to take over Banco Popolare Česká republika, a. s. (Equa bank, a.s. since 27 June 2011) and that of Otevřená akciová společnost Sberbank to take over Volksbank CZ, a.s. were among the major proceedings concerning qualifying holdings.

A total of 12 proceedings concerned prior consents to the acquisition of qualifying holdings.

In all, 27 proceedings relating to the approval of members of bodies and senior officers of credit unions were conducted.

The collective investment and pension fund sectors

A total of 278 administrative proceedings were conducted (and 203 decisions made) in the collective investment area in 2011. Licences were granted to three new management companies and 14 non-autonomous investment funds. Five management companies terminated their activities (one penalty licence revocation, three revocations upon request and one expiration due to a merger).

ČSOB Investiční společnost, a.s., and J&T ASSET MANAGEMENT INVESTIČNÍ SPOLEČNOST, a.s., were granted authorisation to extend their activities to include the provision of investment services.

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

	As of 31 Dec. 2010	Entries	Exits	As of 31 Dec. 2011
Management companies	23	3	5	21
Investment funds	49 ⁱ⁾	14 ⁱⁱ⁾	3	60 ⁱⁱ⁾
Open-end mutual funds	149	17	10	156
of which: standard funds	37	0	0	37
Closed-end mutual funds	1	0	0	1
Pension funds	10	0	1	9
Depositories	8	0	0	8

i) Safety Real uzavřený investiční fond, a.s., and Conseq čtvrtý, uzavřený investiční fond, a. s. were not entered in the Commercial Register as of 31 December 2010.

ii) FMP uzavřený investiční fond, a.s., and Patronus devátý, uzavřený investiční fond, a. s., were not entered in the Commercial Register as of 31 December 2011.

The CNB conducted three administrative proceedings concerning prior consents to the acquisition of a qualifying holding in a management company. Based on consents granted, KBC Participation Renta, S.A., and KBC Asset Management, N.V., became parent undertakings of ČSOB Investiční společnost, a.s. and J&T Banka, a.s., became the 100% shareholder of J&T ASSET MANAGEMENT INVESTIČNÍ SPOLEČNOST, a.s.

There were 86 proceedings regarding the approval of changes in the statutes of collective investment funds. A total of 33 administrative proceedings were conducted concerning prior consents to the discharge of office of director of a management company or an investment fund.

Authorisations were also granted to establish 17 mutual funds. Three authorisations to establish a mutual fund were revoked at the request of a management company. Five decisions were taken on changes in a depository of a collective investment fund and two consents were granted to the transfer of management of mutual funds.

The important administrative proceedings in this sector included two proceedings regarding authorisation of a conversion of a management company, i.e. the merger of management company ČSOB Investiční společnost, a.s. with investment firm ČSOB Asset Management, a.s. and the merger of management company J&T ASSET MANAGEMENT INVESTIČNÍ SPOLEČNOST, a.s. with management company J&T INVESTIČNÍ SPOLEČNOST, a.s. In both cases, the former company became the successor company and both mergers took place within a financial group.

In 18 administrative proceedings the CNB granted permission to merge special funds for qualified investors with an unregulated entity.

In 2011, the CNB held three administrative proceedings concerning authorisation to offer the securities of a foreign special fund to the public in the Czech Republic (two authorisations were granted and one proceeding was discontinued due to withdrawal of the application).

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

	Continuing from 2010	Opened in 2011	Completed in 2011	Continuing into 2012
Collective investment	34	244	203	75
Private pension insurance	0	37	35	2
Total	34	281	238	77

Of the 37 applications for the opening of administrative proceedings received from the private pension sector, prior consent was granted to the election of a person to a pension fund body in 34 cases, one case concerned a merger within the ČSOB group (ČSOB Penzijní fond Progres, a.s. with ČSOB Penzijní fond Stabilita, a.s. as the successor company) and no decision had been issued as of the end of 2011 in two cases.

Investment services provider sector

At the start of 2011, the CNB registered 37 entities holding investment firm licences. Four investment firm licences expired in 2011, two owing to a change in the objects of business (CAPITAL PARTNERS a.s., and KEY INVESTMENTS a.s.), while one company went into liquidation (Merx a.s.) and one was dissolved due to a merger (ČSOB Asset Management, a.s.). New investment firm licences were granted in 2011 to the investment firm HighSky Brokers, a. s. and to the company 42 financial services s. r. o. The CNB registered 35 investment firms as of the end of 2011.

Table A.V – Numbers of investment firms

	As of 31 Dec. 2010	Entries	Exits	As of 31 Dec. 2011
Non-bank investment firms	25	2	4	23
Bank investment firms	12	0	0	12
Total	37	2	4	35

The largest number of administrative proceedings (229) related to the withdrawal of registration of investment intermediaries (214 decisions were issued and 15 proceedings were discontinued).

Of the remaining 29 proceedings, six concerned investment firm licences (two new licences, two licence extensions and two licence narrowings), ten concerned prior consent to the discharge of office of director of an investment firm (seven consents, three proceedings discontinued), ten were connected with prior consent to the acquisition of qualifying holdings in investment firms (three consents, one proceeding discontinued and six terminated due to a merger into a joint proceeding), two were connected with the annulment of registration of further business of an investment firm (two consents) and one was connected with a merger of an investment firm.

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

Continuing from 2010	Opened in 2011	Completed in 2011	Continuing into 2012
11	256	258	9

The CNB closed 258 administrative proceedings in the area of investment services provision in 2011.

Payment service providers and electronic money issuers

On 1 November 2009, Act No. 284/2009 Coll., the Payment System Act, took effect and foreign exchange licences were abolished. Activities carried on before 1 November 2009 on the basis of a foreign exchange licence for non-cash foreign currency transactions or for provision of financial services are now included in payment services under the Payment System Act. The CNB no longer issues foreign exchange licences. The transition period within which entities with foreign exchange licences could operate on the basis of their existing licences ended on 30 April 2011 and all authorisations based on foreign exchange licences became null and void. The CNB issued 12 licences for the pursuit of business of a payment institution before the end of the transition period.

Table A.VII – Numbers of payment institutions and electronic money institutions

	As of 31 Dec. 2010	Entries	Exits	As of 31 Dec. 2011
Payment institutions	0	12	0	12
Electronic money institutions	0	0	0	0

Table A.VIII – Numbers of administrative proceedings in the sector of payment institutions and electronic money institutions

	Continuing from 2010	Opened in 2011	Completed in 2011	Continuing into 2012
Payment institutions	13	10	19	4
Electronic money institutions	0	2	0	2

A total of 19 administrative proceedings on licences for the pursuit of business of a payment institution were closed in 2011 (12 licences were granted and seven were discontinued).

Two administrative proceedings on the granting of an electronic money institution licence were opened in 2011; both continued into 2012.

The insurance sector

A total of 35 domestic insurance companies (excluding the Czech Insurers' Bureau) and one reinsurance company were subject to supervision by the CNB as of the end of 2011. A total of 18 branches of insurance companies were subject to supervision by the CNB to a limited extent.

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

	As of 31 Dec. 2010	Entries	Exits	As of 31 Dec. 2011
Insurance companies (including branches and reinsurers)	53	1	0	54
of which:				
domestic insurance undertakings (excluding the CIB)	35	0	0	35
branches of insurance companies from the EU/EEA	17	1	0	18
branches of insurance companies from third countries	0	0	0	0
reinsurance companies	1	0	0	1

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

Continuing from 2010	Opened in 2011	Completed in 2011	Continuing into 2012
5	75	67	13

The CNB conducted 80 administrative proceedings and issued 67 administrative decisions in the insurance sector in 2011.

Some financial groups decided to optimise their structure and regroup their ownership interests in domestic insurance companies. ING Insurance Eurasia N. V. and ING Insurance Topholding N. V. were granted consent to take control of ING pojišťovna, a.s., and Triglav INT, holdinška družba, d. d. was granted consent to take control of Triglav pojišťovna, a.s. Consent was also granted to a merger of the domestic insurer Euler Hermes Čescob, úvěrová pojišťovna, a.s., with the Belgian insurer Euler Hermes Credit Insurance Belgium S.A., to which the insurance portfolio of the former was transferred. The Euler Hermes group will now operate in the Czech Republic via a branch of the above Belgian insurance company. AXA pojišťovna a.s. was granted prior consent to a reduction of equity capital.

In 2011, the CNB issued 58 decisions granting prior consent to membership of a statutory or supervisory body of an insurance or reinsurance company.

Seven administrative proceedings were held regarding registration in the register of responsible actuaries maintained by the CNB. In all, 64 entities were entered in the above register as of the end of 2011.

Securities issues and regulated markets

At the start of 2011, a total of 65 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 (two outside the EU). The number of issuers of listed securities decreased to 64 in 2011. Securities of five issuers (bonds in four cases, shares in one case) were newly admitted to trading on a regulated market. Securities of six issuers were excluded (four cases involved bonds and were linked with their maturity, one case involved shares and one case involved investment certificates). In 2011, regularly published reports (annual, semi-annual and mid-term reports) were subject to formal and content inspections. Compliance with the duties of issuers of listed securities and related persons was supervised at the same time. The annual reports of six selected companies were subject to detailed checks as regards correct application of IFRS in annual accounts.

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

	As of 31 Dec. 2010	Entries	Exits	As of 31 Dec. 2011
Issuers of listed securities	65	5	6	64
of which: foreign	18	1	1	18
Regulated market operators	3	0	0	3
Settlement systems	3	0	0	3
Central depository	1	0	0	1

The number of licensed regulated market operators (RM-S, PSE and Power Exchange Central Europe, a.s.) and 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) remained unchanged from the previous year. The activity of central depository (including the keeping of the securities register previously maintained by the Czech Securities Centre) was performed by the Central Securities Depository Prague (CSDP).

The CNB conducted 134 administrative proceedings in the area of securities issues, securities registers and regulated markets in 2011. Most of the decisions (126) concerned the approval of documents relating to new securities issues.

In the takeover bids area, the CNB reviewed three obligatory public share-purchase contract offers. In no case did the CNB issue within the statutory time limit a decision prohibiting the making of a public contract offer. After this time limit expired, the relevant companies were therefore authorised to make a public share-purchase contract offer. Consents are not issued in such cases.

With regard to market infrastructure the CNB issued two licensing decisions in 2011, granting two requests by the CSDP for the approval of changes in the settlement system rules and one certificate of registration for further business of the PSE. One administrative proceeding concerning the approval of changes to the rules of operation of the CSDP was discontinued due to withdrawal of the application.

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

Continuing from 2010	Opened in 2011	Completed in 2011	Continuing into 2012
2	132	133	1

3.2 NOTIFICATIONS (under the single licence)

Table A.XIII – Numbers of cross-border service provision notifications

	As of 31 Dec. 2010	Entries in 2011	Exits in 2011	As of 31 Dec. 2011
Credit institutions ⁱ⁾	284	25	7	302
Electronic money institutions ⁱ⁾	11	2	0	13
Insurance companies ⁱⁱ⁾	658 (of which 166 branches)	48 (of which 3 branches)	10 (of which 1 branch)	696 (of which 168 branches)
Funds	1,347	159	267	1,239
Management companies	48	4	6	46
Investment service providers	1,226	217	54	1,389
Payment institutions	42	57	0	99

i) Based on the transposition of Directive 2009/110/EC of the European Parliament and of the Council, or on Act No. 139/2011 Coll., amending the Payment Systems Act and some other acts, there was a change in the business conditions for electronic money institutions, which were removed from the category of credit institutions. For this reason, notifications of electronic money institutions are now reported separately.

ii) Both insurance companies and insurance company branches operating in other EU/EEA countries are notified in this manner.

Three domestic insurance companies (Koooperative pojišťovna, a. s., Vienna Insurance Group, KUPEG úvěrová pojišťovna, a. s. and Euler Hermes Čescob, úvěrová pojišťovna, a. s.) provided notification of their intention to expand insurance activities within the territory of host Member States. At the same time, one domestic bank (Česká spořitelna, a. s.) provided notification of its intention to carry on business within the territory of other host countries under the free movement of services. J&T banka was granted consent to establish a branch in Slovakia. Four domestic banks have branches in Slovakia and four domestic credit unions operate in Slovakia, Poland, Hungary and Cyprus.

In 2011, two banks (Volksbank Löbau-Zittau eG, pobočka and Bank Gutmann Aktiengesellschaft, pobočka Česká republika), one insurance company (Euler Hermes Credit Insurance Belgium S.A.(N.V.), organizační složka) and two non-bank investment firms (Catus AG Vermögensverwaltung and First International Traders Dom Maklerski S. A.) provided notification of the provision of services in the Czech Republic in the form of establishment.

The CNB received 146 prospectus notifications from foreign regulators.

The CNB also received notifications of the intention to carry on business in the Czech Republic from 814 insurance intermediaries having a home Member State other than the Czech Republic (459 of them from Slovakia). At the same time, 301 insurance intermediaries residing or having their registered office in the Czech Republic notified the CNB of their intention to commence business in host Member States.

3.3 REGISTRATIONS OF REPRESENTATIONS OF BANKS AND FINANCIAL INSTITUTIONS

Table A.XIV – Numbers of registered and listed entities

	As of 31 Dec. 2010	Entries	Exits	As of 31 Dec. 2011
Registered representations of foreign banks ⁱ⁾	24	1	6	19
Investment intermediaries	9,052	1,271	251	10,072
Tied agents	11,244	6,575	3,090	14,729
Small-scale payment service providers	22	28	0	50
Small-scale electronic money issuers	54	2	39 ⁱⁱ⁾	17 ⁱⁱ⁾

i) Registration of a representation of a foreign bank in accordance with Article 39 of Act No. 6/1993 Coll., on the CNB, does not entitle it to carry on business in the Czech banking sector, but only entitles it to intermediate and promote the services of its head office in the Czech Republic.

ii) 40 decisions to cancel entries in the register had been issued as of 31 December 2011, but only 39 of them had become final and effective as of this date.

An amendment to the Payment Systems Act took effect on 27 May 2011. This amendment transposed the relevant European legislation and, among other things, largely liberalised electronic money issuance. The purpose of this liberalisation was to exempt from regulation the issuance of electronic money for payments in “limited networks”; in the case of the Czech Republic this mainly concerns regional carriers. Most of the registered entities (carriers in particular) requested withdrawal of the previous registration. In addition to some carriers, the CNB’s register still contains companies offering electronic money for internet payments, one company intermediating micro-payments for third-party services using a mobile application, one company issuing a city card and one university. Two operators of pre-paid micro-payment systems were entered in the register in the second half of 2011.

In 2011, a total of 23,606 intermediaries were entered in the register of insurance intermediaries and independent loss adjusters, 106 of which were insurance agents and 50 insurance brokers. At the end of 2011, a total of 149,729 insurance intermediaries were entered in the register, 9,184 of them foreign.

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, 460 candidates took these examinations and 449 passed.

3.4 OFF-SITE SURVEILLANCE

Off-site surveillance performed by the CNB consists in continuously monitoring the activity and financial performance of the individual entities operating in the financial market and assessing the evolution of the market as a whole and its key segments. The CNB’s supervisory work involves checking compliance with the relevant legal rules and compliance with prudential rules 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 consolidated basis. Where more intensive monitoring of the financial situation is needed, an extraordinary reporting duty is imposed on financial institutions. In addition to the regular reports, information from other 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, public presentations and press releases.

Given the situation on global financial markets and some euro area countries' debt financing problems, increased attention was paid to the performance and investment of institutions subject to off-site surveillance by the central bank.⁶ In this context, the portfolios of supervised institutions were analysed in more detail and their exposure to risky entities or instruments was determined. The risk exposure was relatively low and its impacts on institutions' financial results were only limited.

Submissions made by the public are the main source of information about the approach of supervised entities to clients for supervision of compliance with the duties of financial market service providers in the area of professional care. The findings obtained when dealing with complaints, suggestions and enquiries from the public are used not only to eliminate shortcomings in the given entity's activities but also to identify possible systemic shortcomings. The findings obtained when examining submissions made by the public are used as a basis for sector-wide surveys focusing on the breadth of occurrence of unlawful conduct. These findings are also used to identify specific supervised entities to be included in the on-site inspection plan along with the activities to which attention should be paid during the on-site inspection. If systemic shortcomings are indicated in the area of professional care for a large proportion of supervised entities, the preparation and publication of a CNB interpretation regarding the specific duty imposed by legislation, or, as the case may be, a clarification or tightening of specific legal provisions, are initiated.

3.4.1 Supervision of credit institutions

Supervision of credit institutions involves supervision of banks, foreign bank branches, building societies and credit unions. The main analytical instrument employed in off-site surveillance is regular comprehensive analyses of the financial condition of individual entities and the sector as a whole. An analysis of the credit institutions sector is produced quarterly. The observance of prudential limits is monitored on a monthly basis for all credit institutions.

Early warning information is assessed every month. This helps supervisors to identify potential negative tendencies in financial indicators. Branches of foreign banks from EU countries are assessed under a simpler regime.⁷

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

In 2011, CNB Banking Supervision obtained auditors' reports on control system areas in one bank and four credit unions as of 31 December 2010. For 2011, requests for such audits were made with regard to four banks and two credit unions.

Banking supervision was performed under the standard regime in 2011. Owing to persisting problems in the global economy, attention was devoted primarily to the quality of credit portfolios, provisioning, sufficiency of capital to cover potential losses, and banks' liquidity and overall performance. An extraordinary weekly reporting duty, covering quick assets and intra-group exposures, was re-introduced for selected entities. Extraordinary monitoring of the situation of building societies continued owing to changes in the conditions for building savings schemes.

⁶ Namely, banks, foreign bank branches, insurance companies, pension funds, building societies, credit unions, payment institutions, electronic money institutions and issuers, management companies, investment funds and investment firms.

⁷ 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 monitors their liquidity and compliance with the obligations in the Act on Banks.

In 2011, the CNB performed its regular half-yearly stress-testing of banks' loan portfolios. The stress-testing methodology is gradually being refined on the basis of the experience gained since 2009. The two rounds of stress tests (the second prepared in partnership with the Ministry of Finance) assessed banks' resilience to adverse economic developments using data as of 31 December 2009 and 30 June 2011. Eight and nine selected banks, respectively, which had received approval to use the special IRB approach⁸ for calculating the capital requirement for credit risk, or which are in the process of IRB pre-validation by the CNB, took part in the testing. The loan portfolio stress-testing project consists in assessing the impact of pre-defined economic scenarios on the loan portfolios, P&L and liquidity of significant banks. In both rounds, a baseline scenario identical to the CNB's official macroeconomic forecast and one or two adverse scenarios simulating economic slowdowns of various strengths were prepared.⁹ These scenarios were converted into average percentage increases in the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD) in the most important segments of the loan portfolio. The aggregated results of the two rounds of stress tests confirmed the good resilience of domestic banks.

In addition to these bottom-up tests, the CNB conducts quarterly stress tests of the banking sector (top-down tests). The results are regularly published on the CNB website.

Supervision of the credit union sector proceeded in 2011 in compliance with the approved plan of activity under the standard regime. It focused in particular on assessing the current situation and developments in individual credit unions and on resolving their regulatory problems.

On 23 November 2011, the CNB issued a decision to revoke the credit union licence of Unibon. This decision came into force on 8 March 2012.

A total of 67 decisions were issued, relating, among other things, to the assessment of the competence and integrity of proposed senior officers in banks and the approval of external auditors of banks and credit unions.

3.4.2 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.

Fulfilment of the information duty and the disclosure duty were continuously assessed in the investment firms sector as part of off-site surveillance. Compliance with exposure limits and the correctness of the calculation of capital adequacy were examined in 2011. Subsequently, individual investment firms were called on to report on the actions taken to remedy shortcomings identified and to prevent them recurring in future.

In the area of private pension insurance, monitoring of pension funds' performance according to agreed prudential mechanism principles continued into 2011. This helped to maintain the financial stability of pension funds.

Off-site surveillance of the collective investment sector focused on statutory disclosure duties. Shortcomings were communicated and remedied. In order to obtain information not included in the information duty, information-gathering visits were carried out in about half of management companies.

Submissions made by the public revealed that the engagement of investment intermediaries in the provision of investment services relating to shares and investment services associated with receiving inadmissible incentives from investment firms was the main problem in the area of the capital market service provision. The payment of bonuses derived from the volume of transactions carried out by clients to which an investment intermediary provides investment

⁸ The Internal Ratings Based Approach – see Articles 90–101 of Decree No. 123/2007.

⁹ For details, see: http://www.cnb.cz/en/financial_stability/stress_testing/stress_testing_methodology.html.

advice often leads to investment firms' interests being given preference over clients' interests. At the end of 2011, the CNB therefore issued official information containing an interpretation of practical fulfilment of the duties of financial service providers when assessing the admissibility of incentives. The CNB intends to crack down on the provision of inadmissible incentives. The sector can be developed by abolishing the national exemption from the MiFID, by enabling the existence of investment intermediaries, or by unifying the legal requirements for the registration of investment intermediation with the requirements for the licensing of investment firms that do not provide investment services other than the accepting and transmitting of orders relating to investment instruments and investment advice relating to investment instruments, and do not accept client assets.

3.4.3 Supervision of insurance companies and insurance intermediaries

Off-site surveillance of insurance companies is based on regular assessments of their financial condition, including compliance with prudential rules, as well as the imposition of remedial measures. Economic indicators are assessed on the basis of regularly submitted reports. Insurance companies that belong to insurance groups are also subject to supplementary supervision of insurance companies in groups.

Changes in the financial situation of insurance companies are indicated using an early warning system assessing the current trends in an insurance company's development at quarterly frequency and identifying potential weaknesses in its finances. At the start of 2011, work was completed on the implementation of a system of comprehensive internal ratings of insurance companies, so semi-annual ratings of insurance companies based on their financial condition, the significance of their risk exposures and the adequacy of their management and control processes were prepared for internal supervisory needs. Further analytical and supervisory activities were performed for systemically important or risky entities.

Information-gathering visits were carried out in the majority of insurance companies in 2011. These visits focused mainly on the current financial and business situation of insurance companies and their other plans and strategies. Preparations for the future Solvency II regulation were also discussed.

In 2011, increased supervisory attention was paid to premium sufficiency in motor third party liability insurance and to sufficiency of the technical reserves of some insurance companies in this category. Supervisors also focused on "open fleets" in motor third party liability insurance, i.e. insurance policies under which multiple motor vehicles are insured and there is no insurance interest between the policy holder and the insured. The extraordinary reporting duty imposed in 2005 was maintained for selected insurance companies.

A second round of stress tests of selected insurance companies took place in April 2012. The tests are used to assess the stability of the insurance sector as a whole, and the individual results are used in supervisory work. In the stress tests, the effect of major changes in risk parameters on the value of the insurance company's assets and liabilities and on the available solvency margin and the required solvency margin are assessed at the one-year horizon in line with Solvency I principles. The test methodology was revised.¹⁰ The main changes include the introduction of the one-year horizon, the testing of a scenario for non-life insurance risk and the inclusion of a supplementary economic view of the sensitivity of insurance companies to interest rate risk. The adverse macroeconomic scenarios were based on the scenarios for testing the resilience of the banking sector. The scenario for insurance companies was extended to include a 10% decline in premiums written for motor vehicle insurance while maintaining the same level of costs as in 2010. In addition, the extended scenario tested how the capitalisation of insurance companies would be affected if floods occurred at the same time. The test confirmed that the sector as a whole has sufficient capital to withstand relatively significant changes in selected risk factors. The next round of stress testing is scheduled for the first half of 2012.

¹⁰ The 2010 pilot test included the interest rate risk of assets and liabilities, equity risk, real estate risk, credit spread risk and the risk of a decline in price of government bonds.

Preparation for the future Solvency II regulation was a significant activity in terms of both methodological preparation and supervisors' knowledge of the principles and rules of the regulation. Numerous insurance companies that are members of large insurance groups plan to calculate their solvency capital requirement under the future Solvency II regime on the basis of internal models. A preliminary assessment of these models was launched in some insurance companies in 2011.

Cooperation with foreign supervisory authorities – especially in the form of attendance of coordination meetings relating to the supervision of insurance companies in groups and attendance of evaluations of internal models at group level – was stepped up during 2011.

Submissions made by the public revealed systemic shortcomings in professional care of insurance companies in respect of clients, confirming that the insurance intermediaries market is not functioning properly in the Czech Republic and cases of unlawful conduct are common. The causes lie in inadequate legislation, ineffective self-regulation of the insurance market, insufficient control of distribution networks by insurance companies and a lack of influence of professional associations. The CNB will continue to pay increased attention to this area. In the first half of 2011 it increased its communication with the Czech Association of Insurance Companies and its members in order to draw attention to the main problems in the insurance market, foster effective self-regulation and point out that if self-regulation fails to produce the expected remedy within a reasonable period of time, the CNB is prepared to step up its regulatory and supervisory activities.

3.4.4 Supplementary supervision of financial conglomerates

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. Entities active within financial conglomerates are subject to financial market supervision by various supervisory authorities, so a coordinator is appointed for the purposes of supplementary supervision based on criteria stipulated by law. The coordinator's role consists mainly in coordinating the collection and provision of significant information at financial conglomerate level, monitoring defined indicators and coordinating supervisory authorities' practices in the performance of supplementary supervision. In 2011, the CNB acted as a coordinator in one case. In the other cases, the role of coordinator was entrusted to foreign supervisory authorities, with which the CNB cooperates on an ongoing basis.

3.4.5 Supervision of other regulated entities

In connection with the transposition of the payment services directive and the e-money directive, the CNB's supervisory responsibilities were extended to include non-bank payment service providers and non-bank electronic money issuers. The newly supervised entities comprise payment institutions, electronic money institutions, small-scale payment service providers and small-scale electronic money issuers.

The transition period for entities that provide payment services based on previous authorisations (e.g. entities with foreign exchange licences, credit card credit providers and entities carrying on the business of company savings banks) ended on 30 April 2011. As from this date, these entities were obliged to obtain the relevant authorisation or to register with the CNB.

Supervision of these entities focuses mainly on compliance with the prudential rules and private law as laid down by the Payment System Act. The scope of supervision differs depending on the type of institution supervised. Generally, the supervisory remit is broadest in the case of payment institutions and electronic money institutions.¹¹

¹¹ As of 31 December 2012, no electronic money institution in the Czech Republic was subject to supervision by the CNB as home supervisory authority.

In connection with the new regulatory and supervisory rules in this area, increased attention was paid to the unauthorised provision of payment services.

The CNB's inspections in regulated entities under the Payment System Act are conducted on an ongoing basis. Inspections in registered entities were also stepped up in the second half of 2011.

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.

In the foreign exchange area, the CNB supervises 912 money changers (a total of 1,485 business premises). These entities offer cash purchases or sales of foreign currency and are 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 focuses on compliance with the foreign exchange regulations, anti-money-laundering and anti-terrorist-financing measures and also measures relating to international sanctions.

3.5 ON-SITE EXAMINATIONS

On-site examination work is based on an annual plan of activity based primarily on outputs from the internal analytical system for risk assessment of supervised entities,¹² information obtained during off-site surveillance and on-site examinations, and, last but not least, on the requirements of foreign regulators. In addition to on-site examinations, the supervisory work includes approving advanced methods for calculating capital requirements. Owing to the links between financial markets, cooperation with foreign regulators is being stepped up systematically. The examined entities' managements are notified of the findings of examinations by means of a report, on the basis of which remedial measures are imposed. The implementation and observance of such measures are systematically monitored. In justified cases, the CNB opens administrative proceedings with the relevant entities based on the inspection results.

3.5.1 On-site examinations in credit institutions

Both comprehensive and partial examinations, as well as several information-gathering visits, were conducted in the credit institutions sector in 2011.

Five on-site examinations were commenced or conducted in banks in 2011. In addition to two comprehensive examinations in large banks, one of which was started in 2010, partial examinations were conducted. One partial examination is continuing in the first half of 2012. Moreover, six examinations were performed in credit unions in 2011.

The statistics of the number of on-site examination by type are shown in the following table.

Table A.XV – Number of on-site examinations by type

	ICAAP	Credit risk	Market risks and liquidity risk	Operational risk	IS/IT risks	AML/CFT
Banks	2	3	2	3	2	3
Credit unions	2	4	3	0	0	6

¹² This system is based on both quantitative and qualitative assessment criteria and also on the systemic importance of the supervised institutions.

Examinations of credit risk management

The tendency in banks towards enhancing and automating processes for assessing and monitoring the creditworthiness of borrowers continued in 2011. Some shortcomings persisted in valuing and keeping records of collateral. These shortcomings were not systemic ones affecting the calculation of the need for provisions to cover impairment. The CNB paid great attention to riskier loan portfolios (arising from the financing of property developments and other projects, or from sub-participations) and to processes for recovering default loans.

The examination in one of the four credit unions examined was based on negative information found during a 2010 inspection focused on the credit union's credit exposure to a selected economically linked group of entities. The examination, which was focused on assessing the entire credit risk management process, revealed fundamental shortcomings in the credit union's work. On the basis of these findings, an administrative proceeding was opened with the credit union. Shortcomings were also detected in other credit unions relating to the settings of credit risk measurement and management systems, which were not in line with the level of risk of the portfolios of the credit unions examined and in some cases prevented proper assessment of the risks undertaken. Shortcomings were also found in the valuation and records of collateral, the assessment of risks stemming from links between entities and in the settings of control mechanisms.

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

In 2011, on-site examinations were also conducted focusing on evaluating the internal capital systems (ICAAP) being put in place by credit institutions under Pillar 2 of the Basel II framework. Two ICAAP examinations were conducted in banks. No findings were made in one case, while inadequate application of the group methodology at local level was found in the other. Two ICAAP examinations were conducted in credit unions. These found serious shortcomings in the capital allocation process, in particular regarding credit risk coverage, including concentration risk. The shortcomings found in the credit unions sector had a negative impact on the adequacy of internal capital reserves; in one case, the capital would not have been sufficient to cover the internally set capital requirements, while in the other case, the reserve was almost exhausted.

As regards market risk management and liquidity risk management, which were examined in two banks in 2011, non-material shortcomings were found in liquidity scenarios and in limits set incorrectly. In the credit union sector, where market risk management and liquidity risk management were the subject of three examinations, the main findings related to limits, or their settings and updates, and to alternative scenarios (e.g. failure to stress test liquidity and shortcomings in expressing the impact of an interest rate shock). Mistakes were also found in the compilation of regulatory statements, albeit with a non-material impact (e.g. the inclusion of individual items in the time bands of the regulatory statement on the residual maturity of assets and liabilities).

Examinations of operational risk management, including IS/IT risks

Three examinations focusing on operational risk management systems and two specialised examinations focusing on IS/IT risks were conducted in the credit institution sector in 2011. The CNB responded to the expansion of IS/IT outsourcing and distribution networks and the increasing influence of IT on the overall risk profiles of regulated entities by enhancing its checks of compliance with the regulatory requirements for activities outsourced by institutions. Attention was focused mainly on assessing information security management systems.

The deficiencies identified in the operational risk management areas examined included shortcomings in collecting data on the occurrence of operational risk events and evaluating their impacts, in insufficiently setting responsibilities for operational and IS/IT risk management, in segregating conflicting duties, in managing outsourcing risks, in testing and updating contingency plans, in identifying and assessing information system risks, in ensuring secure access to information systems, in ensuring the functionality of information systems, and in providing for independent assurance for the operational risk management system.

Anti-money laundering and combating the financing of terrorism (AML/CFT)

The CNB conducts AML/CFT examinations based on authorisation contained mainly in Act No. 253/2008 Coll., on Certain Measures against Money Laundering and Terrorist Financing. The CNB verifies the efficiency and effectiveness of the system implemented by the examined entity in order to prevent it being used for money laundering and terrorist financing and also verifies the conditions created for detecting such conduct.

Nine examinations were conducted in banks and credit unions in 2011. The main shortcomings detected related to vetting of clients, the application of procedures to risky clients, the application of the requirements of sanction legislation, the monitoring of transactions and internal control mechanisms in the AML/CFT area.

The CNB continued to work with the Ministry of Finance's Financial and Analytical Unit. The CNB was involved in the evaluation being conducted by the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval). In the first half of July, the plenary meeting of Moneyval will discuss a progress report which should reflect the measures taken on the basis of the above evaluation.

Basel II implementation as regards advanced methods for determining capital requirements

Under the capital adequacy framework (Basel II) in the wording of EU Directives 2006/48/EC and 2006/49/EC as transposed into Decree No. 123/2007 Coll., banks are allowed to use advanced approaches based on mathematical models in order to calculate capital requirements. In 2011, the CNB expert teams (for IRB, AMA and VaR) set up to verify the special methods continued their consultations with all regulated institutions that had shown an interest in using the special approaches for the calculation of capital requirements for credit, operational and market risks under the Basel II rules. The two teams communicated with foreign supervisors on an ongoing basis.

In 2011, discussions took place with two banks which had applied for consent to extend the IRB approach by means of a joint application from their parent bank. These discussions focused on assessing compliance of the bank's procedures with the relevant decree. One application was approved and the CNB sent its consent to the use of the extended IRB approach to the relevant home regulator; the assessment of the other application will continue in the first half of 2012. The IRB approach was subsequently verified as part of a standard on-site examination in the bank that already applies this approach.

In 2011, the CNB considered an application and subsequently granted approval to extend the AMA approach to another member of a bank group. It also dealt with two applications for approval of a change in the approved AMA approach in connection with the possibility of taking insurance into account in the calculation of the capital requirement for operational risk. In one case, the CNB completed its assessment of the application for a material change and approved the application. In the other case, the assessment will be completed in 2012. The CNB also examined compliance with the conditions under which banks were allowed to switch to the AMA approach, verified the elimination of previously detected shortcomings and assessed refinements of operational risk management systems in banks applying this approach.

Changes in the VaR model were validated in two banks that in previous years had been granted approval to use the VaR model to calculate the capital requirement for market risk. Both cases involved validation of the implementation of SVaR (stressed value at risk), the inclusion of which in the model is required by new legislation in effect since 31 December 2011. Communication with one bank also took place in 2011 as part of the pre-validation process for an internal VaR model.

3.5.2 On-site examinations in capital market institutions

In the collective investment sector, an on-site examination was completed in one management company in 2011, focusing on prudential rules, the rules of organisation of the internal operations of management companies and the rules of conduct and professional care in the management of collective investment fund assets. Shortcomings were identified especially in the management of assets, control and security measures for data processing and recording, risk management, the functioning of the internal control system and information provided to investors. Communication was also held regarding the implementation of remedial measures.

One on-site examination was completed in 2011 in the area of private pension schemes, focusing on prudential rules and professional care in the management of pension fund assets, and two other similar on-site examinations were performed. The completed examination identified shortcomings in professional care in the management of assets, especially as regards examination of a delegated person, the management and control system, and violations of the Consumer Protection Act when presenting the benefits of a product on the internet. Subsequently, supervisors also communicated regarding remedial measures.

As regards investment service providers, six on-site examinations were completed in 2011, of which three focused on investment firms and three on investment intermediaries, two of which operate on the multi-level marketing principle. All these inspections were comprehensive, focusing on compliance with the rules for the provision of investment services with professional care (in particular the rules of conduct towards clients, the keeping of records, administrative and accounting procedures and internal control systems).

The examinations revealed no acute systemic problems in the capital market sector. Serious violations of legal rules were identified in two cases, both consisting in a non-functioning internal control system in relation to tied agents. Numerous formal shortcomings were identified in the examinations. These often involved non-compliance with the internal regulations of an investment firm (or investment intermediary) by its employees and wrongly configured – and therefore ineffective – internal control systems. Shortcomings in the keeping of a transactions and orders book (or in the records of an investment intermediary), the obtaining of information about clients and the extent and form of provision of information to clients were frequently identified. There were also cases of failure to record telephone communications, manipulation of clients when filling in investment questionnaires and deficiencies in the management and protection of information systems.

3.5.3 On-site examinations in insurance companies and insurance intermediaries

Four partial on-site examinations and several information-gathering visits were carried out in insurance companies in the area of prudential supervision in 2011. The examinations focused on insurance risk management, administration and price-setting of insurance policies, loss adjustment, reinsurance, procedures for conducting passive legal disputes, determination of the level and use of technical reserves, financial placement, insurance risk underwriting processes, IS/IT risk management systems and AML/CFT.

The main shortcomings were detected in the loss adjustment process and related to late registration and updating of RBNS reserves, and also to the absence of checks of payment instructions when entering payments of insurance claims. Shortcomings in internal regulations and insufficient internal controls, albeit of a non-material nature, were detected in the other areas examined (e.g. insufficient checking by actuaries and absent control mechanisms when entering insurance policies in the system). As regards financial placement and management of related risks, partial shortcomings were detected in the investment process and in the methods used to manage investment risks.

Examinations focusing on AML/CFT were also carried out in two life insurance companies in 2011. The main shortcomings detected related to identification of risk factors, classification of clients, application of procedures to risky clients and monitoring of client transactions.

In 2011, on-site examinations were ongoing in one insurance intermediary and completed in two multi-level marketing insurance intermediaries. In both cases shortcomings were detected relating mainly to professional care and provision of insufficient information to interested parties when selling insurance products. After the completion of the examination, supervisors communicated in respect of the implementation of remedial measures.

An expert team was set up at the CNB to validate and approve internal models in the Solvency II regime for insurance companies active in the Czech Republic. The pre-approval process included several meetings between home and host supervisory authorities to discuss the details of specific applications for the approval of internal models. Supervisory staff also took part in inspections of internal models for individual risks led by home authorities in group-level pre-approval

processes. More detailed meetings and discussions on the internal model concept were held with four insurance companies and multinational insurance groups. The discussions focused mainly on compliance of the proposed concepts with the Solvency II directive.

3.5.4. On-site examinations in other regulated entities

In 2011, an examination was carried out in a payment institution which is also authorised to provide some investment services under the Capital Market Undertakings Act. This examination focused on risk management and the settlement of financial market transactions. Shortcomings were detected in internal regulations and in systemic provision for some control elements relating to payments.

The CNB conducts on-site foreign exchange examinations through its branches. The aim of these examinations is to verify all activities performed by the non-bank foreign exchange entity and its individual establishments and thereby contribute to enforcing and strengthening discipline in the supervised areas. The CNB carried out 204 on-site examinations and inspected a total of 249 establishments in the foreign exchange area in 2011. Where violations of legal regulations were detected, the examined entities were called upon to remove the shortcomings detected or the CNB opened administrative proceedings.

CNB branches are also involved in examining investment and insurance intermediaries and newly also small-scale payment service providers and small-scale electronic money issuers. CNB branches carried out 20 on-site examinations in investment intermediaries in 2011. The most frequently identified shortcomings consisted in failure to introduce rules for the examination of activities of tied agents which ensure due performance of the activities of tied agents, and failure to obtain sufficient information from customers regarding their expertise and experience, which is a prerequisite for determining customer profiles.

CNB branches carried out 58 on-site examinations in insurance intermediaries in 2011. The most frequently identified shortcomings consisted in failure to report an insurance company for which the examined entity started to be active in the register and also that the insurance company was not insured for liability for damage caused by the performance of this activity over the entire duration of the activities of the insurance intermediary.

3.6 ENFORCEMENT ¹³

In 2011, activity in the enforcement area consisted mainly 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. In addition to the conduct of administrative proceedings with supervised entities, administrative proceedings with entities offering financial market services without authorisation are also conducted in those financial market sectors where the law enables penalties to be imposed for the carrying on of unauthorised business.

Table A.XVI – Numbers of penalty administrative proceedings

Continuing from 2010	Opened in 2011	Concluded in 2011 (by final and conclusive ruling)	Continuing into 2012
32	130	112	50

¹³ Statements of final decisions in the capital market area are published on the CNB website (*Financial market supervision > Conduct of supervision > Final administrative decisions*). Sanctions imposed on insurance intermediaries are entered in the Register of Insurance Intermediaries.

Eleven penalty administrative proceedings were opened in the area of supervision of credit institutions in 2011. Five decisions became final and conclusive (one to impose a remedial measure and four to impose a fine). The total fines imposed amounted to CZK 3,315,000.

In 2011, a total of 78 penalty administrative or offence proceedings were opened in the capital market area. The largest number (33) concerned the withdrawal of an investment intermediary's registration due to non-performance of activity. In all, 70 decisions became final and conclusive. The major cases closed by a final and conclusive ruling included:

- a breach of the rules of conduct towards clients in investment intermediation (churning);
- market manipulation in the final auction at the PSE;
- breaches of the prudential rules and the rules of conduct towards clients by an investment firm.

The CNB imposed final and conclusive fines totalling CZK 22,265,000 in the capital market area in 2011.

In all, 24 administrative proceedings were opened in the area of supervision of the insurance industry in 2011. A total of 20 decisions became final and conclusive. One insurance company was ordered to submit a recovery plan, a measure to remedy shortcomings identified was imposed on another insurance company, a procedural fine for non-cooperation during a state inspection was imposed on two directors of insurance intermediaries, the registration of ten insurance intermediaries was withdrawn, in one case a fine and a remedial measure were imposed and in five cases only a fine was imposed. In all, fines totalling CZK 1,575,000 were imposed in 2011.

A total of 42 administrative proceedings were opened due to violation of foreign exchange regulations in 2011. The CNB issued final decisions in 47 cases – a licence was revoked in one case and fines were imposed in the remaining cases. The fines amounted to CZK 2,049,000 in all.

Eight administrative proceedings were opened in the consumer protection area in 2011, of which two were completed by a final and conclusive ruling. The fines imposed amounted to CZK 350,000.

No administrative proceeding was opened in the payment system area in 2011 (one administrative proceeding from 2010 was terminated).

3.7 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 and ad-hoc requested information. In 2011, the CNB conducted oral proceedings with liquidators, provided consultations and opinions on liquidation processes and provided information and documentation on the requests of courts and law enforcement agencies.

Table A.XVII – Numbers of financial market entities in liquidation

	As of 31 Dec. 2010	Entries	Exits	As of 31 Dec. 2011
Banks	3	0	0	3
Credit unions	29 ⁱ⁾	0	6	23
Management companies	9	1	3	7
Investment funds	18	3	1	20
Mutual funds	4 ⁱⁱ⁾	0	1	3
Pension funds	1	0	1	0
Investment firms	0	1	1	0
Total	64	5	13	56

i) There is a difference of one in the number of entities as of the end of 2010 in the 2011 FMSR compared to the 2010 FMSR. This is due to delayed publication of the switch of DZ Kampa from the bankruptcy regime back to liquidation in the Companies Register.

ii) There is a difference of one in the number of entities as of the end of 2010 in the 2011 FMSR compared to the 2010 FMSR. ORION MEDIA INVESTMENTS, uzavřený podílový fond requested withdrawal of its authorisation and went into liquidation as of 25 November 2011, but the CNB received this information with a delay.

The number of financial market entities in liquidation, which is monitored by the CNB, declined by eight year on year. Eleven companies in liquidation ceased to be subject to supervision by the CNB as a result of the completion of liquidation and the subsequent deletion of the company from the Companies Register, and one company ceased to be subject to supervision by the CNB because liquidation was terminated by payment of all shares in the assets of the mutual fund and by settlement of all claims and obligations of the mutual fund's unit holders. One company ceased to be subject to CNB supervision as a result of fulfilling the legal obligations. By contrast, a management company (Bayerische Investment Fonds a.s. – investiční společnost) and three investment funds (EUBE, uzavřený investiční fond, a.s., FAVILLA uzavřený investiční fond, a.s. and MBI, uzavřený investiční fond, a.s.) went into liquidation in 2011. An investment firm (Merx, a.s.) also went voluntarily into liquidation.

3.8 CENTRAL CREDIT REGISTER

The Central Credit Register (CCR) is an information system administered by the CNB since 2002 which enables banks and foreign bank branches operating in the Czech Republic (hereinafter referred to as banks) to exchange information on the credit commitments and payment discipline of businesses. Its purpose is to provide data to verify the creditworthiness of individual clients applying for new bank loans and to enable analysts in banks and the CNB to access aggregated statistical and analytical outputs for the entire banking sector.

In 2011, the CCR's activity concentrated mainly on the CNB's involvement in international data sharing across the credit registers of EU countries. The preparations for international data sharing involved adding two new models to the current information system, preparing the specific data to be exchanged and testing for readiness with the Austrian and German registers. Actual data exchange will start in April 2012, when test operation will begin, and the information obtained from abroad will be available to banks in the second half of 2012.

The construction of a data warehouse continued in parallel. The new warehouse will facilitate better use of aggregated and anonymised CCR data for sectoral and financial stability analyses. It will also bring improvements for users in banks relating to credit commitment outputs and analytical activities. The new data storage method will enable data to be linked to external sources and will also be beneficial for data management at the CNB.

Table A.XVIII – Main operational characteristics of the CCR

	31 Dec. 2008	31 Dec. 2009	31 Dec. 2010	31 Dec. 2011
Number of registered borrowers	461,277	497,726	539,540	576,583
of which: individual entrepreneurs	271,770	291,458	313,129	330,372
legal entities	189,507	206,268	226,411	246,211
Total loans outstanding (CZK billions)	1,265	1,200	1,219	1,291
Number of CCR users	2,516	2,245	2,362	2,569
Ad hoc enquiries about credit commitments (thousands/year)	180	205	213	215
Number of enquiries about client credit commitments in monthly reports (thousands/year)	2,800	3,038	3,640	3,198
Number of extracts made for clients in year	278	453	492	514

A new communication channel for direct enquiries from banks in the CCR, called CCRWS (CCR Web Services), was put into full operation in 2011. As a technical means of automating the connection between banks' information systems and the CCR database, CCRWS allows banks to make ad hoc inquiries regarding the current state of the credit commitments of clients via their own applications and flexibly process aggregate credit information on their debtors' portfolios. The new system is now used by banks for two-thirds of CCR enquiries. The data authorisation method has also changed. As from September 2011 banks must authorise data sent before the CCR deadline using a qualified certificate issued by a public certification authority in the Czech Republic ((i.e. PostSignum, I.CA¹⁴ or eldentity).

Furthermore, a new operation for entering records in the CCR history was made available. This enables banks to subsequently register a new claim not registered by the bank in the regular period.

For the purposes of administration within the CNB, automation of the extracts module for clients and law enforcement authorities was completed in late 2011. This has simplified work associated with the provision of such extracts.

14 I.CA (Certification Authority), První certifikační autorita, a.s.

4. SUPERVISION OF COMPLIANCE WITH CONSUMER PROTECTION REGULATIONS

4. SUPERVISION OF COMPLIANCE WITH CONSUMER PROTECTION REGULATIONS

The competences of the Czech National Bank in the area of consumer protection are defined in Act No. 6/1993 Coll., on the Czech National Bank, as amended, and in Act No. 634/1992 Coll., the Consumer Protection Act, as amended with effect from 12 February 2008. In this area, the CNB supervises entities carrying on activities in the Czech Republic under a licence, registration or other authorisation from the CNB. It oversees their compliance with the duties laid down in the Consumer Protection Act and in Act No. 40/1964 Coll., the Civil Code, for distance contracts for financial services, with the information duties (especially pre-contract information duties) stipulated in Act No. 284/2009 Coll., the Payment System Act, and with the obligations set forth in Act No. 145/2010 Coll., on Consumer Credit.

4.1 SUMMARY OF CONSUMERS' COMPLAINTS

The CNB received 866¹⁵ consumer complaints in the consumer protection area in 2011. As in the previous period, the largest number of complaints pertained to insurance product providers, followed by credit institutions. The number of complaints in the capital market segment remained low.

A total of 319 complaints concerned the insurance sector. The largest number of complaints related to insufficient provision of information on products offered, followed by product costs. These phenomena are related to continuing renegotiations of investment life insurance, where the consequences of withdrawing from the existing policy and replacing it with a new one are insufficiently explained to clients by investment intermediaries. This is linked with higher hidden costs in the form of product negotiation fees, which are deducted at the start of the insurance cycle and which the intermediary does not usually inform the consumer about. In the area of non-life insurance, complaints concerned provision of insufficient information on exemptions from insurance and subsequent rejection of claims by the insurer in the event of a loss. The CNB opened several administrative proceedings with supervised entities in the period under review. It found that these entities had offered potential discounts and benefits if consumers signed an insurance policy and at the same time undertook to find new potential clients. Such policies usually included supplements requiring consumers to pay premiums and a contractual fine in the event of withdrawal from the policy to cover the loss of the investment intermediary's commission.

A total of 273 complaints in the area of credit institutions were investigated in 2011. The largest number of complaints pertained to product costs, with consumers pointing to unjustified amounts of fees for services provided or penalties relating to non-compliance with terms and conditions by the consumer. The overwhelming majority of these complaints were evaluated as unjustified, as the fees were given in the price list by the supervised entity and consumers failed to properly acquaint themselves with them. Shortcomings in information about products were also associated with payment cards. Consumers complained about insufficient information regarding the offering or renewal of payment cards. For the first time, complaints in the area of consumer credit were received. Consumers complained about excessive costs for the consumer where the credit is restructured by the credit institution and insufficient evaluation of the impacts of changes relating to the new repayment amount.

A total of 25 complaints were investigated in the capital market area. These complaints most often related to shortcomings in the administration of entrusted funds and in information provided about the risks associated with trades offered. Complaints were repeatedly submitted about the conduct of investment intermediaries who contact consumers by phone or e-mail with investment offers even when the consumer has already refused such offers several times.

¹⁵ For more details, see part C, Annex 24 *Summary of submissions received by Consumer Protection Department in 2011* and Annex 25 *Summary of submissions received by CNB branches in 2011*.

A total of 131 complaints concerning non-bank foreign exchange entities were received. CNB branches are fully responsible for investigating such complaints. Complaints concerning non-bank foreign exchange entities are submitted by foreign tourists and relate mainly to insufficient information on the exchange rate before the exchange and the foreign exchange entity's refusal to deal with complaints in the case of disadvantageous exchange. This problem is being dealt with on a long-term basis through the opening of several administrative proceedings with supervised entities in order to impose sanctions and through the option of imposing fines and remedial measures in on-site examinations.

A total of 118 submissions relating to other issues were received. This category includes enquiries or requests for the CNB's expert opinion, which are usually dealt with without the need to contact supervised entities.

4.2 LEGAL AND METHODOLOGICAL ACTIVITIES

In the area of consumer protection in the Czech legislation, the CNB focuses on financial service providers' information duties to consumers. This priority was pursued in the pension reform legislation, in the amendment to the Collective Investment Act and in the new Civil Code. The amendment to the Act on Arbitration Proceedings, which the CNB commented on very actively, is also important for the position of consumers.

As regards European legislation, the proposal for a directive on credit agreements relating to residential property, which also deals with the supervision to be performed by the CNB vis-à-vis most creditors, is important for the position of consumers. The CNB is therefore involved in preparing the Czech position for the negotiations on the final text. In July 2011, the European Commission issued a Recommendation on access to a basic payment account. The CNB monitors consumers' complaints so that it can identify the need to intervene pursuant to the Recommendation. In December 2011 the Commission issued a proposal for a directive on alternative dispute resolution and a proposal for a regulation on online dispute resolution for consumer disputes; the CNB is following a the debate on these proposals with regard to their application to financial services. By contrast, the directive on consumer rights, which was discussed with the involvement of the CNB and which was approved in November 2011, does not relate to financial services.

In September 2011 the CNB actively participated in the International Internet Sweep, in which most EU Member States simultaneously examined compliance with certain duties relating to the offering of consumer credit on providers' websites. The selected entities passed most aspects of the sweep and the CNB will monitor the elimination of the shortcomings identified.

Some issues pertaining to the application of the Consumer Credit Act were discussed with individual banks. To unify the positions of supervisory authorities, they were also discussed with the Czech Trade Inspectorate, which supervises non-bank consumer credit providers. These issues concerned provision of pre-contract information, compliance with advertising duties and a unified approach to the APRC calculation. Internal methodological work focuses on providing guidance and legal support to consumer protection inspectors.

In 2011 the CNB continued to give lectures for senior citizens at Universities of the Third Age in Opava and Ústí nad Labem.

5. INTERNATIONAL COOPERATION

5.1 NEW FINANCIAL MARKET SUPERVISORY SET-UP IN THE EU

The three new European Supervisory Authorities (ESAs) – the EBA, the ESMA and the EIOPA – and the European Systemic Risk Board (ESRB) started work on 1 January 2011. The CNB does not regard it as sound to gradually transfer more powers from national supervisors to the new European authorities, mainly because of concerns of separation of powers and final responsibility for the functioning and stability of the domestic financial market. The CNB's priorities also include limiting the increase in excessive European regulation and reducing the administrative burden on national supervisors and financial institutions. The CNB promoted its goals by actively participating in the ESRB and the ESAs and, in cooperation with the Ministry of Finance, in EU policy committees and with the supervisory authorities of EU Member States. The CNB managed to achieve many partial successes in promoting its standpoints.

5.2 COOPERATION WITHIN EUROPEAN SUPERVISORY AUTHORITIES STRUCTURES

European Banking Authority (EBA)

2011 was the first year of operation of the EBA. CNB representatives were actively involved in the EBA's activities at the level of the Board of Supervisors, the Management Board, standing committees and working groups. A CNB representative was also appointed to the EBA Management Board and as Chairman of the Standing Committee on Regulation and Policy.

In the area of regulation, the EBA focused on the Commission's proposals relating to capital requirements and on the preparation of proposals for binding technical standards and non-binding recommendations and guidelines. In 2011, for example, the CNB expressed its opinion on the guidelines on internal governance and the recommendation on bank recapitalisation. The CNB also submitted critical comments on the EBA's response to the Commission's consultation paper published in connection with the planned EU framework for crisis management in the financial sector.

In 2011, the EBA focused on the functioning of supervisory colleges, in which EBA employees were actively involved in order to monitor the level of cooperation between individual supervisors. In this context, the CNB drew attention, among other things, to shortcomings in communication between home and host supervisors observed at the end of 2011.

In the first half, of 2011 the EBA organised EU-wide stress tests of 90 banks from 21 EU countries. The objective of the exercise was to assess the resilience of the EU banking sector and the ability of banks to absorb possible further losses. Towards the end of 2011, as a result of the worsening financial condition of some banks and the debt situation of some EU countries, the EBA's activities focused on measures to restore investor confidence in the banking market (in particular a temporary increase in the capital buffers of selected European banks).

European Securities and Markets Authority (ESMA)

CNB representatives were involved in ESMA's activities at the level of the Board of Supervisors, standing committees and groups and actively contributed to ESMA's outputs.

The CNB participated in the preparation of the ESMA recommendation to the European Commission regarding the proposal for measures implementing the AIFMD Directive. In connection with the implementation of the UCITS IV Directive, guidelines concerning risk measurement and total exposures for some types of structured UCITS were approved. A consultation paper was prepared proposing guidelines for UCITS Exchange Traded Funds. The CNB commented on a number of ESMA opinions on IASB proposals connected with the gradual implementation of the new accounting standard IFRS 9 Financial Instruments, which will gradually replace the existing IAS 39 Financial Instruments: Recognition and Measurement. Reporting of sovereign debt, most notably Greek government bonds, in financial statements under IFRS was an important topic.

The CNB commented on the ESMA opinion within the Commission consultation regarding the green paper on corporate governance. The CNB expressed a negative position on regulation in the area of corporate governance and supported a framework using non-binding recommendations. The ESMA took over direct supervisory powers over rating agencies with effect from 1 July 2011. The CNB contributed to the preparation of regulatory technical standards in accordance with the Regulation on credit rating agencies.

The CNB monitored the process of preparation of proposals for regulatory technical standards connected with the Regulation on short selling and certain aspects of credit default swaps (CDS). The CNB contributed to the preparation of an ESMA communication in the Commission consultation regarding the strengthening of sanction regimes in the financial services sector. Furthermore, it participated in the revision of the MiFID Directive by contributing to the preparation of ESMA interpretative opinions for the Commission and being involved in the drafting of guidelines and recommendations regarding requirements for systems and controls in the area of automated trading which define the organisational requirements for trading venues, investment firms and supervisory authorities.

The CNB was involved in the preparation of a consultation paper regarding draft regulatory technical standards for the EMIR Regulation (requirements for central counterparties, trading data registers and OTC derivatives), an ESMA opinion for the ECB concerning the evaluation of the master agreement on TARGET2-Securities and an ESMA position concerning the Commission consultation on the regulation of central securities depositories. The CNB contributed to the preparation of a consultation paper proposing guidelines for supervisory authorities and corporations regarding the compliance function under MiFID requirements.

European Insurance and Occupational Pensions Authority (EIOPA)

CNB representatives were actively involved in EIOPA activities at the level of the Board of Supervisors, standing committees and working groups.

Preparation of Solvency II remains the key task of EIOPA. In this context, the CNB participated in the preparation of second- and third-level regulations relating in particular to the calibration of risk modules, the solvency and minimum capital requirements, internal models and internal control system requirements. The CNB's representative communicated intensively with the working group on disaster risk and pushed through a decrease in the coefficient determining the calibration of flood risk in the Czech Republic to the level requested by the CNB. The CNB also ensured that the inaccurately set flood risk for the individual regions of the Czech Republic was recalibrated.

At the Board of Supervisors meetings, the CNB resolutely opposed Europe-wide harmonisation of the format of the reports submitted by insurers to supervisory authorities using the XBRL standard, mainly because of an unjustifiable increase in the costs of regulators and supervised entities.

The CNB was also involved in activities relating to insurance groups and supervisory colleges. Among other things, a proposal for a binding technical standard on monitoring, reporting and supervision of intra-group transactions and risk concentration was completed.

The CNB was also involved in the discussion on crisis management in the insurance sector. Its comments were aimed, among other things, at preserving the powers of host supervisors, who should not be denied the right to issue their own statements on the situation of the supervised insurance undertakings even if communication with the public is coordinated at the level of the insurance group.

Joint Committee of European Supervisory Authorities (JC)

The Joint Committee of European Supervisory Authorities, which is a forum for cooperation between the EBA, ESMA and EIOPA, started work in 2011. The CNB is actively involved in the work of the Sub-Committee on Financial Conglomerates (JCFC), which prepared a response to the European Commission's call for advice on the fundamental review of the Financial Conglomerates Directive (FICOD II). The call for advice concerned the extent of application of the requirements of the directive, governance, sanctions and remedial measures. The CNB is also involved in the work of the Sub-Committee on Anti Money Laundering (AMLC). The CNB's representative prepared comments on the

AMLC's reports concerning national approaches to the identification of actual owners and simplified customer due diligence. The CNB took the view that harmonisation should only be considered where the differences between national frameworks create opportunities for money laundering or terrorist financing or cause other significant problems.

5.3 COOPERATION WITHIN EUROPEAN SYSTEMIC RISK BOARD STRUCTURES

In 2011, CNB representatives were actively involved in the activities of the new European Systemic Risk Board (ESRB) at the level of both the General Board (attended by the CNB Governor and another Bank Board member) and the Advisory Technical Committee (ATC) and its permanent sub-structures – the Analysis Working Group (AWG) and the Instruments Working Group (IWG).

2011 was the first year of operation of the ESRB, which was established by Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macroprudential oversight of the financial system and establishing a European Systemic Risk Board. Together with the three EU-wide sectoral supervisors (EBA, ESMA and EIOPA), their Joint Committee and national supervisors, the ESRB forms the European System of Financial Supervision (ESFS), the purpose of which is to ensure supervision of the financial system in the EU. Within the ESFS, the ESRB is an independent body responsible for the macroprudential oversight of the EU financial system. In contrast to the European Supervisory Authorities, the ESRB focuses on identifying systemic risks and on macroprudential policy aimed at safeguarding the stability of the European financial system as a whole. The ESRB is composed of a General Board, a Steering Committee, an Advisory Technical Committee, an Advisory Scientific Committee and a Secretariat.

In the first half of 2011 the ESRB mainly dealt with institutional issues, whereas in the second half it focused more on systemic financial market problems, which deepened significantly in this period.

The ESRB is performing its mandate as a new European authority in accordance with the tasks and powers defined in Regulation No 1092/2010. Among other things, the ESRB Chair is invited to a hearing in the European Parliament and holds discussions with the Chair and Vice-Chairs of the Economic and Monetary Affairs Committee of the European Parliament. During 2011, the ESRB also issued several recommendations and warnings to the European Council and the European Commission, and in September 2011 it published a press release concerning risks to the stability of the EU financial system.

The key areas of the ESRB's work in 2011 were an assessment and analysis of the primary sources of systemic risk and financial vulnerability in the EU and the preparation and implementation of macroprudential policy instruments in the EU. The ESRB worked on reduction of the risks associated with foreign currency lending to unsecured borrowers (FX lending), proposals for countercyclical capital buffers and other aspects of macroprudential policy contained in CRD IV/CRR (Capital Requirements Directive/Capital Requirements Regulation), US dollar denominated funding of European banks and a recommendation on the macroprudential mandate of national authorities in national legislation. Attention was also paid to the assessment of ESMA consultation papers regarding exchange traded funds (ETFs) and high-frequency trading (HFT) and bank capitalisation.

The ESRB paid special attention to the issue of countercyclical capital buffers and the flexibility of macroprudential policy under the planned CRD IV. The ESRB promoted the view that CRD IV should (in line with Basel III) harmonise only the minimum prudential requirements within the EU and that national authorities should have the ability to tighten the requirements where needed. The CNB supports this view.

In October 2011, the ESRB issued a recommendation that home supervisors should reciprocally apply measures to reduce the risks associated with foreign currency lending to unsecured borrowers that have been or will be adopted by host authorities.

5.4 COOPERATION WITHIN EUROPEAN CENTRAL BANK STRUCTURES

Financial Stability Committee (FSC)

The FSC was established in early 2011 with the aim of assisting ECB bodies in fulfilling their mandate in the area of supervision of financial institutions and maintaining financial sector stability. Among other things, the FSC discussed the ECB financial stability review and documents concerning the possibility of supranational coordination of the use of bail-in instruments (i.e. tools for cleaning up troubled banks).

CNB representatives are actively involved in many groups in the FSC. The activities of the Crisis Management and Resolution Working Group focused on cross-border crisis management. The Working Group for Credit Registers concentrated mainly on revising documents and technical means for extending the number of countries involved in international data exchange. The Joint Expert Group on Reconciliation of Credit Institutions' Statistical and Supervisory Reporting Requirements (JEGR) worked on updating and developing the classification system. The CNB is also involved in the Impact Study Group, which examines the impacts of new regulation on the financial sector.

Payment and Settlement Systems Committee (PSSC)

In 2011, the activities of the PSSC in its extended composition, where the CNB is represented, consisted mainly in discussing SEPA (Single Euro Payment Area), general payment system issues, supervision of payment and settlement systems, and the development of the TARGET (Trans-European Automated Real-time Gross Settlement Express Transfer) system. The Committee monitors the development and implementation of the SEPA project and draws up progress reports. As regards the development of the TARGET system, internet-based access (access for small banks, for which access via SWIFT is too expensive) and the contingency network (an alternative to SWIFT in the case of breakdowns) were implemented. The link to the planned T2S (TARGET2-Securities) settlement system is still under preparation. The PSSC has standing working groups on Payment Systems Policy, Oversight and TARGET2, in which the CNB has representatives.

5.5 COOPERATION WITH THE EU COUNCIL AND ITS STRUCTURES

ECOFIN, Economic and Financial Committee (EFC), Financial Services Committee (FSC)

The CNB was actively engaged in issues discussed in the ECOFIN Council by making proposals for changes and additions to the mandate of the Minister of Finance and by preparing opinions on these issues for the representatives of the CNB and Ministry of Finance attending EFC and FSC meetings.

The CNB repeatedly criticised the general trend towards wider financial services regulation and advocated careful assessment of the cumulative impacts of various regulatory initiatives.

At the close of the year, the CNB supported the EBA's proposals for a temporary increase in banks' capital buffers and market revaluation of exposures to government bonds. The CNB promoted the view that funds from the EFSF should be used solely via the Member State and only after private sector capital and the resources of the Member State have been used. In seeking the optimal manner of provision of guarantees for bank liabilities, the CNB supported the national option with no mutual guarantees from Member States for the debts of their banks, with no mediating role for the EBA and with consistent monitoring at the EU level.

In the preparation of the European crisis management framework, the CNB insisted on leaving powers with national supervisors, as they are responsible for the stability of the financial system in the Czech Republic.

In the capital market area, the CNB supported efforts to enhance the quality of published information, expressed disagreement with the introduction of strict obligatory clearing, with the obligation to place eligible derivatives for trading in regulated or similar markets and with direct restriction of open positions in commodity derivatives, and opposed the ban on uncovered short selling and the proposed regulatory and intervention powers of the ESMA.

During 2011, the CNB repeatedly opposed the concept of financial sector taxation, especially the proposal for a financial transactions tax, and backed up its views with numerous financial and economic arguments.

Moneyval Committee

The Czech Government approved a proposal for the division of tasks to eliminate the shortcomings identified by the Council of Europe's Moneyval Committee in the fourth round of an assessment of measures against money laundering and terrorist financing and to prepare a progress report for the plenary meeting of the Moneyval Committee, which will take place in connection with the assessment in the first half of July 2012.

Working Party on Financial Services (SEPA)

In 2011, an expert group of the EU Council discussed a proposal for a regulation of the European Parliament and of the Council establishing technical and business requirements for credit transfers and direct debits in euro (known as the SEPA End-Date Regulation). Many of the suggestions of the CNB and the Ministry of Finance were taken on board. In the second half of 2011, following discussion in the Council, the proposal was presented in the European Parliament and discussed in a trialogue. Substantial changes were introduced during this discussion. Above all, a proposal to eliminate the BIC in payment orders was incorporated.

5.6 COOPERATION WITHIN OTHER INTERNATIONAL ORGANISATIONS AND ASSOCIATIONS

Financial Sector Assessment Program (FSAP) in the Czech Republic – IMF

Within the FSAP, the IMF analysed and assessed the stability of the financial system in the Czech Republic starting in autumn 2011. The IMF FSAP mission visited the Ministry of Finance, the CNB and some other domestic institutions in November and December 2011. The FSAP focused chiefly on the stability of the banking sector, which is the basis of the Czech financial market, and on the compliance of financial regulation and supervision in the Czech Republic with fundamental international principles. In April 2012 the IMF presented an interim report, according to which the banking sector has so far withstood the crisis in good condition, is stable and is showing considerable resilience to potential shocks from the real economy of the Czech Republic and the EU as a whole. The report also states that financial regulation and supervision in the Czech Republic have a solid basis and have achieved a high degree of compliance with internationally acknowledged standards for effective financial supervision. The report also contains a number of recommendations for improving regulation and supervision. These include strengthening capacity for examinations in banks, strengthening supervision of transactions of domestic banks within the group of the parent controlling bank, modifying the framework for conservatorship and tightening regulation of credit unions.

Committee on Financial Markets (CMF) – OECD

In October 2011, the CNB participated in a CMF meeting at which discussions continued regarding the Russian Federation's application for OECD membership. The Committee stated that Russia had not yet met the requirements for OECD membership in the area of financial markets and proposed measures for meeting them. The CMF then discussed current global financial market developments with representatives of important financial institutions. In 2011, these developments had been more favourable in America, Asia and Australia than in the euro area, which had been hit by a crisis of confidence in the solvency of some banks and sovereigns. The CMF therefore voiced its expectation that the EU would adopt effective measures to prevent the risk of global contagion spreading from the euro area. As the third important point, the CMF approved G20 global standards of consumer protection on financial markets. The CNB representative supported all these CMF outputs.

Basel Committee on Banking Supervision (BCBS) – BCG

The CNB was represented at the BCBS in the BCG (Basel Consultative Group), which maintains contacts with non-member countries. In 2011 the BCG mainly discussed liquidity, focusing on possible adjustments to liquidity indicators (the liquidity coverage ratio and net stable funding ratio), financial stability and Basel III implementation.

International Association of Insurance Supervisors (IAIS)

In 2011, the IAIS completed its long-running project to update the international standards for the regulation and supervision of insurance companies and the methodology for assessing compliance with these standards by national supervisory authorities. In response to the financial crisis, the IAIS published a report summarising the links between the insurance sector and the stability of the entire financial market and draft recommendations on the supervision of important international insurance groups.

International Organisation of Pension Supervisors (IOPS)

In 2011, the CNB helped to update the IOPS's recommended principles for pension fund management, provided information and completed questionnaires on financial intermediaries and on the position, organisation and capacity of supervision in the Czech Republic. In consultation procedures, it assessed the IOPS's analytical documents concerning the use of alternative investments and derivatives by pension funds, supervision of pension fund intermediaries, the role of supervisors in the system of information provision and education programmes, and the use of risk-based supervision.

International Organization of Securities Commissions (IOSCO)

In 2011, the CNB contributed to the preparation of a methodology for evaluating the implementation of IOSCO objectives and principles in the area of capital market regulation at national level. The CNB expressed its opinions on proposals to change the articles of association of the IOSCO and streamline its work. It also participated in surveys focusing on regulation of summary client accounts, the use of information in electronic form in examinations and resulting administrative proceedings, the application of the Multilateral Memorandum of Understanding, the mapping of national measures relating to the financial crisis and the development and regulation of institutional investors.

5.7 COOPERATION WITH PARTNER SUPERVISORY AUTHORITIES

In 2011, CNB representatives regularly attended meetings of the eight supervisory colleges for the most important banking groups in the Czech banking sector. The CNB also took part in meetings concerning potential future cooperation between relevant national supervisors as regards the financial stability of the banking groups Erste, Raiffeisenbank, Volksbank and Société Générale.

The CNB attended meetings of coordination committees for the supervision of insurance companies in groups. The discussions focused above all on preliminary approval of internal models under Solvency II. The CNB signed a memorandum of understanding within a supervisory college for the French insurance group AXA.

In the capital market, the CNB continued to work in partnership with other supervisory authorities on the basis of IOSCO and ESMA (CESR) multilateral memoranda of understanding.

The CNB also worked closely with financial market supervisors from Central and Eastern Europe. This cooperation involved exchange of information and coordination of opinions between national supervisory authorities in the region, especially from the perspective of host supervisors of subsidiaries of foreign financial groups.

PART B
THE FINANCIAL MARKET IN 2011

SUMMARY

The Czech National Bank is the integrated financial market supervisory authority in the Czech Republic. The CNB supervises the banking sector, the capital market, the insurance industry, pension funds, credit unions, bureaux-de-change and payment system institutions.

As of 31 December 2011, the Czech **banking sector** consisted of 44 banks and foreign bank branches. The structure of the banking sector is stable.

The shareholder structure of the Czech banking sector is stable. Foreign capital has long dominated the sector's capital.

The banking sector is sound and well capitalised. As a whole, it continued to generate profit, has sufficient funds and no liquidity problems.

Banks perform the important function of banking intermediation. 2011 saw a continuing recovery of banking activities. The sector expanded in the period under review. Total assets grew by 6.9% to CZK 4,476.5 billion.

The Czech banking sector traditionally specialises in traditional banking based on collecting deposits and providing loans. The total receivables of the banking sector grew throughout the year. The sector's receivables make up a large part of its balance-sheet assets. Domestic banks' total loans to clients rose by 6.0% compared to the end of 2010, to CZK 2,304.5 billion. Loans provided to households (individuals and trades) and non-financial corporations became the driver of growth in lending. Loans to individuals form the largest part of the domestic credit market. Household indebtedness is rising steadily in the Czech Republic, as was the case in 2011, although the pace of debt growth is slowing. As of the end of 2011, bank loans to individuals totalled CZK 1,009.0 billion and new loans granted in 2011 amounted to CZK 238.4 billion. Household debt consists mostly of loans for house purchase, which account for about three-quarters of all loans to individuals. Demand for loans for house purchase is concentrated in mortgage loans, which increased by another CZK 54.3 billion during 2011, to CZK 659.0 billion. Consumer credit also contributes to household debt, but did not increase it in 2011. Its total value fell by CZK 3.1 billion. As of 31 December 2011, consumer credit provided to households totalled CZK 196.1 billion.

The Czech banking sector as a whole remained profitable in 2011. It generated net profit of CZK 53.5 billion. The main source of net profit was profit from financial activities of CZK 162.1 billion, in particular interest profit, which rose by 4.4% year on year and accounted for almost 68% of profit from financial activities. Profit from fees and commissions accounts for almost 75% of non-interest profit. It increased by 1.4% to CZK 39.9 billion. Total administrative expenses rose as well – by 6.0% to CZK 66.1 billion. The banking sector paid aggregate income tax of CZK 10.0 billion, down by 0.7% year on year.

Credit risk is still the most serious risk undertaken by the Czech banking sector. The quality of the credit portfolio improved slightly in 2011. Non-default loans made up a large majority of the investment portfolio (94.8%). The total value of default receivables rose by CZK 2.6 billion to CZK 145.5 billion owing to a reduced ability of non-financial corporations and individuals to repay their obligations. The share of default receivables in total investment portfolio receivables was relatively small and fell slightly during 2011, from 5.4% to 5.2%.

Domestic banks are mostly local in nature and their activities are mostly focused on domestic clients. The shares of transactions with non-residents and foreign currency activities are relatively small. The exposure of the banking sector to territorial and foreign exchange risk in 2011 was again assessed as limited. Operations in foreign markets are usually executed by other units 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 domestic banking sector's liquidity is still very good. As usual, the Czech banking sector had enough liquid funds and the liquidity sub-indicators were stable during 2011. Quick assets increased by 10.0% year on year to CZK 1,202.9 billion. Primary funds are available to finance the loans of the banking sector.

The capitalisation of the Czech banking sector is sufficient. The capital ratio stood at 15.26% at the end of 2011. Regulatory capital increased by 4.9% during the year to CZK 303.5 billion. Tier 1 increased to CZK 282.0 billion, thanks mainly to retained earnings and higher reserves. The partial repayment of subordinated debt in several banks led to a decline in supplementary capital (Tier 2). Tier 1 traditionally has a dominant position in the banking sector's capital, accounting for roughly 93% of total regulatory capital. The capital requirements of the banking sector started to grow moderately, reaching CZK 159.1 billion at the end of 2011, up by 6.7% year on year, chiefly due to increasing capital requirements for credit risk.

All banks were compliant with the set minimum capital ratio of 8% throughout the year.

The **credit union sector** was characterised by contrary developments in 2011. Owing to dynamic growth in credit unions' business activities and number of members, the sector as a whole recorded a modest net profit (in contrast to a loss in 2010), was compliant with the prescribed capital adequacy ratio and had enough liquid assets. The negative phenomena included a continuing trend of deteriorating credit portfolio quality and a sizeable rise in asset impairment losses. A total of 14 credit unions were operating in the Czech market in 2011. One licence was withdrawn based on a CNB decision.

At the end of 2011, a total of 63 licensed **investment firms** were operating on the Czech financial market (12 banks, 23 non-bank investment firms,

14 foreign bank branches, eight organisational units of foreign investment firms and five domestic asset management companies). As of the same date these entities were managing funds totalling CZK 578.9 billion for their clients, down by 0.8% from a year earlier.

The assets of investment firms' clients rose by 24.7% year on year to CZK 2,832.4 billion as of the end of 2011. Of this amount, the assets of clients of non-bank investment firms accounted for 16.6%, those of bank investment firms for 79.6% and those of asset management companies for 3.8%.

The investment firm sector had sufficient capital in 2011. The capital of the 23 domestic non-bank investment firms totalled CZK 3.5 billion and that of asset management companies CZK 279.7 million at the end of 2011. The capital adequacy ratios of domestic non-bank investment firms and asset management companies were 33.0% and 25.2% respectively at the end of 2011. At CZK 0.6 billion, the net profit of the 23 domestic investment firms for 2011 was 58.3% lower than the unusually high 2010 profit.

The assets of **collective investment funds open to the public** were down by 11.0% year on year at the end of 2011, at CZK 110.2 billion. As regards fund type, the largest volume of assets (36.7% of the sector's total assets) was managed by bond funds. Mixed funds managed 21.3% of the sector's assets at the end of 2011. The share of money market funds in the total assets was 11.3%. In all, 16.2% of the total assets of domestic open-end mutual funds were invested in funds of funds and 12.6% in equity funds. Real estate funds account for a minimal share of total assets (1.6%).

More than half of the assets of collective investment funds open to the public (CZK 57.4 billion) were invested in debt securities at the end of 2011. Another 20.2% (CZK 20.3 billion) of the sector's assets were invested in shares and similar investment securities. Domestic mutual funds had CZK 14.6 billion invested in deposits and other receivables and CZK 16.0 billion in securities of collective investment funds.

Pension funds were characterised by good economic condition, stable financial results and growth in asset value and the number of participants in 2011. The sector will be affected by the planned pension reform in the near future.

The total assets managed by pension funds rose by 6.5% year on year, reaching CZK 247.5 billion at the end of 2011. Owing to pension funds' conservative investment policies, the bulk of their assets (86.5%) were invested in debt securities, while 2.9% were in shares and units and 7.8% were in time deposits and on term accounts. The funds of private pension scheme participants at the end of 2011 were also up (by 7.4%) on the same period a year earlier, at CZK 232.1 billion.

The pension fund sector's net profit was CZK 4.6 billion as of 31 December 2011, down by 0.5% year on year. The income was

mostly due to interest and similar income, which increased by 6.0% year on year to CZK 7.5 billion. The own capital of the pension fund sector totalled CZK 12.5 billion at the end of 2011.

Total share trading on the **regulated market** operated by Burza cenných papírů Praha, a.s. (Prague Stock Exchange, PSE) was CZK 371.0 billion at the end of 2011, i.e. 4.8% down from 2010. More than two-thirds of this amount (78.8%) was traded in the SPAD system. The total volume of bond trades on the PSE rose by 18.5% compared to 2010, to CZK 628.0 billion. Trading in government bonds accounted for most (96.3%) of the total volume of bond trades. Derivatives trading on the PSE also declined compared to the previous year, recording a small volume of CZK 328.2 million in 2011 (the lowest figure in five years).

The PSE's PX index closed 2011 at 911.1 points, compared to 1,224.8 points at the end of 2010. This represented a year-on-year decline of 25.6%

A total of 26 share issues were being traded on the PSE at the end of 2011. Their market capitalisation was CZK 1,060.8 billion. The total market capitalisation of shares traded on the PSE thus fell by 23.6% compared to the same period of 2010. Foreign issues accounted for 29.0% of the market capitalisation. The number of bond issues traded on the PSE in 2011 decreased by 11 year on year to 95.

The total annual trading on the other domestic regulated market, RM-SYSTÉM, česká burza cenných papírů a.s., fell by 3.0% year on year to CZK 8.9 billion in 2011. The RM index decreased by 29.7% year on year to 1,771.4 points at the end of 2011.

As of 31 December 2011, the **insurance market** in the Czech Republic consisted of 35 domestic insurance undertakings and 18 branches of insurance undertakings from the EU. The ownership structure of domestic insurance undertakings is stable. Foreign capital is predominant, accounting for a 76.5% share at the end of 2011. Owing to only modest economic growth, the insurance market in the Czech Republic recorded a decline in gross premiums written, unlike in previous years. The decline in premiums written, which amounted to CZK 155.1 billion for the entire insurance market in 2011, was 0.6%. A rise of 8.2% had been recorded the previous year. A substantial slowdown – almost a stagnation – in 2011 was recorded in life insurance, which showed a marginal increase of 0.3% following growth of 19.3% in 2010. Premiums written in non-life insurance, which had been virtually flat in 2010 (a slight increase of 0.3%), decreased by 1.3%. The share of life insurance in total premiums written reached a historical high in 2011, rising by 0.4 percentage point compared to the previous period, to 46.4%.

The growth rate of claim settlement costs fell by 6.2 percentage points year on year to 3.0%, with total claim settlement costs rising to CZK 85.2 billion. The total assets of insurance undertakings

increased by 2.3% to CZK 436.3 billion in 2011. This was a lower pace than a year earlier, when the growth had reached 7.6%. Financial placement is the largest asset item in the balance sheet of domestic insurance undertakings. However, its share is falling gradually. As of 31 December 2011, financial placement accounted for 77.9% of total assets. Debt securities are the largest financial placement item. Their value increased by 4.9% compared to 2010 and their share in total assets rose by 1.3 percentage points to 62.5%. The largest item in insurance undertakings' liability structure is technical provisions. In 2011, the share of net technical provisions (excluding provisions for unit-linked life insurance) in the total liabilities of domestic insurance undertakings edged up by 0.2 percentage point year on year to 61.0%.

2011 was not as successful for the Czech insurance market as the previous year. Insurance undertakings (including branches of foreign insurers) achieved relatively good results despite the downturn in economic activity and the slight decline in premiums written. The net profit of the insurance undertakings sector as a whole was CZK 9.5 billion.

1. THE ECONOMIC ENVIRONMENT IN 2011¹⁶

Economic growth continued in the Czech Republic in 2011 after its renewal in 2010, but the rate of growth slowed. Real economic growth of 1.7% was recorded for the year as a whole. Net exports were the biggest contributor to the growth, while the other components ceased to be drivers of domestic economic growth in the second half of the year.

Economic growth was fostered by improved export opportunities as world trade gradually emerged from the recession and financial crisis. The economy maintained the previous year's rate of growth in 2011 Q1, but the growth began to slow in Q2 as a result of a deeper decline in household and government consumption. Following a temporary improvement in spring 2011, tensions in global financial markets started to grow again in June.

Inflation rose slightly for the second consecutive year. The average inflation rate in 2011 was 1.9%, up by 0.4 percentage point on a year earlier. The rise in inflation was due mainly to rising global commodity and food prices and domestic administered prices. At the year-end, food prices were affected in advance by an increase in the VAT rate introduced at the start of 2012.

The koruna rate continued to appreciate overall against the euro and the dollar in 2011. The average CZK/EUR exchange rate appreciated from 25.3 in 2010 to 24.6 in 2011. The average CZK/USD rate strengthened from 19.1 in 2010 to 17.7 last year. At the end of the year, however, the exchange rate depreciated owing to the escalation of the euro area debt crisis.

The current account deficit decreased to 2.9% of GDP in 2011. In absolute terms it amounted to CZK 109.1 billion. The decrease in the current account deficit mainly reflected an increase in the trade surplus in 2011. As in previous years, the financial account showed a surplus in 2011. The surplus reached CZK 87.9 billion, down by CZK 86.4 billion from a year earlier.

The gradual improvement in the labour market situation halted at the end of 2011 as a result of the slowing economic growth. The average registered unemployment rate fell by 0.4 percentage point compared to 2010, to 8.6%. Growth in the average nominal wage in the national economy¹⁷ was modest in 2011 and slowed to 2% in Q4. Wage growth in the private and public sectors converged at the end of the year. The average real wage rose by only 0.3% for 2011 as a whole. Aggregate labour productivity rose for the second consecutive year, although its year-on-year growth slowed to 1.4% from 4.5% a year earlier.

¹⁶ The data in this section are based on CZSO data available as of 27 April 2012.

¹⁷ Recalculated stocks.

Measures taken to reduce the public finance deficit led to a decrease to CZK 117.9 billion (3.1% of GDP) under ESA95 methodology. The government debt-to-GDP ratio increased again in 2011, reaching 41.2% at the end of the year.

The Czech National Bank responded to both current and expected economic developments by leaving its key interest rates at the level set in May 2010. The two-week repo rate remained at 0.75% throughout 2011, the discount rate was also unchanged at 0.25% (where it has been since August 2009), and the Lombard rate was flat at 1.75%.

2. CREDIT INSTITUTION SECTORS¹⁸

2.1 THE STRUCTURE OF THE BANKING SECTOR

As of 31 December 2011, the Czech banking sector consisted of 44 banks and foreign bank branches (hereinafter referred to as “banks”). Air Bank a.s. (3 June 2011) and the foreign bank branches Bank Gutmann Aktiengesellschaft, pobočka Česká republika (12 May 2011) and Volksbank Löbau-Zittau eG, pobočka (16 February 2011) started operating on the market. No bank or branch closed down during 2011.

The structure of the banking sector in the Czech Republic has long been stable. The total number of 44 banks comprises four large banks, eight medium-sized banks and six small banks, along with five building societies and 21 foreign bank branches.¹⁹ The representation of banks in these five basic groups changed somewhat in 2011 owing to growth in the total assets of some institutions. The group of four large banks is still the largest component of the domestic banking market. Their share in total banking sector assets was more than 57% at the end of 2011.

Since EU accession the Czech financial market has been part of the EU single financial market and has been open to other institutions, which may carry on business on this market and benefit from the free movement of services under the single licence. A total of 305 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 2011. Banks that may 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 must – under the notification framework – inform the CNB in detail about the range of their activities, but they are not subject to a reporting duty and their operations in the domestic banking sector are not subject to CNB supervision and regulation.

Six banks whose registered offices are in the Czech Republic (Komerční banka, GE Money Bank, PPF banka, LBBW Bank, Česká exportní banka

TABLE II.1

Number of banks

(for banks with licences as of the given date)

	2009	2010	2011
BANKS, TOTAL	39	41	44
of which:			
banks	16	17	18
foreign bank branches	18	19	21
building societies	5	5	5

TABLE II.2

Shares of bank groups in total assets

(in %, for banks with licences as of the given date)

	2009	2010	2011
BANKS, TOTAL	100.0	100.0	100.0
of which:			
large banks	57.7	58.0	57.2
medium-sized banks	13.6	13.1	19.0
small banks	5.5	6.4	1.6
foreign bank branches	12.1	11.4	11.5
building societies	11.2	11.2	10.6

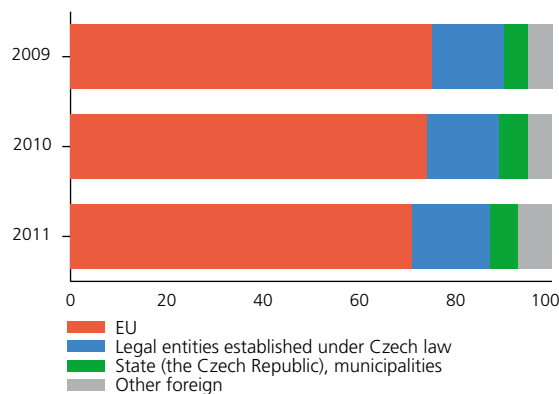
¹⁸ Data from the reporting statements submitted by banks for supervisory purposes were used to prepare this Report. The information on the Czech banking sector consists of data on all banks and foreign bank branches operating in the Czech Republic, including data on the branches of these banks operating abroad. The Czech National Bank is not included in the data. This is expressly stated in the sections using data from monetary statistics reporting statements. For this reason, some values are not fully comparable with the data in other parts of this Report or in other CNB publications. For details see <http://www.cnb.cz> – Supervision – Aggregate information on the financial sector – Basic indicators of the financial market – Banks.

¹⁹ The breakdown into groups is provided in Annex 3. For analytical purposes, groups of banks are defined in terms of asset size. As of 31 December 2011, large banks administered total assets of more than CZK 200 billion, medium-sized banks had 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 foreign bank branches and building societies. For more details, see <http://www.cnb.cz> – Supervision – Aggregate information on the financial sector – Basic indicators of the financial market – Banks – 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 2011)

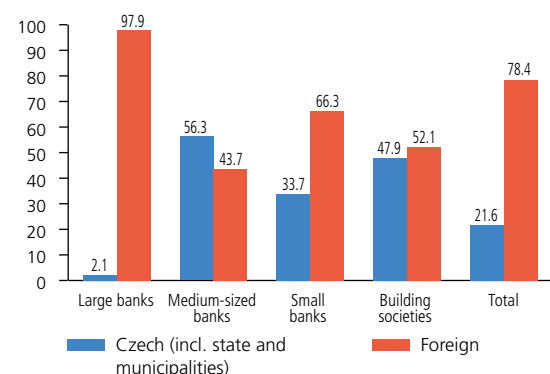
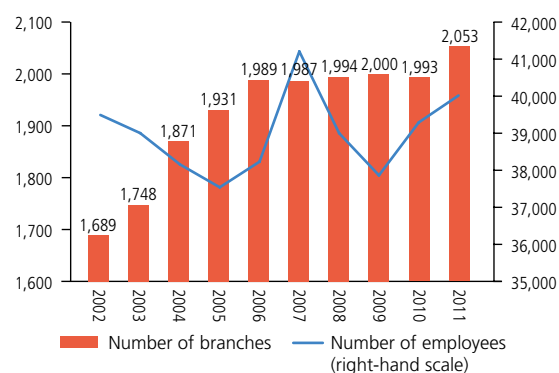


CHART II.3

Number of employees and number of branches

(inside and outside Czech Republic; for banks as of 31 December 2011)



and Česká spořitelna) are operating in EU countries under the single licence without establishing a branch (i.e. are not carrying permanent economic activity). Foreign activities are not significant for these banks. Three foreign branches of domestic banks were active in Slovakia at the end of 2011 (J&T Banka, Fio banka and Komerční banka).

2.1.1 Ownership structure

The shareholder structure of the Czech banking sector is stable. Foreign capital with a direct share (i.e. direct foreign shareholders holding shares directly, not through other entities) has long dominated the domestic banking sector's capital. The direct share was 78.4% at the end of 2011. Foreign capital predominates in five banks, while ten banks were wholly owned by foreign capital. By contrast, two banks were majority owned by Czech shareholders. Six banks were wholly Czech-owned (Hypoteční banka, Fio banka, J&T Banka and Modrá pyramida stavební spořitelna plus two state-controlled banks specialising mainly in export and business promotion – Českomoravská záruční a rozvojová banka and Česká exportní banka).

A total of 96.6% of the sector's total assets were directly or indirectly controlled by foreign owners at the end of 2011.²⁰ Owners from EU countries still dominate (with a slightly downward trend). The share of owners from the EU in the banking sector's foreign capital amounted to 91.0% at the end of 2011. Most of the owners of the "Big Four" come from EU countries. Shareholders from other territories have a more-than-marginal stake. The breakdown of ownership by EU country remains diverse.

2.1.2 Employees and banking units

The number of employees²¹ in the Czech banking sector increased by 1.8% in 2011, reaching 40,018 at the year-end. Banks set their personnel policies in accordance with their business and strategic plans, and particularly in relation to the range of services offered through their branch networks. Of the total year-on-year increase of 726 persons in the registered number of new banking sector employees, 314 are employees of banks that entered the market in 2011. Large banks are the largest employer in the banking sector, accounting for 66% of the sector's workforce. This group of four large banks reduced its workforce by 76 persons year on year.

At the end of 2011, there were 2,049 units ready to serve clients in the Czech Republic.

20 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.

21 The total number of banking sector employees (full-time and part-time).

The availability of banking services in the Czech Republic increased slightly. There were around 5,100 citizens per banking unit in the Czech Republic at the end of 2011, down by more than 3% from previous periods. The productivity of the banking sector as measured by total assets administered per employee decreased slightly in year-on-year comparison. It stood at CZK 114.1 million at the end of 2011.

2.1.3 Electronic banking

Bank clients are increasingly using various forms of electronic banking and accessing their bank accounts by card, internet or phone. This trend is being encouraged by banks' active fee policy, which supports and stimulates further use of electronic banking.

The number of current accounts with payment cards and PC access continued to rise rapidly in 2011. The number of current accounts of households (individuals) was up by 7.9% year on year at the end of 2011 and the number of current accounts with PC access increased by 18.7%. The share of accounts enabling access by card was more than 70% of the total number of accounts. The number of accounts accessible via a PC is also constantly rising and currently stands at almost 65%. Only the number of accounts without electronic access is falling in both absolute and relative terms. At the end of 2011, they made up to less than 10% of the total number of household current accounts. Banks are responding to client needs by continuing to expand 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.

The number and availability of ATMs continue to increase in the Czech Republic. In 2011, the number of ATMs ready to serve clients increased by 181 (or by 4.8% year on year). Banks are focusing on self-service zones, where more than 21% of the total number of ATMs are located.

Clients are increasingly using payment cards – both debit and credit cards – for non-cash payments. Payment cards are increasingly being used for payments to retailers, where the year-on-year growth rates of the number and volume of transactions in the Czech Republic and abroad reached double figures. Compared to the end of 2010, the volume of card payments rose by 18.5% in the Czech Republic and by as much as 26.3% outside the Czech Republic. The total volume of payments to retailers exceeded 25% of the total volume of card transactions at the end of 2011, up by 2.6 percentage points compared to the end of 2010 and by 5.2 percentage points compared to the end of 2009. Clients are increasingly using the cashback service for card holders, which allows them to withdraw cash directly at retailers.

TABLE II.3

Number of employees and banking units in Czech banking sector

(for banks with licences as of the given date)

	2009	2010	2011
Number of employees	37,765	39,150	39,822
Number of banking units	1,998	1,990	2,049
Number of employees			
per bank	968	955	905
per banking unit	18.9	19.7	19.4
Number of citizens			
per bank (thous.)	269.4	256.9	238.7
per banking unit (thous.)	5.3	5.3	5.1
per employee	278.2	269.0	263.8

TABLE II.4

Electronic banking

(for banks with licences as of the given date)

	2009	2010	2011
Number of ATMs	3,573	3,754	3,935
Number of cards issued (thous.)			
total	9,348	9,406	9,810
debit cards	7,812	7,867	7,988
credit cards	1,537	1,540	1,822
Current accounts (households; thous.)			
total	8,433	9,001	9,716
with cards issued	5,984	6,199	6,836
with PC access	4,393	5,282	6,270
with telephone access	3,658	4,072	4,179
without electronic access	1,046	974	951

TABLE II.5

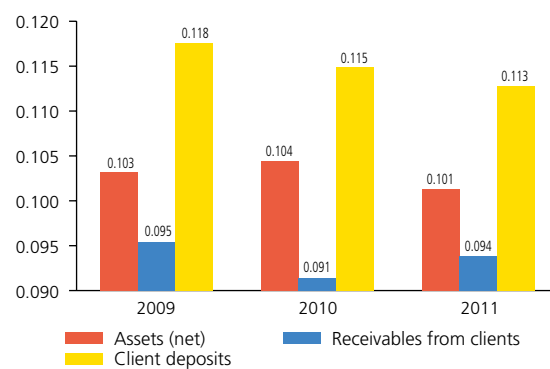
Card transactions

(for banks with licences as of 31 December 2011)

	2009	2010	2011
NUMBER OF TRANSACTIONS (thous.)			
TOTAL	101,580	114,076	130,040
a) in Czech Republic	97,234	108,267	122,792
i) ATM withdrawals	47,091	48,833	50,978
ii) over-the-counter withdrawals	2,482	2,178	1,906
iii) payments to retailers	47,660	57,256	69,908
b) outside Czech Republic	4,347	5,809	7,248
i) ATM withdrawals	1,374	1,583	1,633
ii) over-the-counter withdrawals	7	7	8
iii) payments to retailers	2,966	4,219	5,607
VOLUME OF TRANSACTIONS (CZK millions)			
TOTAL	260,744	268,470	287,017
a) in Czech Republic	248,866	255,628	272,683
i) ATM withdrawals	180,614	182,286	190,165
ii) over-the-counter withdrawals	21,745	19,641	18,902
iii) payments to retailers	46,507	53,701	63,616
b) outside Czech Republic	11,878	12,843	14,333
i) ATM withdrawals	6,310	5,996	5,710
ii) over-the-counter withdrawals	95	74	71
iii) payments to retailers	5,473	6,773	8,553

CHART II.4

Herfindahl indices of market competition



2.2 ACTIVITIES OF THE BANKING SECTOR

The Czech banking sector recorded growth in 2011. Its total assets rose by CZK 287.6 billion (6.9%) to CZK 4,476.5 billion in 2011. The higher growth rate of assets compared to 2010 is consistent with rising demand for bank products due to the evolution of interest rates and macroeconomic indicators in the period under review. Except for some foreign bank branches and one building society, all banks contributed to the growth in total assets. The largest contribution – of more than 45% – came from the group of large banks, whose assets rose by 5.4% (CZK 130.6 billion). The “Big Four” banks contributed to this growth. The total assets of all medium-sized and small banks were higher than a year earlier. Only the foreign bank branch group recorded mixed developments, although it showed strong growth (8.9%) as a whole. Six branches saw a decline in activities in the form of a decrease in total assets, mainly as a result of changes in their

TABLE II.6

Banking sector assets

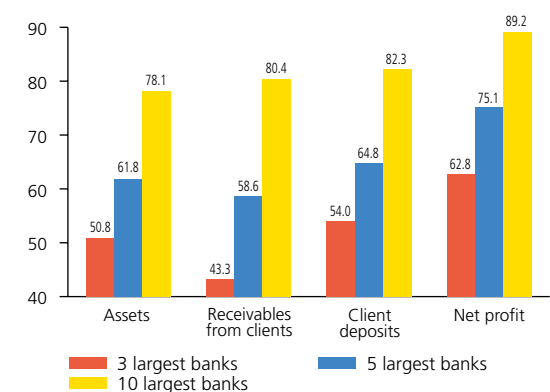
(at net value; in CZK billions)

	2009	2010	2011	Structure 2011 (in %)
TOTAL NET ASSETS	4,095	4,189	4,476	100.0
Cash	40	40	40	1.0
Cash balances with central banks	385	396	389	9.4
Financial assets held for trading	250	225	271	5.4
Financial assets designated at fair value through profit or loss	47	45	29	1.1
Available-for-sale financial assets	395	400	443	9.5
Loans and receivables	2,487	2,575	2,735	61.4
Held to maturity investments	315	338	380	8.1
Derivatives – hedge accounting (positive fair value)	22	25	34	0.6
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0.0
Tangible and intangible assets	45	45	46	1.1
Investments in associates, subsidiaries and joint ventures	68	72	78	1.7
Other assets	42	26	30	0.7

CHART II.5

Concentration of banking sector

(in %; as of 31 December 2011)



operational strategies in the Czech Republic or of changes in the business policies of their parent banks. Owing to dynamic growth in the medium-sized bank group and the entry onto the market of new entities included in the small bank group, the share of large banks in the total assets of the banking sector decreased by 0.8 percentage point to 57.2% at the end of 2011. The degree of concentration of the banking sector, as measured by the Herfindahl index, decreased in terms of total assets (0.101), and the degree of concentration on the client deposit market was also lower (0.113). Client receivables showed the opposite trend, as the degree of concentration increased (0.094).²²

²² 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.

The concentration of the domestic banking sector, as measured by the shares of the three, five or ten largest entities in the market, decreased slightly in 2011 compared to the previous year in the case of total assets, deposits and profit indicators. Only client receivables are more concentrated in market-leading bank groups. The greatest concentration is traditionally recorded for net profit. The three largest banks generated almost 63% of the total net profit of the domestic banking sector and the ten largest banks accounted for almost 90% of this indicator.

The Czech banking sector is traditionally oriented towards traditional banking based on deposit-taking and lending. Loans and receivables, which increased by 6.2% year on year, have long accounted for the largest share in the asset structure (more than 61% of total assets at the end of 2011).²³ The banking sector's credit exposure was in an upward phase in 2011. The increase in the sector's assets was due mainly to client receivables, which account for more than half of total assets; they increased by 6.6%. By contrast, receivables from credit institutions fell by 1.4%. This represents a change in trend in the interbank market compared to 2010. The year-on-year decrease in banks' exposure to the Czech National Bank was 1.7%.

2.2.1 The loan portfolio (sectoral breakdown)²⁴

The total receivables of the banking sector increased almost constantly throughout the year. Domestic banks' total loans to clients rose by CZK 129.7 billion (6.0%) to CZK 2,304.5 billion from the end of 2010. Year-on-year credit growth was 2.5 percentage points higher than in 2010.

Loans provided to households (individuals and trades) and non-financial corporations were the driver of growth in lending in 2011. Receivables from households rose by CZK 67.1 billion during 2011, to CZK 1,095.3 billion. Loans to households have the largest share in the banking sector's total loan portfolio. This share is still rising gradually and reached 47.5% at the end of 2011. The share of loans to households exceeded that of loans to the corporate sector by 11.6 percentage points. Loans to households consist mostly of loans to individuals, although their growth was slower in 2011 than in previous years. Loans to individuals rose by CZK 48.2 billion (5.0%) in 2011, accounting for 43.8% of the total receivables of the banking

²³ The assets of the banking sector comprise cash, receivables, securities, tangible and intangible assets and other assets.

²⁴ 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 2.3.1 *Credit risk*.

CHART II.6

Receivables in 2011

(in CZK billions)

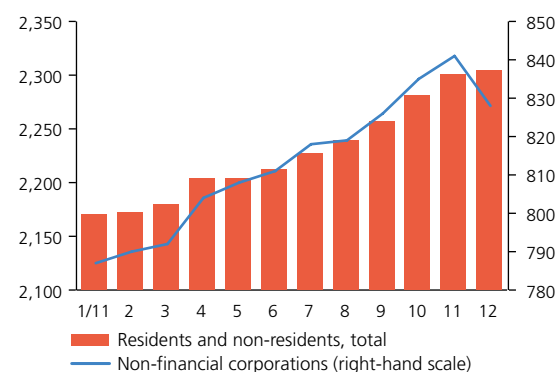


TABLE II.7

Receivables by sector

	Volume in CZK billions			Change 2011/2010 (in %)
	2009	2010	2011	
TOTAL	2,102	2,175	2,304	6.0
A. RESIDENTS	1,953	2,008	2,108	5.0
non-financial corporations	782	780	828	6.1
financial institutions	130	118	117	-1.2
general government	66	65	64	-1.1
households	940	1,028	1,095	6.5
trades	43	40	38	-5.5
individuals	898	961	1,009	5.0
other – owners' associations	0	27	48	77.9
non-profit institutions				
serving households	34	16	3	-81.6
B. NON-RESIDENTS	149	167	197	18.0

CHART II.7

Sector structure of loan portfolio

(in CZK billions)

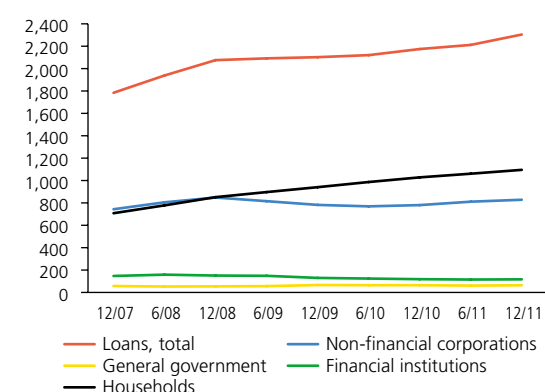
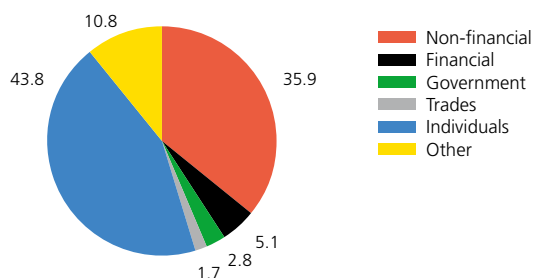


CHART II.8

Structure of loans by economic sector

(in %; as of 31 December 2011)



Note: Only loans granted in the Czech Republic

TABLE II.8

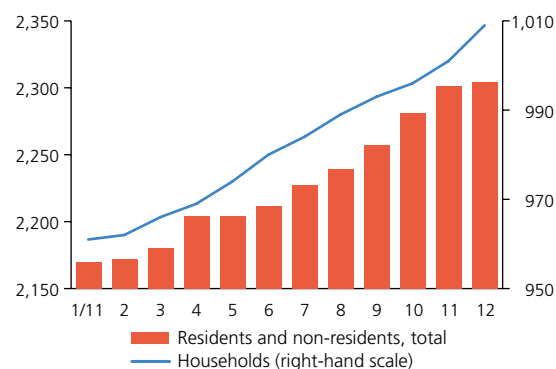
Loans to individuals by time and type

	Volume in CZK bn			Change 2011/2010 (in %)
	2009	2010	2011	
TOTAL LOANS AND RECEIVABLES	898	961	1,009	5.0
of which:				
short-term	32	39	42	8.1
medium-term	39	47	42	-9.4
long-term	827	875	924	5.7
of which:				
housing loans	684	728	773	6.1
of which mortgage loans for housing purposes	554	605	659	9.0
consumer credit, including current account overdrafts	186	199	196	-1.6
other	28	33	40	19.7

CHART II.9

Receivables in 2011

(in CZK billions)



sector.²⁵ Since 2010, a new item of the other households – owners' associations subsector has been reported.²⁶ This represents a dynamic element on the loan market. Although the enormous year-on-year increase (77.9%) is due to a low base, receivables from owners' associations rose by CZK 21.1 billion in 2011. This was stimulated partly by subsidies granted under the "Green Light to Savings" programme, which – combined with the possibility of borrowing money – enable housing stock to be reconstructed.

Interest rates were at historical lows in 2011. Interest rates on new loans were falling. This, together with the evolution of prices on the real estate market, was one of the reasons for the rise of 9.0% in mortgage loans for house purchase overall and for the increase of 6.1% in housing loans. The share of loans to non-financial corporations is constantly falling. Since the end of 2002, loans to non-financial corporations has accounted for less than half of total loans provided. Their share was flat at 35.9% at the end of 2011. Amid an overall rise in lending, the volume of loans to non-financial corporations also rose by CZK 47.8 billion (6.1%) in 2011 and their total value reached CZK 828.2 billion. The banking sector's exposure to private non-financial corporations increased in absolute terms in the case of both domestic owners, to which it granted 5.1% (CZK 27.1 billion) more in loans in 2011 than in 2010, and foreign-controlled private non-financial corporations, to which it granted 10.3% (CZK 22.6 billion) more in loans. Their shares in total loans were 24.4% and 10.5% respectively at the end of 2011.

Activity on the interbank market is falling slightly. The share of loans to financial institutions in total banking sector loans fell further from 5.4% to 5.1% in 2011, and the volume of such loans declined by 1.2% (CZK 1.4 billion) year on year.

Banks' exposure to general government (loans adjusted for bond holdings) saw a similar trend, also decreasing by 1.1% year on year. The share of these loans in the total loans of the banking sector fell to 2.8%. Total receivables from these institutions decreased by CZK 0.7 billion to CZK 64.2 billion. This decrease was due mainly to an 18.2% decline in loans to central government, which account for more than 27% of the total volume of such loans.

²⁵ Since 2010, other households – owners' associations have been given separately. The year-on-year changes are therefore modified.

²⁶ Starting from 2010, the household sector is divided into trades, individuals and other households – owners' associations.

2.2.2 Loans to individuals²⁷

Loans to individuals form the largest part of the domestic credit market. Loans to individuals (excluding trades) have the biggest share (48.9%) of domestic bank lending. Private individuals' debt is rising steadily in the Czech Republic. Such loans with domestic banks continued to rise in 2011, although the year-on-year rate of growth continued to fall. As of the end of 2011, bank loans to individuals totalled CZK 1,009.0 billion. Their year-on-year growth rate decreased by 2.0 percentage points from 2010, to 5%. New loans to individuals amounted to CZK 238.4 billion in 2011.

The structure of loans to individuals is affected above all by home buying. Loans for house purchase make up most of households' (or individuals') debt. At the end of 2011 they accounted for 77.6% of all loans to individuals.²⁸ This roughly three-quarter share has been stable over the past few years. Loans for house purchase were CZK 44.7 billion higher in 2011 than in the previous year, but the growth rate was 0.2 percentage point lower at 6.1%.

Demand for loans for house purchase is concentrated on mortgage loans,²⁹ which rose by a further CZK 54.3 billion (9.0%) in 2011 to CZK 659.0 billion, making up 65.3% of total loans to individuals.³⁰ Loan financing of housing needs is reflected in the time structure of lending. Loans for house purchase, particularly mortgage loans, are long-term in nature. The share of these loans in total loans to individuals is stable and exceeded 91% at the end of 2011.

Building societies were an important source of co-financing of housing needs and financing of home modernisation and reconstruction. As of the end of 2011, building societies provided loans totalling CZK 293.1 billion. This represented a stagnation, or rather a slight year-on-year decrease of CZK 0.2 billion owing to changes in the terms and conditions of building saving schemes.³¹ In 2010, loans provided by building societies had increased by 8.5% overall, although this was half the figure recorded in 2009. The stagnation was reflected in the loans-to-savings ratio, which fell to 67.6%. The changes in terms and conditions in the building saving scheme market affected the numbers of new building savings contracts. Their number has been falling constantly since 2009. In 2011, building savings clients signed 23.0% fewer new contracts than a year earlier (410,500 new

²⁷ 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, households include trades and, since 2010, also other households – owners' associations.

²⁸ In addition to mortgage loans, housing loans include building society loans (standard and bridging) and consumer credit for real estate purchase or reconstruction.

²⁹ Total mortgage loans (residents and non-residents) are given for all sectors.

³⁰ A year-on-year comparison, or a comparison with the end of 2008, is misleading on the mortgage market owing to the new (wider) definition of mortgage loans laid down in Act No. 190/2004, on Bonds.

³¹ Table II.9 also includes loans provided by building societies which are of a mortgage loan nature (i.e. secured with a lien on property).

CHART II.10

Interest rates on new loans in 2011

(in %)

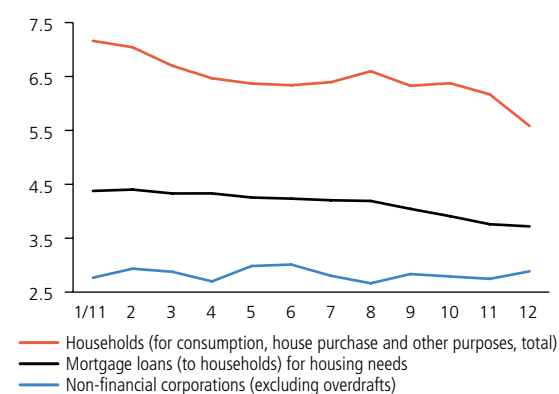


TABLE II.9

Basic indicators of building saving schemes

	2009	2010	2011	Change 2011/2010 (in %)
No. of new schemes (thous.)	575	533	410	-23.0
No. of schemes in saving phase (thous.)	4,926	4,845	4,550	-6.1
Amount saved (CZK billions)	415	430	433	0.8
Total loans (CZK billions)	268	293	293	0.1
of which:				
building savings loans (CZK billions)	49	53	56	5.1
bridging loans (CZK billions)	219	240	237	-1.2
Total loans/amount saved (%)	64.4	68.2	67.6	-0.9
State support granted (CZK billions)	13.3	11.7	10.7	-8.6

contracts). A total of CZK 10.7 billion was paid to building saving scheme participants in the form of state support in 2011. This represents a CZK 1.0 billion year-on-year decrease in this state budget expenditure.

Consumer credit (including current account overdrafts) did not increase household debt any further in 2011. Its total value fell by CZK 3.1 billion year on year. Consumer credit provided to households totalled CZK 196.1 billion as of 31 December 2011. The consumer credit repayable by Czech households at the end of 2011 was 1.6% lower than a year earlier.

2.2.3 Other asset items

Receivables from the interbank market are a major item of domestic bank's assets. At the end of 2011 they amounted to CZK 465.3 billion, accounting for 11.4% of banking sector assets. This market saw a decline of just 1.4% compared to the end of 2010 and recorded values only 0.3% lower than at the end of 2007, i.e. before the financial market crisis.

At CZK 389.2 billion, receivables from central banks were also significant, accounting for 8.7% of the balance-sheet assets of the sector. They consist chiefly of receivables arising from repo operations with the Czech National Bank.

Securities were also strongly represented in bank assets, with the value of debt securities strongly exceeding that of equity instruments and interests in associates and subsidiaries. The total value of securities in the period under review was CZK 1,069.9 billion, of which debt securities totalled CZK 982.2 billion. The value of debt securities held by banks increased by 11.0% year on year. Banks' portfolios recorded

TABLE II.10

Banking sector liabilities

	Volume in CZK billions			Structure 2011 (in %)
	2009	2010	2011	
TOTAL LIABILITIES	4,095	4,189	4,476	100.0
Deposits, loans and other financial liabilities vis-à-vis central banks	3	2	4	0.1
Financial liabilities held for trading	138	122	323	7.2
Financial liabilities designated at fair value through profit or loss	116	132	19	0.4
Financial liabilities measured at amortised cost	3,451	3,524	3,685	82.3
Derivatives - hedge accounting (negative fair value)	18	19	23	0.5
Negative fair value changes of hedged items in portfolio	0	0	0	0.0
Provisions	11	10	10	0.2
Other liabilities	38	38	50	1.1
Equity, total	320	343	363	8.1
of which:				
issued capital	75	79	85	1.9
retained earnings	106	126	136	3.0
profit for accounting period	60	56	53	1.2

an increase in debt securities issued by government institutions, which accounted for 68.0% of all securities issued (CZK 727.3 billion, 92.5% of which were domestic). The shares of debt securities held to maturity (36.5%) and held for trading (12.8%) are stable. Available-for-sale securities have the largest share (44.7%). Their value increased to CZK 443.5 billion as of the end of 2011.³²

The value of equity instruments³³ rose to CZK 9.9 billion year on year, up by CZK 1.6 billion on a year earlier. Their share in the securities of the banking sector stayed below 1%.

The value of ownership interests is affected by the evolution and structure of financial groups. In 2011, banks increased the value of their ownership interests by a further 7.5% to CZK 77.8 billion. Of this total, 97.6% (CZK 75.9 billion) were controlling shares.

The majority of these securities are still held by large banks (79.9%) and building societies (11.7%). Ownership interests are even more concentrated, the bulk of them (88.9%) being held by large banks (CZK 69.2 billion).

2.2.4 Banking sector funds

The banking sector as a whole has long had sufficient funds. Client deposits³⁴ totalled CZK 2,949.9 billion as of 31 December 2011, up by CZK 130.4 billion (4.6%). Increases were recorded by both deposits of other clients (up by 4.4%)³⁵ and general government deposits (up by 6.6%). Deposits of credit institutions on the interbank market started to increase more significantly (by CZK 52.2 billion). The domestic banking sector increased its liabilities to credit institutions by 11.6% to CZK 500.2 billion in 2011.

Following an increase in loans provided by the central bank to almost CZK 40 billion in 2008 to support the stability and confidence of the Czech interbank market, such loans decreased in 2009 and amounted to CZK 3.5 billion in 2011. Non-government client accounts recorded an inflow of CZK 111.1 billion in 2011. Clients are still seeking safe deposits on bank accounts. Insured bank deposits are one such product. At the same time, clients prefer current account deposits, as the year-on-year growth of the latter is higher than that of time

³² Available-for-sale securities cannot be classified as securities for trading or as securities held to maturity or as ownership interests.

³³ 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.

³⁴ Total deposits from clients, including central banks.

³⁵ The breakdown of client deposits by sector (general government, other clients) includes central banks.

CHART II.11

Client deposits in 2011

(in CZK billions)

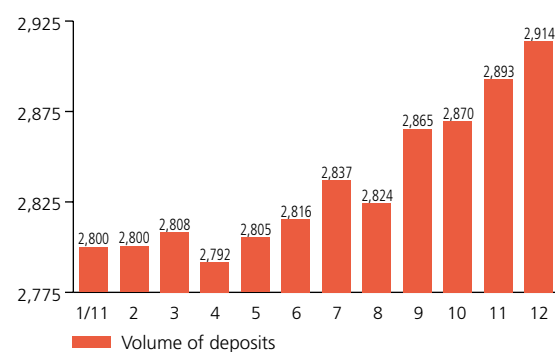
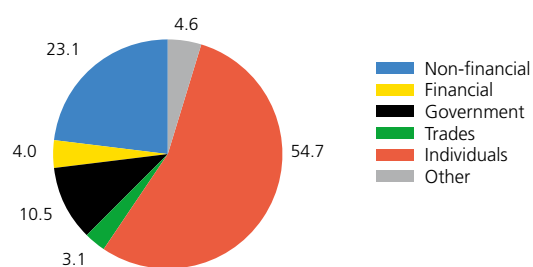


CHART II.12

Structure of deposits by economic sector

(in %, as of 31 December 2011)



Note: Only deposits accepted in the Czech Republic

TABLE II.11

Client deposits by sector

	Volume in CZK billions			Change 2011/2010 (in %)
	2009	2010	2011	
TOTAL	2,698	2,789	2,914	4.5
A. RESIDENTS	2,624	2,700	2,829	4.8
non-financial corporations	611	633	673	6.4
financial institutions	118	117	117	0.3
general government	306	285	305	7.0
households	1,551	1,642	1,711	4.2
trades	86	85	91	7.5
individuals	1,465	1,536	1,594	3.8
other – owners' associations	0	20	26	27.6
non-profit institutions	38	23	23	-2.7
serving households				
B. NON-RESIDENTS	74	89	85	-4.8

deposits. Demand deposits accounted for 58.9% of total client deposits at the end of 2011. Time deposits were dominated by short-term deposits up to three months (62.3%).

Liabilities from debt securities issued rose by 7.9% year on year, totalling CZK 395.0 billion at the end of 2011.

Domestic banks regularly make profits and are still retaining a major part of their profits in their balance sheets as retained earnings and reserves. The year-on-year increase in retained earnings, serving to strengthen capital, was CZK 9.7 billion in 2011. Reserves were increased in line with legal requirements.³⁶

The shares of sectors in total deposits saw no major changes.³⁷ Household deposits rose slightly (by 3.8%) and account for almost 55% of total deposits. The share of non-financial corporations increased slightly to 23.1%. Trades sector deposits are increasing both in absolute terms and in relative terms within the sector. Their share edged up to 3.1% in 2011.

TABLE II.12

Banking sector off-balance sheet

	Volume in CZK billions			Change 2011/2010 (in %)
	2009	2010	2011	
SELECTED OFF-BALANCE SHEET ASSETS	6,942	6,344	6,694	5.5
of which:				
commitments and guarantees given	725	731	729	-0.3
pledges given	3	9	13	35.1
receivables from spot transactions	48	36	49	33.5
receivables from futures, forwards, swaps etc.	5,533	5,137	5,532	7.7
receivables from options transactions	563	366	298	-18.4
write-off receivables	31	35	39	11.6
values given to asset management	0	0	2	n.a.
values given to custody	39	29	32	10.5
SELECTED OFF-BALANCE SHEET LIABILITIES	9,852	9,734	10,076	3.5
of which:				
commitments and guarantees received	464	525	448	-14.7
pledges received	1,722	1,738	1,829	5.3
liabilities from spot transactions	51	40	52	30.6
liabilities from futures, forwards, swaps etc.	5,527	5,136	5,536	7.8
liabilities from options transactions	562	366	298	-18.5
values received to asset management	46	58	60	4.3
values received to custody	1,480	1,872	1,852	-1.1
NET POSITION FROM SPOT TRANSACTIONS	-2.9	-3.5	-3.5	-0.3
NET POSITION FROM FUTURES, FORWARDS, SWAPS ETC.	6.0	1.3	-4.4	-442.1
NET POSITION FROM OPTIONS	0.9	-0.3	0.0	-109.6

³⁶ For more details on own funds, subordinated debt and banking sector reserves, see section 2.4 *Capital adequacy*.

³⁷ The sector structure of the total deposits of the domestic banking sector is based on the monetary statistics database.

2.2.5 Off-balance sheet transactions

The nominal value of off-balance sheet transactions rose slightly during 2011, mainly because of a higher volume of derivatives transactions. However, the increase in derivatives transactions was not substantial. Over the long term, the figures are fluctuating up and down. An general downward trend in the volume of derivatives transactions started in 2008. At the end of 2011, the volume of derivatives transactions was less than 57% of the mid-2008 level.

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 make up the largest share of off-balance sheet assets (68.5%), followed by transactions in currency instruments (30.6%). Banks engage only minimally in commodity, equity and credit derivatives trading. The transactions were mainly swaps, which account for more than 75% of derivatives transactions. Liabilities from derivatives transactions showed similar developments.

TABLE II.13

Classification of receivables from clients

	Volume in CZK billions			Change 2011/2010 (in %)
	2009	2010	2011	
INVESTMENT PORTFOLIO RECEIVABLES, TOTAL	2,520	2,643	2,790	5.6
A. RECEIVABLES FROM CLIENTS	2,118	2,196	2,340	6.6
non-default	2,004	2,054	2,196	6.9
standard	1,893	1,948	2,098	7.7
watch	111	106	98	-7.4
default	114	142	145	2.1
substandard	44	56	48	-14.7
doubtful	23	19	20	6.8
loss	47	67	77	14.8
B. RECEIVABLES FROM CREDIT INSTITUTIONS	402	447	450	0.6
non-default	401	446	449	0.6
standard	400	446	448	0.5
watch	1.0	0.7	1.0	50.2
default	1.4	1.0	0.8	-19.8
substandard	0.1	0.2	0.1	-31.0
doubtful	0.7	0.1	0.2	174.8
loss	0.6	0.8	0.5	-30.8
C. ALLOWANCES AND LOSS OF VALUE	65.1	79.0	80.3	1.7
allowances for individually assessed financial assets	56.2	66.4	70.4	5.9
allowances for individually non-impaired assets	2.2	2.4	1.9	-19.5
allowances for portfolio of individually immaterial assets	6.7	10.1	8.0	-20.9
Allowances and loss of value by sector	65.1	79.0	80.3	1.7
allowances and loss of value for credit institutions	0.2	0.3	0.2	-21.2
allowances and loss of value for clients	64.9	78.7	80.1	1.8
Allowances and loss of value/investment portfolio receivables (%)	2.58	2.99	2.88	-3.7
Allowances and loss of value/default receivables (%)	57.1	55.7	55.5	-0.4
D. RECEIVABLES IN DEFAULT (%)				
Share of receivables in default in total investment portfolio	4.58	5.40	5.22	-3.3
Share of receivables in default from clients in total receivables from clients	5.38	6.45	6.18	-4.2

TABLE II.14

Receivables in default by sector

	Volume in CZK bn			Change 2011/2010 (in %)
	2009	2010	2011	
RECEIVABLES IN DEFAULT, TOTAL	110.1	135.8	137.1	0.9
non-financial corporations	61.9	70.2	67.9	-3.3
financial institutions	0.8	0.6	1.0	53.1
general government	0.22	0.35	0.27	-23.7
households	38.6	53.3	54.3	1.8
of which:				
trades	4.6	5.0	4.7	-5.3
individuals	34.0	48.3	49.5	2.5
other - owners' associations	n.a.	0.01	0.04	720.0
non-profit institutions serving households	0.08	0.07	0.08	18.5
non-residents	8.4	11.3	13.6	20.6

The growth in derivatives transactions was attributable mainly to receivables from swaps, which increased by CZK 296.7 billion in this period (7.3% year on year). Swaps made up more than 75% of derivatives transactions. As regards the instruments used, the largest increase (of 7.6%) was recorded by receivables from fixed-term transactions in interest rate instruments.

2.3 RISKS IN BANKING

2.3.1 Credit risk

The quality of the loan portfolio started to stabilise during 2011. The volume of non-default receivables grew faster than the volume of default receivables, while the share of default receivables in the investment portfolio as a whole shrank slightly. The dynamics of allowance creation also declined.

Credit risk is the most significant risk undertaken by the Czech banking sector. Since 2004, the volume of default loans (formerly referred to as non-performing loans) has been going up owing to rapid growth in banks' loan portfolio. Since 2009, the quality of the loan portfolio has been affected mainly by the inability of bank clients to meet their obligations owing to a deterioration in their economic conditions and to labour market developments.

Loan quality is assessed according to whether or not default has taken place.³⁸ Non-default loans accounted for the vast majority of the banking sector's investment portfolio at the end of 2011 (94.8%). This figure comprises standard receivables (91.2%) and watch receivables (3.6%). The share of non-default loans classified as standard loans increased by 0.5 percentage point year on year.

The loan portfolio improved slightly compared to 2010, albeit less so than in 2009. Non-default receivables accounted for CZK 2,644.6 billion of the total value of investment portfolio receivables of CZK 2,790.1 billion. The total value of default receivables rose by CZK 2.8 billion (2.0%) to CZK 145.5 billion in 2011. They accounted for 5.2% of total receivables, down by 0.2 percentage point from a year earlier. As every year, loan portfolio quality showed mixed trends across the individual groups of banks, but the shares of default receivables decreased during 2011 in all groups of banks except medium-sized banks, where portfolio quality deteriorated. At the end of 2011, the share of default receivables in the value of total investment portfolio receivables (8.1%) was largest in medium-sized banks and smallest in credit unions (2.1%).

The banking sector again created allowances to cover the loan portfolio losses in 2011, but the dynamics of allowance creation declined. The volume of allowances rose by CZK 1.3 billion (1.7%) year on year to CZK 80.3 billion. Individually assessed allowances made up the largest share of the total volume of allowances (87.6%).

³⁸ See Decree No. 123/2007 Coll., on prudential rules for banks, credit unions and investment firms.

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 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).

CHART II.13

Shares of default loans in total banking sector loans (in %)

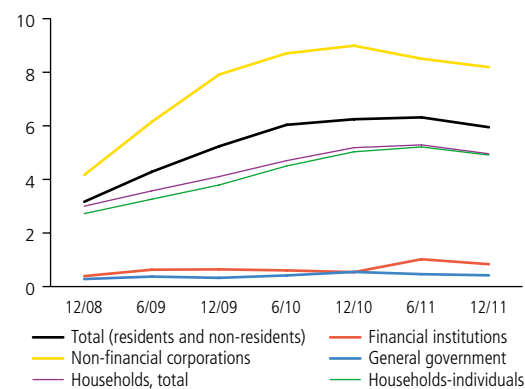


CHART II.14

Shares of default loans in loans to individuals (in %)

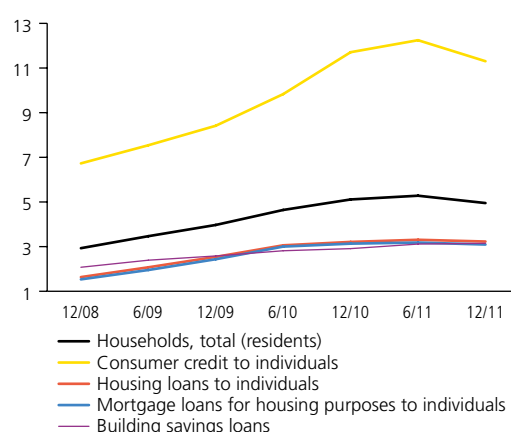


CHART II.15

Loan portfolio quality

(in CZK billions; individually assessed client loans)

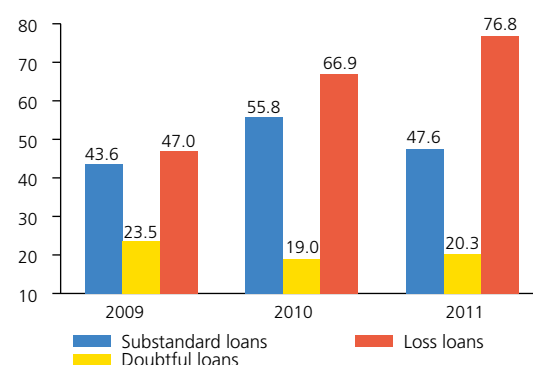
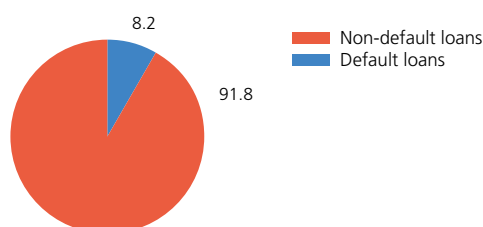


CHART II.16

Structure of loans in default provided to non-financial corporations

(in %; as of 31 December 2011)



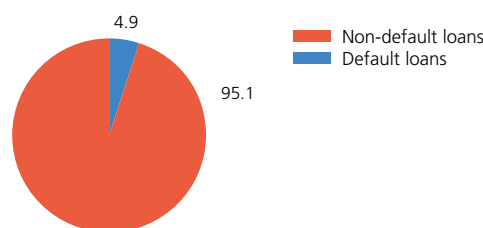
The value of default receivables in the loan portfolio of the non-financial corporations subsector decreased by CZK 2.3 billion year on year (as compared to an increase of CZK 8.3 billion in 2010). These default receivables accounted for 8.2% of total loans to non-financial corporations, down by 0.8 percentage point from the end of 2010.

In 2011, the rise in default receivables was most pronounced in the loan portfolio of the households-individuals subsector. The value of these receivables rose by CZK 1.2 billion year on year and their share in total loans provided to households was 4.9%. The value of default loans and their share in total loans in the household sector were affected mainly by economic developments and labour market conditions. Loans for house purchase are traditionally higher in quality and record a constantly lower proportion of problem loans (3.2%). This share remained the same as 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. Mortgage loans to households for house purchase have even higher portfolio quality. Their default rate amounted to just 3.1% at the end of 2011. By contrast, the default rate is higher for consumer credit (11.3%), which is provided in higher numbers and lower amounts for various specified and unspecified purposes, including current account overdrafts. The higher degree of risk of such credit is offset by the interest rate level.

CHART II.17

Structure of loans in default provided to individuals

(in %; as of 31 December 2011)

**2.3.2 Foreign exchange risk**

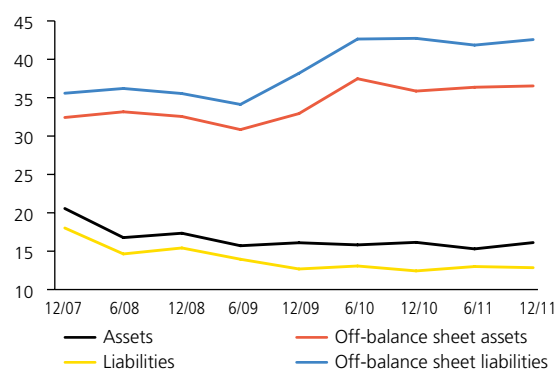
As in previous years, the foreign exchange risk of the domestic banking sector in 2011 was assessed as limited. In 2011, the absolute amounts of the sector's foreign currency assets and liabilities increased by 6.5% and 10.5% respectively. However, their shares in the sector's total assets were flat at 16% for assets and declined to 13% for liabilities. In absolute terms, foreign currency assets and liabilities totalled CZK 746.3 billion and CZK 575.3 billion respectively as of 31 December 2011. Foreign currency off-balance sheet assets and liabilities showed similar developments. In absolute terms, foreign currency off-balance sheet assets increased by CZK 165.6 billion and foreign currency off-balance sheet liabilities by CZK 104.1 billion. Their shares in off-balance sheet assets and liabilities exceeded 36% for assets and 42% for liabilities. 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 2011 in a surplus of balance sheet assets over liabilities (of CZK 171.0 billion).

Receivables from clients and credit institutions had the largest share (almost 75%) in foreign currency assets. The highest-weight item of foreign currency receivables from clients rose by CZK 55.2 billion (17.6%) year on year to CZK 369.5 billion. Foreign currency securities (including ownership interests) held by the banking sector also increased by CZK 11.5 billion to CZK 148.4 billion in 2011.

CHART II.18

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

(in %)



By contrast, foreign currency receivables from credit institutions recorded a sharp decline (of 14.5%). Banks reduced their exposure by CZK 31.5 billion and these loans declined to CZK 186.6 billion.

On the liability side of the Czech banking sector, banks concentrated their foreign currency financial liabilities mainly in credit institutions and clients. Liabilities to clients accounted for almost 50% of all foreign currency liabilities, totalling CZK 267.6 billion at the year-end (up by 4.3% year on year). Liabilities to credit institutions rose the most in absolute terms – by CZK 25.3 billion. Foreign currency liabilities from securities increased by CZK 4.3 billion to CZK 61.9 billion at the end of this period.

Roughly 92% and 88% of the growth in the shares of off-balance sheet foreign currency assets and liabilities respectively were due to derivatives transactions.

2.3.3 Territorial risk (country risk)

Domestic banks' activities are mostly focused on domestic clients and are mostly local in nature. Financial transactions with non-residents are conducted mainly in the interbank market, particularly as regards derivatives transactions. In addition, banks hold securities issued by foreign entities in their portfolios. Non-resident activities are largely concentrated in the off-balance sheet.

At the end of 2011, non-resident assets amounted to CZK 712.5 billion and their share in the total assets of the banking sector was unchanged. Non-resident liabilities rose by CZK 49.1 billion to CZK 586.1 billion in the same period.

Interbank transactions dominate both non-resident assets and liabilities. As of 31 December 2011, liabilities to banks accounted for more than 46% of all financial liabilities of non-residents (CZK 270.1 billion). Receivables from banks (non-residents) were also predominant on the asset side, accounting for more than 34% and amounting to CZK 243.3 billion. Non-residents' liabilities to banks recorded an annual increase of 3.8%, while non-residents' receivables from banks showed the opposite trend, recording an annual decline of 15.6%.

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 asset holdings. The rankings of the countries in the three leading positions remain the same. Compared to 2010, Austria – with asset holdings exceeding CZK 78 billion – ranked fourth and overtook Belgium. The Russian Federation also increased its exposure in year-on-year terms, while Germany dropped to eighth place. The ten countries to which the Czech banking sector had the largest exposures were almost all EU countries. The exception was the Russian Federation, which ranked

CHART II.19

Shares of foreign currencies in banking sector balance sheet and off-balance sheet in 2011

(in %)

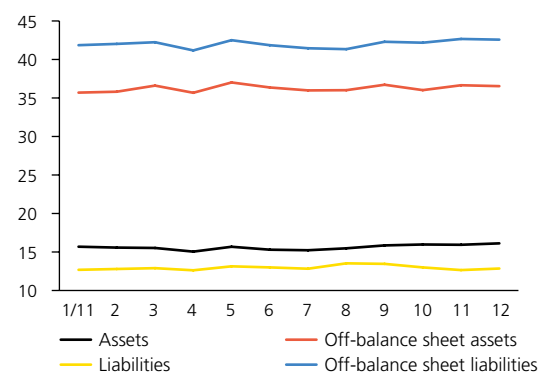


CHART II.20

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

(in %)

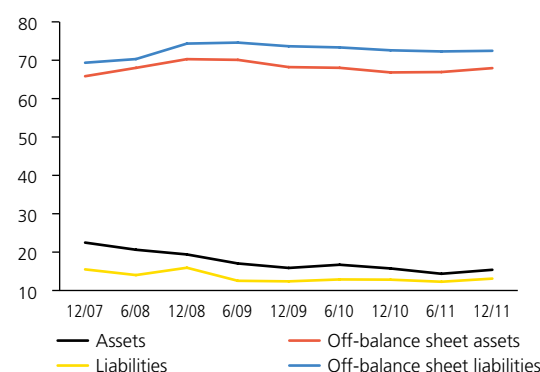


CHART II.21

Shares of non-resident transactions in banking sector balance sheet and off-balance sheet in 2011

(in %)

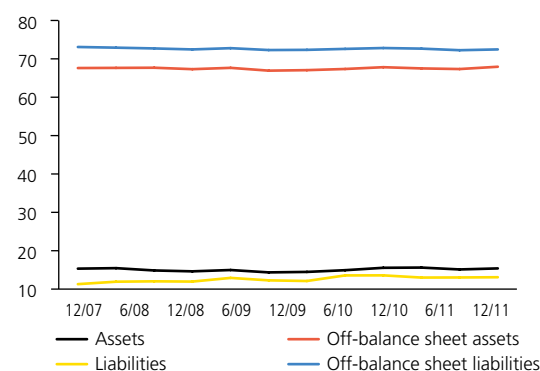


TABLE II.15

The ten countries to which the Czech banking sector had the largest exposures as of 31 December 2011

(in CZK billions)

	Assets, total	of which:		
		Receivables from credit institutions	Receivables from clients	Bonds
Netherlands	108.8	60.5	26.8	11.9
Slovakia	95.5	19.7	50.6	20.4
United Kingdom	87.7	24.9	3.8	2.0
Austria	78.2	54.8	8.2	4.1
Belgium	53.6	28.1	3.9	3.1
Russian Federation	49.4	10.2	37.2	1.4
Poland	39.0	3.4	12.6	15.4
Germany	35.4	14.8	2.4	3.1
France	33.1	15.0	1.4	8.5
Cyprus	19.3	0.0	17.1	0.2

sixth in terms of holdings of the total assets of the domestic banking sector. Exposure to these ten countries exceeded 84% of the total international exposure.

The banking sector recorded its largest open net positions (i.e. the difference between assets and liabilities transactions, including off-balance sheet transactions) vis-à-vis the Netherlands (positive, CZK 74.6 billion), Luxembourg (negative, CZK 56.0 billion) and Germany (negative, CZK 42.7 billion) as of 31 December 2011.

2.3.4 Liquidity risk

The liquidity of the Czech banking sector is still very good. The sector as a whole has enough liquid funds and the liquidity sub-indicators remained stable during 2011. Quick assets³⁹ increased by CZK 109.8 billion (10.0%) year on year to CZK 1,202.9 billion in the period under review. The year-on-year increase in quick assets was 3.2 percentage points larger than the rise in the sector's total balance sheet assets and the share of quick assets in total banking sector assets thus recorded a year-on-year increase of 0.8 percentage point to 26.1%. The liquidity position was enhanced mainly by an annual increase of CZK 102.1 billion in holdings of general government bonds. Loan coverage by primary funds is stable above 130%.

On the interbank market, total receivables from banks exceeded total liabilities to these institutions by CZK 35.0 billion at the end of 2011.

CHART II.22

Quick assets

(in CZK bn and %)

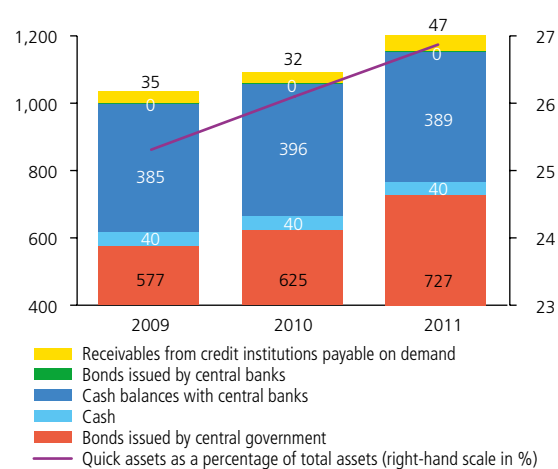


TABLE II.16

Selected liquidity indicators

	2009	2010	2011
TOTAL QUICK ASSETS (in CZK billions)	1,036	1,093	1,203
Total quick assets/total assets (in %)	25.3	26.1	26.9
Total quick assets/total client deposits (in %)	38.0	38.8	40.8
Cumulative net balance sheet position to 3 months net of 80% of demand deposits (in %)	-11.1	-9.0	-12.9
Position on interbank market (CZK billions)	1	24	-35
receivables from banks	428	472	465
liabilities to banks	427	448	500
Loan coverage by primary funds (in %)	132.5	133.0	130.5
Share of demand deposits in total deposits, including banks (in %)	48.3	51.0	51.5

³⁹ 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 to ensure adequate capital for the risks undertaken.

In 2011, the regulatory capital of the Czech banking sector (i.e. capital adjusted for the purposes of the capital adequacy calculation) increased by 4.9% (CZK 14.2 billion) to CZK 303.5 billion. Tier 1 rose by 7.1% to CZK 282.0 billion in 2011. Reserve funds and – as usual – retained earnings were strengthened (by 8.2% in all). Total retained earnings rose by CZK 10.2 billion in the same period. A further increase of CZK 5.6 billion in the equity capital of some banks also had a relatively significant impact on the rise in regulatory capital.

Supplementary capital (Tier 2) recorded a further decline of 13.1% year on year in 2011, due mainly to a further decrease in subordinated debt⁴⁰ of 19.0% (CZK 6.5 billion). Subordinated debt was repaid in part in two banks in 2011, while in five banks it was increased by a total of CZK 2.1 billion. The share of Tier 2 in the total regulatory capital of the banking sector declined by 2.1 percentage points, amounting to 10.1% at the end of 2011.

Deductible items, which reduce the value of Tier 1 and Tier 2, dropped by CZK 0.2 billion overall in 2011.

Tier 3 was still not used in the domestic banking sector in 2011.⁴¹

Following a period of stagnation, the capital requirements in the domestic banking sector started to increase in 2011. They recorded an overall rise of 6.7% (CZK 10.0 billion) year on year to CZK 159.1 billion. Credit risk remains the main risk facing the banking sector. The capital requirement for credit risk accounted for 86.2% of the total capital requirement of the banking sector at the end of 2011. The capital requirements for operational risk and market risk accounted for 10.6% and 3.1% respectively of the total capital requirement. The capital requirement for other risks was negligible.

Banks set the capital requirements so as to cover all the risks they undertake. The capital requirements relating to credit risk are determined mainly on the basis of the evolution and quality of the banking sector's credit portfolio and are set depending on the measurement method used. The capital requirements for credit risk, which banks set using either the standardised approach (STA) or the advanced approach (IRB), increased by CZK 7.3 billion (5.6%) in 2011.

⁴⁰ Subordinated debt A increases the value of the supplementary capital (Tier 2). It can be no more than 50% of the value of Tier 1.

⁴¹ Tier 3 capital, which is intended to cover market risk, consists of subordinated debt with a minimum fixed maturity of two years.

CHART II.23

Quick assets in 2011

(in CZK bn)

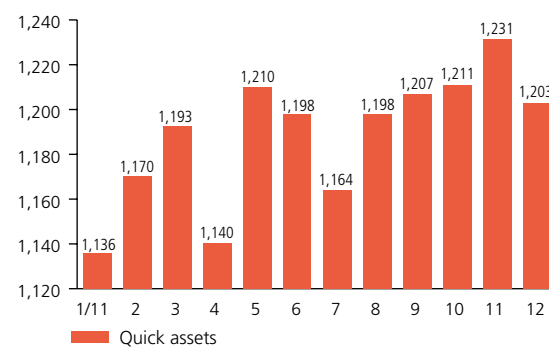


CHART II.24

Quick assets as a percentage of total assets in 2011

(in %)

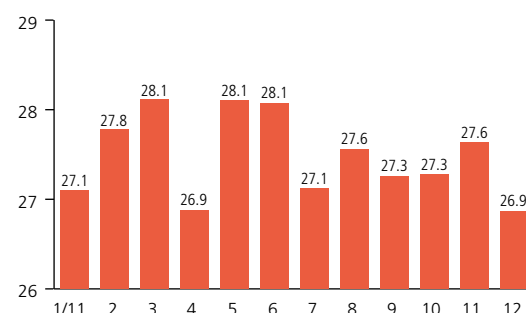


TABLE II.17

Banking sector capital structure

(in CZK billions)

	2009	2010	2011
A. TIER 1	237.6	263.4	282.0
Paid-up share capital registered in Commercial Register	75.4	79.4	85.0
Paid-up share premium	33.0	33.5	36.8
Reserve funds and retained earnings	143.2	164.3	175.9
mandatory reserve funds	29.8	29.8	30.3
other funds created from retained earnings	8.7	9.9	11.0
retained profits	104.8	124.8	135.1
profit for accounting period after tax	0.0	0.0	0.0
accumulated losses	0.1	0.2	0.3
other eligible items	0.0	0.0	0.0
Items deductible from Tier 1	14.0	13.8	15.7
current year loss	0.9	0.1	0.7
goodwill	2.7	2.7	2.7
intangible assets other than goodwill	10.3	10.7	11.7
own shares	0.2	0.2	0.7
others	0.0	0.1	0.0
B. TIER 2	38.0	35.3	30.7
Subordinated debt	37.9	34.5	28.0
Other capital funds	0.0	0.8	2.6
Items deductible from Tier 1 and Tier 2	10.8	9.4	9.1
Cap. invest. > 10% in banks and fin. inst.	2.8	2.7	3.0
Cap. invest. < 10% in banks and fin. inst.	0.0	0.0	0.0
Others	8.0	6.7	6.2
C. TIER 3	0.0	0.0	0.0
CAPITAL, TOTAL	264.7	289.4	303.5

TABLE II.18

Capital requirements and capital ratio of the banking sector

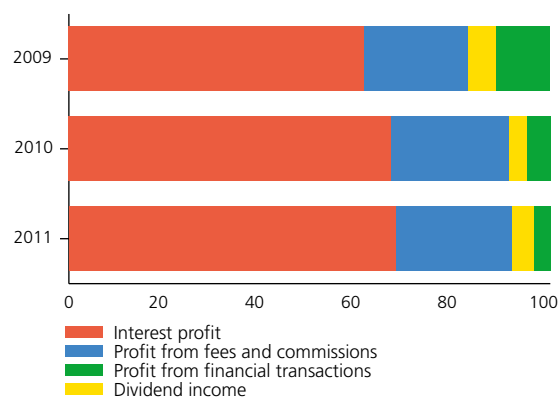
(in CZK billions and %)

	2009	2010	2011
TOTAL CAPITAL REQUIREMENTS	150.0	149.2	159.1
A. CAPITAL REQUIREMENT FOR CREDIT RISK	131.9	129.9	137.2
STA capital requirement for credit risk	49.2	51.4	41.8
IRB capital requirement for credit risk	82.8	78.5	95.4
B. CAPITAL REQUIREMENT FOR MARKET RISK	3.34	2.8	4.9
Interest rate risk	2.1	2.1	2.6
Equity risk	0.1	0.1	0.0
Forex risk	0.1	0.1	0.2
Commodity risk	0.1	0.1	0.1
Internal models	0.8	0.5	1.9
C. CAPITAL REQUIREMENT FOR OPERATIONAL RISK	14.7	16.4	16.9
BIA method	1.1	1.3	1.1
TSA method	4.6	5.6	7.3
ASA method	0.8	1.2	0.0
AMA method	8.2	8.2	8.6
E. CAPITAL REQUIREMENT FOR OTHER RISKS	0.0	0.0	0.0
Settlement risk	0.0	0.0	0.0
Trading portfolio exposure risk	0.0	0.0	0.0
Other instruments risk	0.0	0.0	0.0
Transitional capital requirements	0.0	0.0	0.0
CAPITAL ADEQUACY RATIO	14.11	15.52	15.26

CHART II.25

Structure of profit from financial activities by profit type

(in %)



The requirements relating to the part of the portfolio using the STA method account for 30.5% and those using the IRB for 69.5%. In the case of the STA method, the capital requirements declined by almost CZK 10 billion in the period under review, while the advanced IRB method resulted in an increase in capital requirements of CZK 16.9 billion. For both methods, the highest capital requirements were applied for exposures to corporations – CZK 55.4 billion (IRB) and CZK 11.2 billion (STA). The reason for these changes in 2011 was that one bank started to apply the IRB method to a substantial part of its loan portfolio. Overall, the IRB method had been approved and introduced in nine banks.

The capital requirements for operational risk constitute a risk assessment of the bank's operational activities. These capital requirements increased by 3.3%, or CZK 0.5 billion, in 2011.

The capital requirement for market risk consists of requirements for interest rate risk, equity risk, foreign exchange risk, commodity risk and internal model risk. The largest amounts of these capital requirements relate to interest rate risk coverage (52.7%) and internal model risk coverage (38.7%).

The capital adequacy ratio of the Czech banking sector was virtually flat in 2011, declining very slightly by 0.26 percentage point to 15.26%, mainly because of slower growth in regulatory capital (of 4.9%) amid higher growth in risk-weighted exposures (6.7%) and equal growth in capital requirements (6.7%).

All banks were compliant with the set minimum capital ratio of 8% during 2011. Only one bank recorded a capital ratio of less than 10% at the end of 2011.⁴²

⁴² The assets of this bank accounted for less than 0.9% of the total assets of the banking sector at the end of 2011.

TABLE II.19

Banking sector performance

(in CZK millions)

	2009	2010	2011
PROFIT FROM FINANCIAL ACTIVITIES	168,409	157,376	162,113
of which:			
interest profit	103,273	105,308	109,932
dividend income	9,623	5,859	7,578
profit from fees and commissions	36,442	38,493	39,039
gains on financial assets not measured at fair value through profit or loss	6,327	-1,451	-1,114
gains on financial assets held for trading	4,399	11,016	1,178
gains on financial assets designated at fair value through profit or loss	1,683	2,398	-1,872
gains from hedge accounting	-330	-208	212
other gains	6,991	-4,038	7,161
ADMINISTRATIVE EXPENSES	60,455	62,381	66,096
DEPRECIATION, PROVISIONS	7,445	6,667	7,537
IMPAIRMENT	29,792	22,535	25,338
PROFIT/LOSS FROM CURRENT ACTIVITIES	107,954	94,995	96,016
other profit/loss	61	-157	407
GROSS PROFIT before tax	70,778	65,636	63,549
tax expense	11,038	9,980	10,050
NET PROFIT	59,740	55,656	53,500

CHART II.26

Interest rate spread

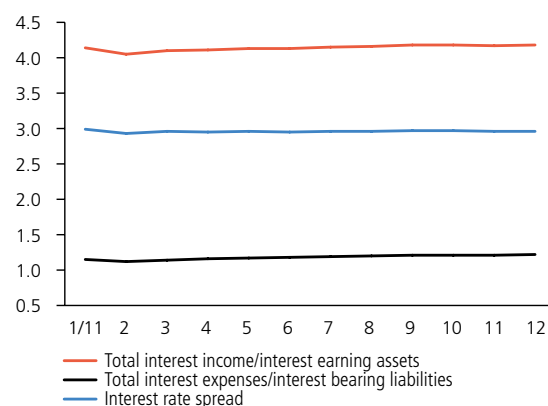
(in percentage points)



CHART II.27

Interest rate spread in 2011

(in percentage points)



2.5 BANKING SECTOR PERFORMANCE

2.5.1 Profit from financial activities and profit from other operating activities

The stability of the banking sector is conditional on generating sufficient profit, primarily profit from financial activities in the long term. From the operating profit they generate, banks must be able to cover operating expenses relating to banking activities and also any costs arising from the banking risks they undertake.

Domestic banks generated CZK 162.1 billion in profit from financial activities (up by CZK 4.7 billion, or 3.0%, year on year). All the banks that have been operating in the Czech Republic for some time generated profit from financial activities; only two banks which started up in 2011 were in the red for this indicator.

Interest profit accounted for almost 68% of total profit from financial activities and increased by 4.4% (CZK 4.6 billion) year on year to CZK 109.9 billion in 2011. The interest profit was achieved as a result of an increase in interest profit from operations with other clients (i.e. excluding interest profit from banks, central banks and general government) of CZK 3.7 billion (4.5%) to CZK 86.7 billion. The growth in interest profit at a time of persistently low interest rates was fostered by faster growth in interest income (3.2%) than in interest expenses (1.2%, or CZK 0.7 billion). Interest income rose by CZK 5.4 billion year on year to CZK 172.3 billion.

The banking sector was positively affected in 2011 by slower growth in interest expenses, which amounted to CZK 62.4 billion at the end of 2011 despite growth in client deposits (of 4.5% year on year). 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 in this way totalled CZK 28.0 billion as of the end of 2011, up by CZK 0.3 billion (1.0%) on the end of 2010.

The interest rate spread edged up to 2.96 percentage points at the end of 2011. The net interest margin decreased slightly to 2.68%.⁴³

⁴³ 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.

Profit from fees and commissions accounts for almost 75% of the non-interest profit of the domestic banking sector. In 2011 it rose by 1.4% to CZK 39.0 billion. Payment system fees and commissions accounted for more than 59% of all profit on fees and commissions in 2011. Banks' total income from payment system fees and commissions was CZK 29.7 billion in 2010.

Gains on financial assets held for trading were stable in 2011 at significantly lower levels than in 2010, amounting to CZK 1.2 billion at the end of the year. The substantial increase in 2010 had been based on a significant rise in gains on monetary policy instruments (including currency derivatives). A high level of concentration was reached in this market segment, with only three entities contributing to the rise.

Banks received dividend income totalling CZK 7.6 billion in 2011, up by CZK 1.7 billion (29.3%) on the end of 2010. This income consisted mainly of dividends from subsidiaries and associates within financial groups (CZK 7.2 billion).

2.5.2 Administrative expenses and impairment

The total administrative expenses of the banking sector increased again during 2011. They rose by 6.0% to CZK 66.1 billion. The shares of personnel expenses (51.2%) and other administrative expenses (48.8%) are similar. Personnel expenses grew at a higher rate, rising by 7.0% year on year. Wages and salaries, which account for more than 71% of these expenses (CZK 24.2 billion), grew at the same rate in the period under review. Bonuses for employees in the form of own shares increased by 52.5%. Social and health insurance contributions rose by 6.5% year on year. As regards other categories of administrative expenses, advertising costs and consulting costs recorded an increase of 20.7% to CZK 272.1 billion.

Total asset impairment is affected mainly by financial asset impairment. At the end of 2011, the sector's performance reflected asset impairment losses⁴⁴ that were 12.4% (CZK 2.8 billion) higher in total than at the end of 2010, amounting to CZK 25.3 billion. Impairment on loans and receivables – the biggest contributor to impairment – totalled CZK 13.6 billion (down by 38.6%, or CZK 8.5 billion, year on year).⁴⁵ Impairment on the banking sector's non-financial assets was basically unchanged in 2011, amounting to CZK 255.1 million.

⁴⁴ This primarily involved impairment on Greek government bonds in the portfolios of three banks.

⁴⁵ This refers to provisioning. The amount of provisions depends on the quality of the loan portfolio. Default receivables are associated with provisioning (see section 2.3.1 Credit risk for details).

CHART II.28

Interest income and expenses

(in CZK bn)

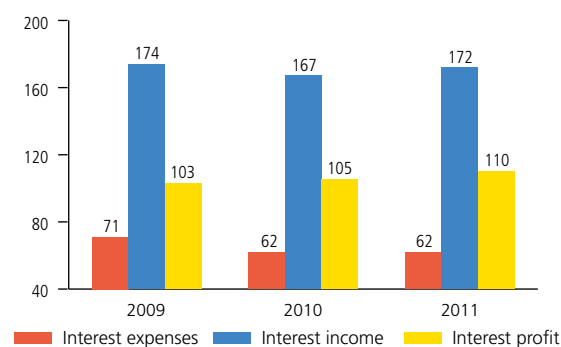


CHART II.29

Personnel expenses per employee

(in CZK thousands; banks with licences as of given date)

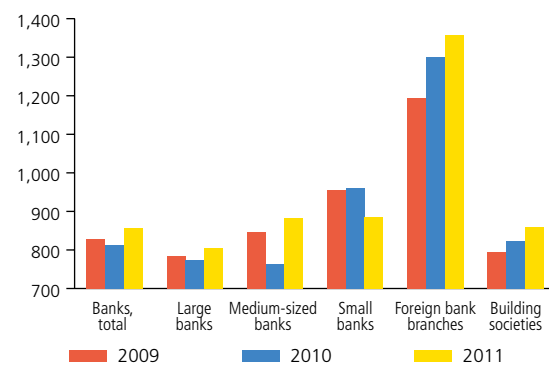


CHART II.30

Structure of income and expenses

(in CZK bn)

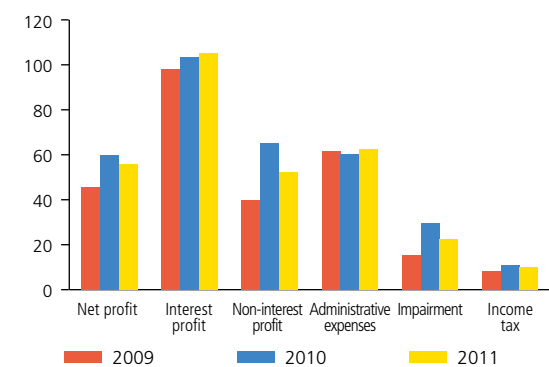
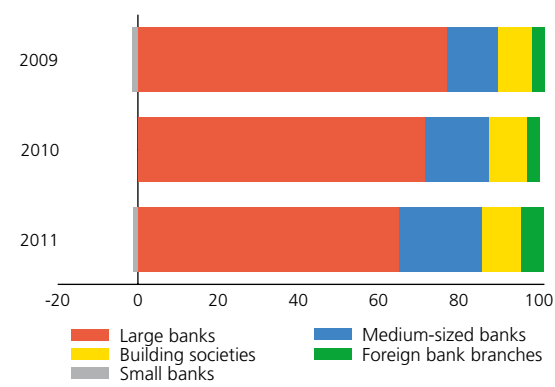


CHART II.31

Shares of bank groups in profit of sector

(in %; banks with licences as of December 2011)



2.5.3 Net profit

The banking sector as a whole was profitable in 2011. Gross (pre-tax) profit totalled CZK 63.5 billion, a year-on-year decrease of 3.2%.

The net profit of the banking sector fell slightly again in 2011 (by 3.9%, or CZK 2.2 billion) to CZK 53.5 billion as of 31 December 2011.

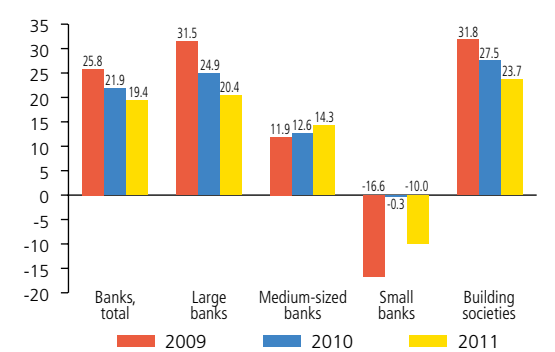
At CZK 10.0 billion, aggregate income tax decreased by CZK 69.4 million (0.7%) compared to 2010.

The biggest contributor to the banking sector's net profit was the group of large banks, which generated a net profit of CZK 34.8 billion, accounting for 65.0% of total banking sector net profit. Most banks posted a profit in 2011. Ten banks recorded a loss in 2011, of which seven were foreign bank branches and three were small banks. The loss-making banks in 2011 make up an insignificant part of the banking sector. This group of ten banks manages only 1.4% of the sector's balance sheet assets. All large banks generated a net profit; in each case, the profit was higher at the end of 2011 than at the end of 2010.

CHART II.32

RoE for bank groups

(in %)



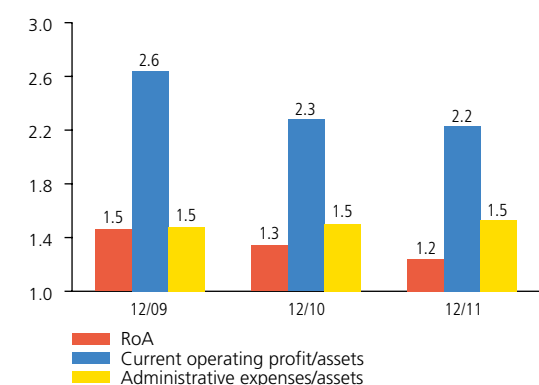
2.5.4 Profitability, efficiency and productivity

Return on Tier 1 (RoE), as measured by net profit generated per unit of capital, was 19.4% at the end of 2011, down by 2.5 percentage points from 2010. The decline in RoE was due to the slight decrease in the sector's net profit coupled with growth in capital. The results within the sector were mixed. RoE increased year on year in nine banks (excluding foreign bank branches). Six banks reported RoE between 20% and 30%. The largest group was made up of eight banks having RoE ratios of between 10% and 20%. Six banks had positive RoE ratios of less than 10%. Three banks posted negative values.

CHART II.33

RoA

(in %)



Return on assets (RoA) was also affected by the slight decline in net profit and growth in the sector's balance sheet assets. RoA for the banking sector as a whole declined by 0.10 percentage point to 1.24% as of 31 December 2011.

The ratio of administrative expenses to assets in the banking sector has been flat at 1.5% over the past few years. At the end of 2011, the figure was 1.53%. Net profit per employee, which fell by 5.6% to CZK 1,336.9, was again affected mainly by the slight decline in net profit and growth in the number of banking sector employees.

2.6 THE CREDIT UNION SECTOR

Credit unions' business activities and number of members increased dynamically in 2011. In contrast to the loss posted in 2010, the sector recorded a small net profit. At the same time, however, the quality of its loan portfolio deteriorated sharply and asset impairment losses rose significantly. A total of 14 credit unions were operating in the market. One licence was withdrawn at the decision of the CNB.⁴⁶

The total assets of the credit union sector amounted to CZK 28.3 billion as of 31 December 2011, up by 42.3% year on year. Receivables from clients were the largest item on the asset side (up by 53.5% to CZK 19.3 billion), while deposits and other liabilities to clients were the largest items on the liability side (up by 41.8% to CZK 25.1 billion, with capital repayable on demand accounting for more than CZK 2.6 billion). Other significant assets included receivables from credit institutions (up by 15.9% to more than CZK 6 billion), cash and receivables from central banks (up by 76.3% to CZK 1.1 billion), investments held to maturity (up by 24.7% to CZK 607.4 million) and tangible assets (virtually unchanged at almost CZK 820 million). Other important liabilities included liabilities to credit institutions, which fell by 10.2% year on year to CZK 147.5 million, and equity, which almost tripled to CZK 192.0 million thanks to the net profit created by credit unions during the year and to a slight increase in reserves.

TABLE II.20

Number of CUs and their members

	2009	2010	2011	Change in % from 2010
Number of CUs	17	14	14	100.0
Number of members of CUs	47,952	34,003	44,696	131.4
Number of new memberships since start of year	15,741	12,968	12,190	94.0
Number of memberships terminated since start of year	3,731	1,101	1,497	136.0

TABLE II.21

CU sector balance sheet

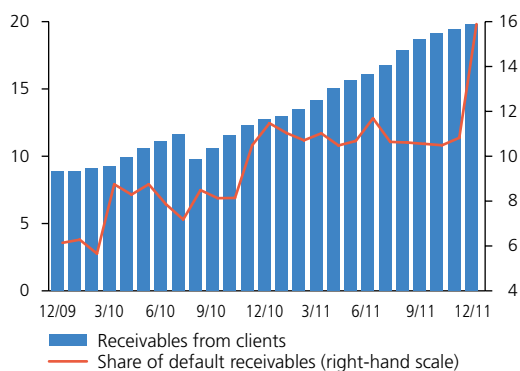
(in CZK millions)

	2009	2010	2011	Change in % from 2010
TOTAL ASSETS	17,649.1	19,890.3	28,297.3	142.3
Cash and receivables from central banks	430.4	643.3	1,134.1	176.3
Receivables from credit institutions	7,073.3	5,189.3	6,013.6	115.9
Receivables from general government	0.7	0.0	0.0	0.0
Receivables from clients	8,777.5	12,569.3	19,293.7	153.5
Held to maturity investments	534.1	487.0	607.4	124.7
Tangible assets	584.5	809.8	819.6	101.2
Other assets	248.5	191.7	428.9	223.7
TOTAL LIABILITIES AND EQUITY	17,649.1	19,890.3	28,297.3	142.3
Liabilities, total	17,377.7	19,826.3	28,105.3	141.8
Liabilities to central banks	0.0	0.0	0.0	0.0
Liabilities to credit institutions	169.8	164.2	147.5	89.8
Liabilities to general government	1.2	0.5	1.3	275.0
Deposits, loans and other financial liabilities to clients	15,672.2	17,667.9	25,060.1	141.8
Paid-up share capital of CUs repayable on demand	1,312.1	1,874.0	2,646.0	141.2
Other liabilities	222.3	119.8	250.5	209.1
Equity, total	271.4	64.0	192.0	299.9
Reserves	127.0	79.8	91.0	114.0
Retained earnings	144.6	23.1	-20.9	x
Profit (loss) for accounting period	-0.2	-38.8	122.0	x

⁴⁶ The CNB issued the decision in question on 23 November 2011, but it did not become final until 8 March 2012. The data in the section on credit unions for the period up to the end of 2011 cover all 14 credit unions.

CHART II.34

Volumes of client loans (in CZK billions) and shares of default loans in those loans (in %)



The structure of the balance sheet shows that the core of business of credit unions in 2011, as in previous years, consisted in collecting deposits from, and providing loans to, credit union members.⁴⁷ The credit union sector was a net creditor to the banking sector and no credit union borrowed from the CNB. Very fast growth in loans to clients was sufficiently covered by deposits from credit union members; the ratio of receivables from clients to liabilities to clients was 77% at the end of 2011. On the other hand, loan portfolio quality represented a large and chronic weak spot of the credit expansion of credit unions, as the share of NPLs in loans to clients, which had already been high in January (11.0%), increased to 15.9% at the end of 2011.

Credit unions responded to the worsening quality of loans granted to clients by increasing allowances for expected losses on these loans. The volume of allowances increased by CZK 237.8 million to CZK 425.4 million in 2011 and their ratio to the total volume of loans rose by 0.6 percentage point to 1.65%. Almost all these allowances were created specifically for individual receivables; allowances for receivables portfolios accounted for about 0.01% of the total.

The evolution of off-balance sheet assets and liabilities shows that credit unions followed a conservative business model based on the provision of traditional banking services and products. Off-balance sheet assets amounted to CZK 884 million on 31 December 2011, i.e. only 3% of total assets, despite recording a substantial year-on-year increase of 163.2%. By contrast, liabilities, which were much greater, fell by 27.8% year on year to CZK 7.2 billion, accounting for 25.6% of the balance sheet total. Pledges received were the largest item of off-balance sheet liabilities and the whole off-balance sheet, amounting to CZK 6.3 billion. Credit unions did not engage in option transactions and the volume of futures transactions was small. Receivables from these transactions amounted only to CZK 158.3 million and were virtually equal to payables from them.

As of 31 December 2011, profit from the financial and operating activities of the credit union sector more than tripled year on year to CZK 1,027.4 million. This was due mainly to interest profit, which rose by 124.0% to CZK 910.2 million, followed by profit from fees and commissions, which rose by 78.6% to CZK 99.0 million. The remaining CZK 18.0 million was profit from valuation changes net of the loss in trading in financial instruments, written-off and assigned claims, sale of assets, etc. Administrative expenses increased by 41.2%, significantly less than profit from financial and operating

⁴⁷ This business focus is consistent with the status of credit unions as cooperatively owned credit institutions. 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. The rules governing licensing, qualifying holdings and approval of senior officers are also very similar to those applied to banks. However, a credit union is not a bank, 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, 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).

TABLE II.22

CU sector off-balance sheet

(in CZK millions)

	2009	2010	2011	Change in % from 2010
OFF-BALANCE SHEET ASSETS	475.2	335.9	883.9	263.2
Commitments and guarantees given	258.2	154.1	687.0	445.8
Pledges given	0.0	0.0	30.0	x
Receivables from spot transactions	0.0	0.0	0.0	0.0
Receivables from futures, forwards, swaps etc.	208.2	172.5	158.3	91.7
Receivables from options transactions	0.0	0.0	0.0	0.0
Write-off receivables	8.8	9.3	8.7	93.6
OFF-BALANCE SHEET LIABILITIES	12,526.5	10,038.7	7,243.7	72.2
Commitments and guarantees received	1,002.8	1,471.3	790.4	53.7
Pledges received	11,315.7	8,395.5	6,295.3	75.0
Liabilities from spot transactions	0.0	0.0	0.0	0.0
Liabilities from futures, forwards, swaps etc.	207.9	171.9	158.1	91.9
Liabilities from options transactions	0.0	0.0	0.0	0.0

activities, and amounted to CZK 554.3 million. The CZK 122.0 million net profit of the credit union sector as a whole in 2011 was adversely affected by impairment losses, which increased by 109.0% in 2011 to CZK 262.3 million. These losses, which were due mainly to poor loan quality, were equal to more than one-quarter of the profit from financial and operating activities.

The capital of the entire credit union sector exceeded CZK 2.8 billion at the end of 2011. The overall capital adequacy ratio was 12.0% and the Tier 1 capital ratio was 11.3%. This meant a slight annual decline of 0.2 and 0.9 percentage point respectively. The allocation of regulatory capital to risks reflected credit unions' conservative business model described above. Most of the capital (95.6%) was allocated to credit risk, while the capital requirements for operational risk accounted for 3.3%, and those for market risks together with other regulated risks for only 1.1% of the total capital requirements. With the exception of one credit union, whose licence was withdrawn, all the other credit unions had capital ratios of greater than 10%, i.e. above the minimum ratio of 8%.

As regards liquidity, quick assets amounted to almost CZK 3.7 billion as of 31 December 2011, i.e. 13.1% of total assets.

TABLE II.23

CU sector performance

(in CZK millions)

	2009	2010	2011	Change in % from 2010
Financial and operating profit	458.0	512.8	1 027.4	200.4
Interest profit	392.8	406.3	910.2	224.0
Profit from fees and commissions	62.0	55.4	99.0	178.6
Other operating profit/loss	3.2	51.0	18.2	35.6
Administrative expenses	375.2	392.6	554.3	141.2
Depreciation	19.6	22.4	36.0	160.7
Provisions	0.4	1.3	2.6	201.6
Impairment	55.5	125.5	262.3	209.0
Tax expense	7.4	9.8	50.2	511.1
Profit or loss after taxation	-0.2	-38.8	122.0	x

CHART II.35

Capital requirements of CU sector

(in %)

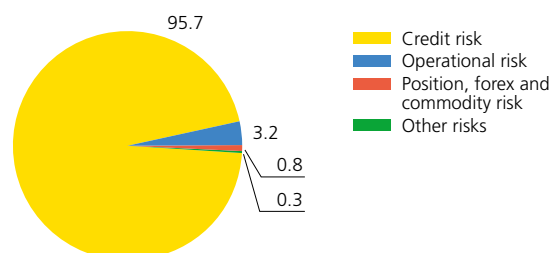
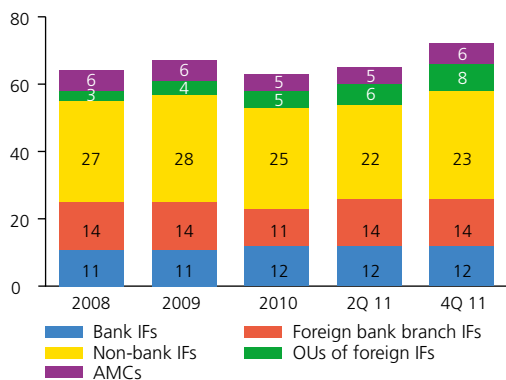


CHART III.1

Total number of investment firms

(at end of period)

**3. THE CAPITAL MARKET****3.1 INVESTMENT FIRMS****3.1.1 Licensed investment firms⁴⁸**

The CNB registered 63 investment firms as of the end of 2011, 12 of them banks, 23 non-banks, 14 foreign bank branches and eight organisational units of foreign investment firms. Six domestic management companies managing assets of clients under contract (asset management companies, AMCs) held investment firm licences at the end of 2011.

As of 31 December 2011, entities licensed as investment firms⁴⁹ had 886,100 clients, of which 136,600 were clients of domestic non-bank investment firms, 723,100 were clients of bank investment firms and 66 were clients of domestic AMCs. Foreign bank branches and organisational units of foreign investment firms had 21,600 and 4,700 clients respectively at the end of 2011.

3.1.2 Client assets and managed funds

At the end of 2011, the assets of clients of investment firms totalled CZK 2,832.4 billion, up by 24.7% on the same period a year earlier. Of this amount, the assets of clients of non-bank investment firms and organisational units totalled CZK 468.7 billion (down by 4.6% year on year), the assets of clients of domestic banks and foreign bank branches CZK 2,255.2 billion (up by 43.3%) and the assets of clients of AMCs CZK 108.5 billion (down by 47.2%).

As of 31 December 2011, investment firms managed funds totalling CZK 578.9 billion (down by 0.8% from a year earlier), of which CZK 413.2 billion fell to non-bank investment firms (down by 3.3% from a year earlier), CZK 54.7 billion to banks (up by 14.8% on a year earlier), CZK 0.7 billion to foreign bank branches (down by 5.8% from a year earlier) and CZK 110.3 billion to AMCs (up by 2.6% on a year earlier).

⁴⁸ With the CNB's consent, the management company ČSOB Investiční společnost, a. s. and the non-bank investment firm ČSOB Asset Management, a. s. merged on 31 December 2011. The successor (merged) company was ČSOB Asset Management, a. s., investiční společnost. The company obtained authorisation to carry on business in the areas of collective investment and asset management.

⁴⁹ 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.

3.1.3 Volumes of trading in securities

Investment firms carried out trades for their clients totalling CZK 9,756.8 billion in 2011.⁵⁰ Trades under a management relationship amounted to CZK 837.2 billion and trades under a non-management relationship amounted to CZK 8,919.6 billion.

Securities trades carried out for clients by bank investment firms (including branches) totalled CZK 7,638.6 billion. Non-bank investment firms (including organisational units) carried out trades for their clients amounting to CZK 2,074.0 billion, while client trades of asset management companies reached CZK 44.2 billion.

Investment firms carried out trades for their own account totalling CZK 37,529.2 billion in 2011. The vast majority of the trades executed in 2011 were performed by bank investment firms (including foreign bank branches), which carried out trades for their own account totalling CZK 36,926.7 billion. The trades executed by non-bank investment firms for their own account over the same period totalled CZK 602.5 billion.

3.1.4 Financial results and capital adequacy of investment firms⁵¹

The capitalisation of the investment firm sector remained sufficient in 2011. The capital of the 23 domestic non-bank investment firms totalled CZK 3.5 billion (down by 8.4% from a year earlier). The highest number of investment firms (six) had capital of over CZK 250 million. The capital of AMCs totalled CZK 279.7 million (up by 8.5% year on year).

The capital requirements for individual types of risks amounted to CZK 0.8 billion for the 23 domestic non-bank investment firms. This means a capital adequacy ratio of 33.0%. The highest capital requirements were set for credit risk (44.0%) and operational risk (43.3%). In the case of AMCs, the capital adequacy ratio was 25.2% and the capital requirements were CZK 88.9 million.

Domestic non-bank investment firms achieved positive financial results in 2011. The net profit of the 23 non-bank investment firms fell by 58.3% year on year to CZK 0.6 billion. This was largely due to a decline in profit from financial and operating activities resulting from a one-off sale of an ownership interest in one entity, which decreased by 25.8% from the previous year, to CZK 2.8 billion.

⁵⁰ The overall volume of trades comprises spot transactions, custody transfers, repos, buy/sell-back trades and sell/buy-back trades.

⁵¹ This section primarily analyses the capital adequacy indicators of domestic non-bank investment firms (23 entities), unless stated otherwise.

CHART III.2

Overall structure of securities trades for 2011
(in %)

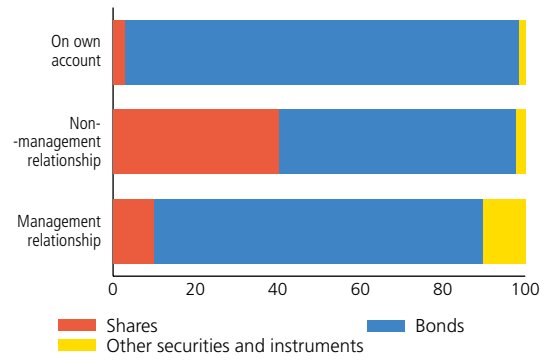


CHART III.3

Breakdown of domestic non-bank IFs by capital adequacy ratio
(as of 31 December 2011)

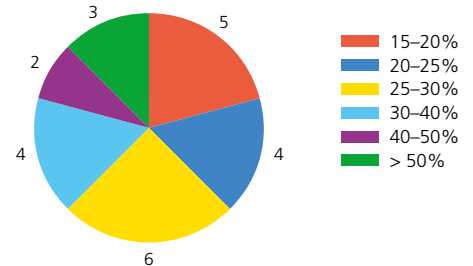


CHART III.4

Capital requirements structure of IFs
(as of 31 December 2011, in %)

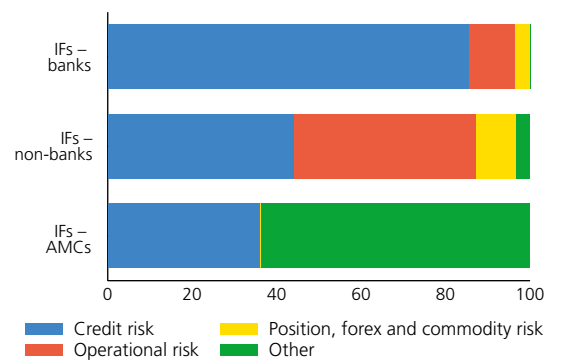


CHART III.5

Market shares in management company sector by volume of assets managed

(in %; at end of period)

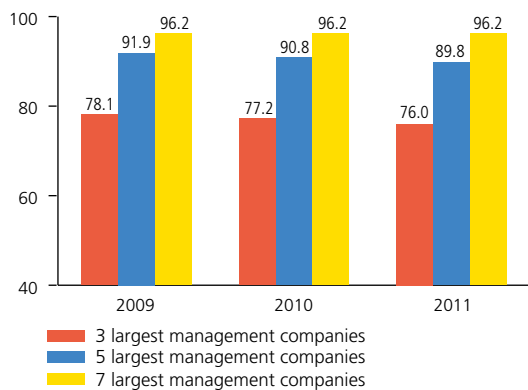


CHART III.6

Assets of CIFs open to the public by fund type

(in CZK billions; at end of period)

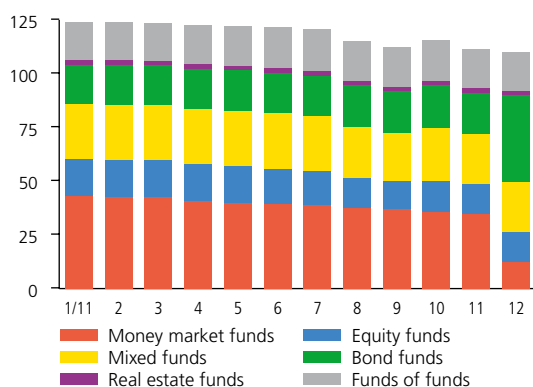
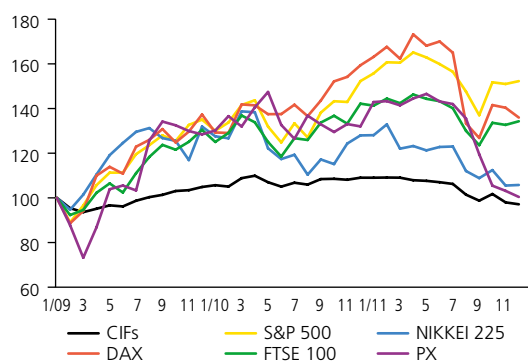


CHART III.7

Assets of CIFs open to the public and selected stock indices

(1/2009 = 100%)

**3.2 COLLECTIVE INVESTMENT****3.2.1 Collective investment undertakings**

A total of 21 management companies were active on the Czech collective investment market at the end of 2011, down by two from a year earlier. In addition, there were 58 investment funds and 36 mutual funds for qualified investors, 116 mutual funds open to the public (of which 37 were standard) and no closed-end mutual funds.

Management companies were managing assets totalling CZK 110.2 billion in domestic open-end mutual funds at the end of 2011. The market share of management companies according to assets managed in their collective investment funds open to the public is relatively stable. The three companies with the largest shares of the market manage 76.0% of the assets of domestic mutual funds.

3.2.2 Assets in mutual funds open to the public

The assets of collective investment funds open to the public amounted to CZK 110.2 billion at the end of 2011, down by CZK 13.5 billion from the end of 2010. The balance sheet total of domestic mutual funds open to the public decreased by 11.0% year on year.

Following the conversion of some money market funds (predominantly) into bond funds, asset transfers between these fund types were recorded in 2011 Q4. This significantly affected the year-on-year comparison of asset volumes by fund type.

Whereas in 2010 the largest proportion of assets (35.3%) had been managed by money market funds, the assets of these funds totalled CZK 11.3 billion at the end of 2011 (down by 71.4% year on year), i.e. only 11.3% of the total assets of domestic open-end mutual funds. By contrast, assets managed by bond funds rose by 119.5% year on year to CZK 40.4 billion. Their share in the assets of all open-end mutual funds increasing by more than 20 percentage points to 36.7%. The other fund types were relatively stable. The total assets of mixed funds accounted for 21.3% of the sector total (assets down by 9.6% year on year), funds of funds managed 16.2% of the sector's assets at the end of 2011 (assets up by 3.5% year on year) and equity funds had a share of 12.6% in the total assets of domestic open-end mutual funds (assets up by 12.6% year on year). Real estate funds account for a minimal share of the sector's total assets (1.9%).

A comparison of the volume of assets in domestic mutual funds with selected stock indices shows that assets in mutual funds largely tracked developments in world financial markets. If these developments are negative, the total assets of domestic open-end mutual funds are adversely affected owing to a decrease in the market price of the investment instruments they hold.

The total assets of domestic open-end mutual funds are also significantly affected by the net value of unit purchases and sales. Net sales of units (especially for money market funds) were recorded in 2011, with the amount paid for units redeemed (CZK 43.1 billion) exceeding the sum received for units issued (CZK 35.5 billion). The resulting net value of units issued and redeemed fell by almost CZK 10 billion, from CZK +2.3 billion in 2010 to CZK -7.6 billion in 2011.

The total assets of domestic open-end mutual funds are also influenced by profit/loss. In 2011, collective investment funds open to the public generated a net loss of CZK 5.9 billion, down by around CZK 10 billion from a year earlier. This result was due chiefly to equity funds recording a loss of CZK 3.5 billion, as well as to mixed funds and funds of funds, which posted losses of CZK 1.6 billion and CZK 1.0 billion respectively.

3.2.3 Structure of assets in mutual funds

A total of CZK 57.4 billion, i.e. more than one-half of the total assets of domestic mutual funds, was invested in bonds at the end of 2011 (a year-on-year decrease of 3.5%). Investments in shares and similar investment securities amounted to CZK 20.3 billion at the end of 2011, down by 20.2% from the end of 2010. Domestic mutual funds had CZK 14.6 billion invested in deposits and other receivables (down by 26.0% year on year) and CZK 16.0 billion in securities of collective investment funds (down by 7.0% year on year). Other investment accounted for the remainder. The evolution of the structure of financial investments in domestic mutual funds reflects market developments over the last three years.

3.2.4 Funds for qualified investors

The number of funds for qualified investors and the assets they manage have seen significant growth in recent years. The assets managed by funds for qualified investors amounted to CZK 52.5 billion at the end of 2011, up by 14.1% on the end of 2010. At the end of 2011, these funds were invested mainly in debt securities (27.1% of assets), but a large proportion of assets (22.2%) were also invested in receivables from banks.

CHART III.8

Assets of CIFs open to the public by fund type
(1/2009 = 100%)

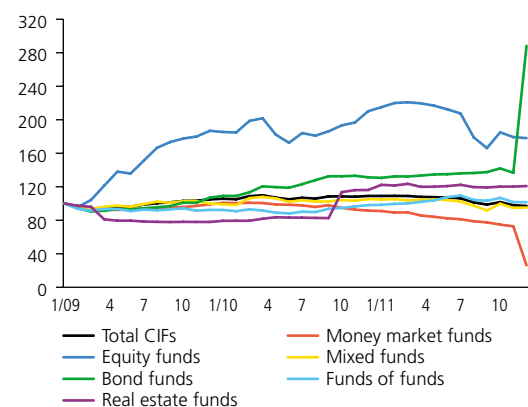


TABLE III.1

Unit sales and purchases in 2011
(in CZK millions)

	Units issued	Units purchased	Balance
Money market	10,910.7	20,124.3	-9,213.6
Equity	5,598.7	4,845.4	753.3
Mixed	4,151.0	5,092.9	-941.8
Bond	6,783.1	7,123.9	-340.8
Funds of funds	7,613.3	5,497.6	2,115.6
Real estate	454.4	454.0	0.4
OMFs, total	35,511.2	43,138.0	-7,626.8

CHART III.9

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

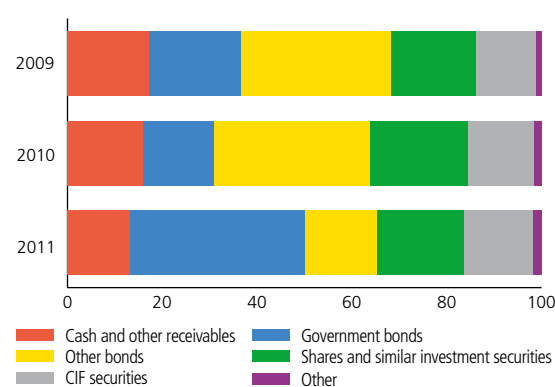


CHART III.10

Total assets and profit of pension funds

(at end of period; in CZK billions)

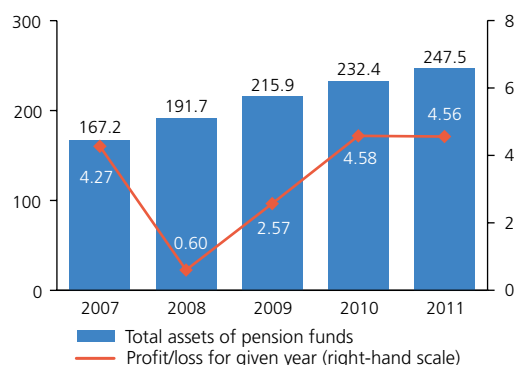


CHART III.11

Market shares in pension fund sector by volume of planholders' funds recorded in liabilities

(at end of period; in %)

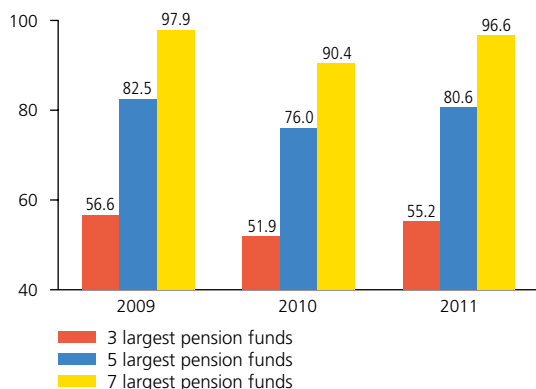
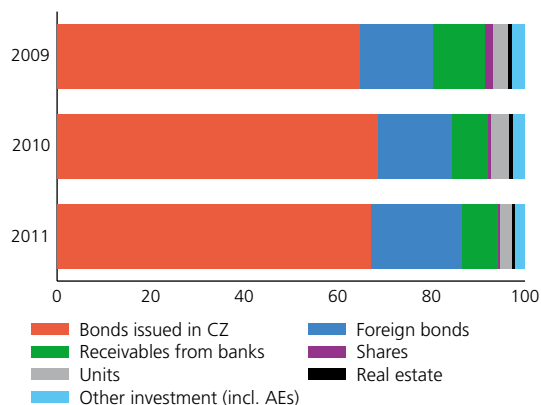


CHART III.12

Structure of pension fund assets

(at end of period; in %)

**3.3 PENSION FUNDS**

The pension fund sector was affected during 2011 by the expected pension reform. In addition to the pay-as-you-go system (first pillar) and voluntary pension schemes (third pillar), a new second pillar enabling fund saving will be introduced on 1 January 2013. The existing pension funds will be converted into pension management companies, which will manage planholders' funds in retirement funds, participation funds and transformed funds in a similar way to management companies and collective investment funds. In contrast to the current situation, the assets of pension scheme participants will be separated from the fund's assets.

3.3.1. Number of licensed entities

A total of nine pension funds were active in the private pension scheme market in the Czech Republic as of 31 December 2011, a decrease of one from the previous two years due to a merger of two pension funds.

3.3.2 Pension fund assets

The total assets managed by pension funds rose by more than CZK 15 billion (6.5%) in 2011, reaching CZK 247.5 billion. The evolution of pension funds' assets and financial results over the last three years indicates that they are in a stable financial condition. The market is highly concentrated, with the three largest pension funds administering more than 50% of planholders' funds and the five largest pension funds administering more than 80% of planholders' funds.

The sector is stable thanks also to the conservative approach of pension funds, reinforced by a guarantee of non-negative returns on planholders' funds. This is reflected in the funds' investment strategies. The bulk of pension fund assets (86.5% of the total) were invested in debt securities, while only 2.9% were in shares and units and 7.8% were in time deposits and on term accounts.

3.3.3 Equity and profit of pension funds

Equity (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) is an important indicator of the financial stability of pension funds. At the end of 2011, the equity of the pension fund sector amounted to CZK 12.5 billion, down by 13.3% from a year earlier. Equity accounts for 5% of the sector's total assets.

Equity had been adversely affected in previous years by valuation differences, but this item also stabilised at the end of 2009 thanks to favourable economic conditions as well as legislative changes to bond valuation methods. Valuation differences were slightly negative at the end of 2011 at CZK -0.7 billion, down by CZK 1.5 billion from a year earlier.

The pension fund sector's net book profit was CZK 4.6 billion as of 31 December 2011, i.e. virtually the same figure as in 2010 (down by 0.5%). Interest and similar income, which is usually the biggest contributor to income generation, reached CZK 7.5 billion as of 31 December 2011 (up by 6.0% year on year).

Expenditure on services used by pension funds⁵² is a major expenditure item. In 2011 it increased slightly in year-on-year terms. Total expenditure on services purchased by pension funds was CZK 3.3 billion at the end of 2011 (up by 14.7% year on year). Expenditure on distribution of pension fund products⁵³ was the largest item of spending on services (55%). In 2011 it rose by 23.4% year on year to CZK 1.9 billion.

3.3.4 Volume of planholders' funds

The funds of pension planholders, i.e. their deposits including state contributions, employers' contributions and credited returns, amounted to CZK 232.1 billion at the end of 2011. This represents an increase of CZK 15.9 billion (7.4%) on a year earlier. The structure of planholders' funds is relatively stable. Planholders' own contributions account for less than two-thirds of the total. The remainder consists of contributions paid by the state, employers or third persons, returns on contributions and other planholders' funds.

The upward trend in the number of planholders continued into 2011. According to Ministry of Finance figures, this number rose by 0.8% year on year to 4.6 million. The rate of growth slowed compared to previous years. A slowdown is also indicated by new contracts: a total of 457,000 new contracts were concluded in 2011, down by 38,000 from 2010.

In 2011, pension funds paid to their clients or transferred to other funds savings totalling CZK 38.7 billion (i.e. 13.1% more than in 2010), with lump-sum settlements represented the largest part of this figure (64.0%). Transfers between funds and termination settlements accounted for a significant share of the money paid (CZK 3.1 billion

⁵² Expenditure on fees and commissions and administrative expenses excluding personnel expenses.

⁵³ 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.13

Structure of pension fund equity

(at end of period; in CZK billions)

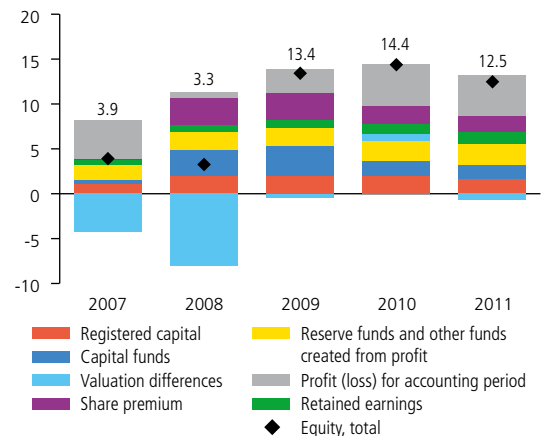


CHART III.14

Planholders' funds

(at end of period; in CZK billions)

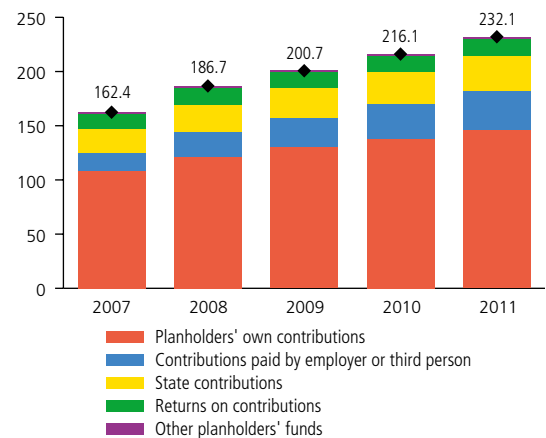
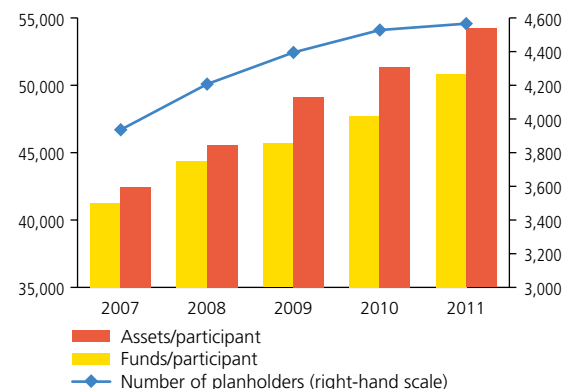


CHART III.15

Number of planholders, funds and assets per planholder

(at end of period; source: Czech Ministry of Finance, CNB)



and CZK 4.0 billion respectively). In the same period, pension funds received funds amounting to CZK 45.1 billion (up by 8.7% year on year), of which planholders' own contributions accounted for 55.8%. The balance between funds received and funds paid was CZK 16.5 billion in 2011, a year-on-year increase of 1.8%.

3.4 REGULATED MARKETS

3.4.1 Trading on the Prague Stock Exchange⁵⁴

A total of 26 share issues were being traded on the Prague Stock Exchange (PSE) at the end of 2011, i.e. one domestic share issue less than at the end of 2010. The number of issues traded on the bond market fell to 95. Six futures issues, 57 investment certificate issues and 24 warrant issues were traded on the derivatives markets in 2011.

The total volume of share trades on the PSE continued to decline, falling by 4.8% year on year to CZK 371.0 billion. The most traded share issue (ČEZ) accounted for 38.3% of the total volume in 2011. The five most traded issues accounted for 88.2% and the ten most traded issues for 96.2% of the total volume. A total of 78.8% of trades were executed in the SPAD system.

The market capitalisation of shares traded on the PSE decreased by 23.6% year on year to CZK 1,060.8 billion at the end of 2011. Foreign issues represented 29.0% of this figure, while the ČEZ issue alone accounted for 39.9% of the total market capitalisation. Turning to the sectoral breakdown, issues from the energy and financial sectors accounted for 41.8% and 34.4% of the market capitalisation respectively. The year-on-year changes in the prices of the individual share issues fluctuated within a range of -72.4% to 117.3%.

The PSE's PX index closed 2011 at 911.1 points, down by 25.6% from a year earlier. The PX index recorded its yearly maximum of 1,276.3 points on 18 January 2011 and its yearly minimum of 843.0 points on 25 November 2011.

The total volume of bond trades on the PSE rose by 18.5% year on year in 2011 to CZK 628.0 billion in 2011. Trading in government bonds accounted for most (96.5%) of the total volume of bond trades. In 2011, derivatives trading on the PSE recorded its smallest volume in five years (CZK 328.2 million) despite a relatively large number of issues. Futures and structured products (warrants and investment certificates) accounted for 40.8% and 59.2% respectively of the total trading volume in 2011.

3.4.2 Trading on the RM-SYSTÉM exchange⁵⁵

Total annual trading on the other domestic regulated market (RM-S) amounted to CZK 8.9 billion in 2011 (down by 3.0% from a year earlier). Shares represented 99.7% of the trading volume. The RM index fell by 29.7% year on year to 1,771.4 points at the end of 2011.

54 Burza cenných papírů Praha, a.s. (Prague Stock Exchange, PSE). A member of CEE Stock Exchange Group together with the exchanges in Budapest, Ljubljana and Vienna.

55 RM-SYSTÉM, česká burza cenných papírů a.s.

CHART III.16

Numbers of issues (series) on PSE at end of period

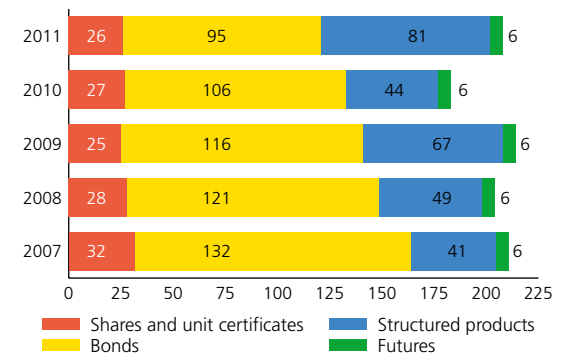


CHART III.17

Trading volumes on PSE

(in CZK billions)

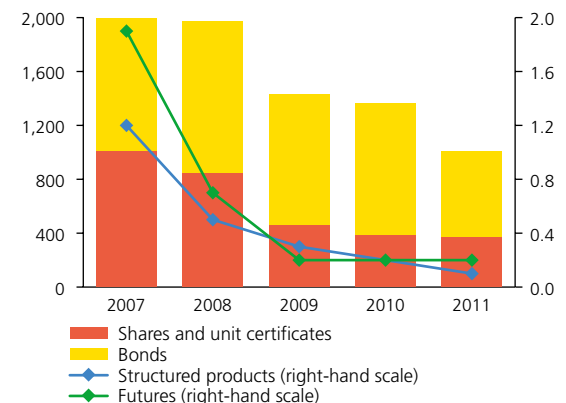


CHART III.18

PX index and its volatility in 2009–2011

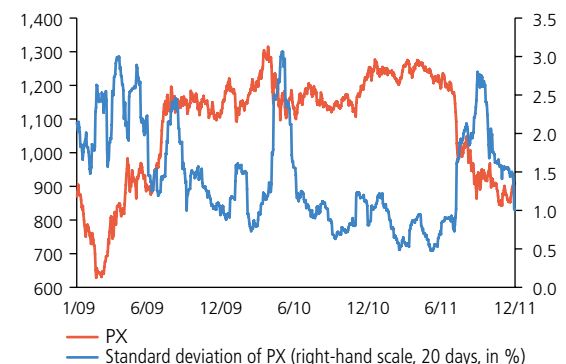


TABLE IV.1

Market structure by type of insurance undertaking

	2009	2010	2011
NUMBER OF DOMESTIC INSURANCE UNDERTAKINGS	35	35	35
of which:			
non-life	17	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	17	17	18
of which:			
non-life	12	13	14
life	4	4	4
both life and non-life	1	0	0
TOTAL NUMBER OF INSURANCE UNDERTAKINGS ^{a)}	52	52	53
of which:			
non-life	29	30	31
life	7	7	7
both life and non-life	16	15	15

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

CHART IV.1

Numbers of insurance undertakings by group

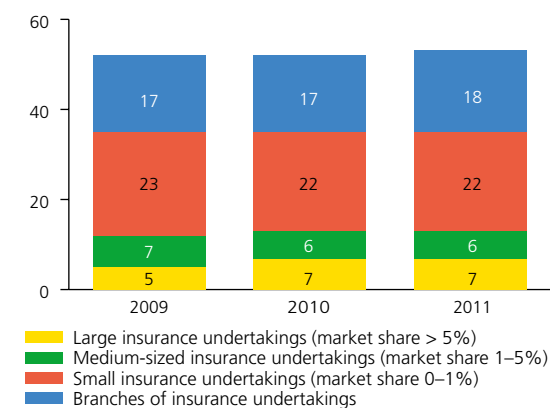
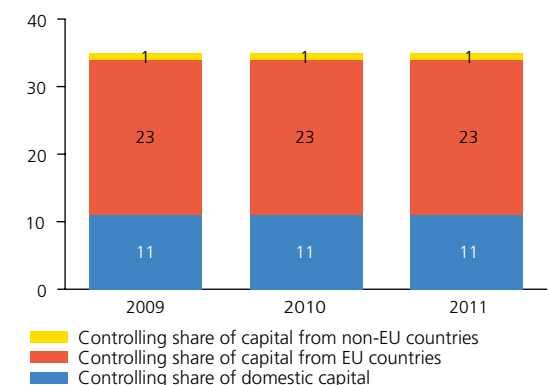


CHART IV.2

Numbers of domestic insurance undertakings by ownership structure



4. THE INSURANCE MARKET

4.1 INSURANCE MARKET STRUCTURE

As of 31 December 2011, the insurance market in the Czech Republic consisted of 35 domestic insurance undertakings and 18 branches of insurance undertakings from the EU. This figure excludes the Czech Insurers' Bureau⁵⁶ and VIG RE zajišťovna, a.s.

Compared to 2010, the number of branches of foreign insurance undertakings operating in the Czech insurance market increased by one, whereas the number of domestic insurers remained unchanged. Insurance undertakings from Austria, Germany and the United Kingdom enjoy the largest representation via branches in the Czech insurance market (three branches each). Most branches (a total of 14) focus on non-life insurance. Four branches focus on life insurance. Most domestic insurance undertakings (a total of 17) also focus on non-life insurance, while 15 domestic insurers carry on both life and non-life insurance.

In addition to these domestic insurers and branches of foreign insurers licensed by the CNB, 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 to 696 during 2011. These insurers focus mainly on non-life insurance.

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.

Insurance market entities were divided into four groups for analytical purposes. The first three groups comprise domestic insurance undertakings divided into large, medium-sized and small insurance undertakings based on the share of premiums written in total premiums written for the entire Czech insurance market. The fourth group consists of branches of foreign insurance undertakings.⁵⁷

The group of large insurance undertakings consists of the seven domestic insurers whose shares in total gross premiums written on the

⁵⁶ 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.cpk.cz.

⁵⁷ See Part C, Annex 8 for the detailed breakdown.

Czech market are more than 5%. 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. Non-life insurance premiums written are dominant in four of these insurers as well as in the group of large insurers as a whole.

The group of medium-sized insurance undertakings is made up of six institutions having market shares in premiums written of between 1% and 5%. Five of these are universal insurers and one is a non-life insurer. As in the group of large insurance undertakings, non-life insurance premiums written are dominant. Four of these insurers focus mainly or fully on non-life insurance products.

The group of small insurance undertakings contains 22 domestic entities with market shares of 1% or less. 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.

The fourth group consists of 18 branches of foreign insurance undertakings, which specialise mainly in non-life insurance. Their market shares are mostly small. ING Životní pojišťovna N.V., pobočka pro Českou republiku, has a specific position, ranking as the sixth largest insurer in terms of premiums written in life insurance in the whole insurance market.

The indicators relating to the groups of insurance undertakings in 2010 and 2009 in the following sections are based on the breakdown of insurance undertakings into these groups in 2011 (with the exception of branches).

TABLE IV.2

Ownership structure of domestic insurance undertakings by share in registered capital as of 31 December 2011

COUNTRY	AMOUNT OF PARTICIPATION (in CZK thous.)	SHARE IN TOTAL REGISTERED CAPITAL (in %)
Czech Republic	5,582,209	23.5
Netherlands	6,118,000	25.8
Austria	5,832,554	24.6
France	2,313,613	9.7
Belgium	2,229,186	9.4
Germany	766,000	3.2
Slovenia	360,000	1.5
Ireland	315,000	1.3
Denmark	120,000	0.5
USA	106,000	0.4
TOTAL CAPITAL	23,742,562	100.0

CHART IV.3

Capital origin of domestic insurance undertakings as of 31 December 2011 (in %)

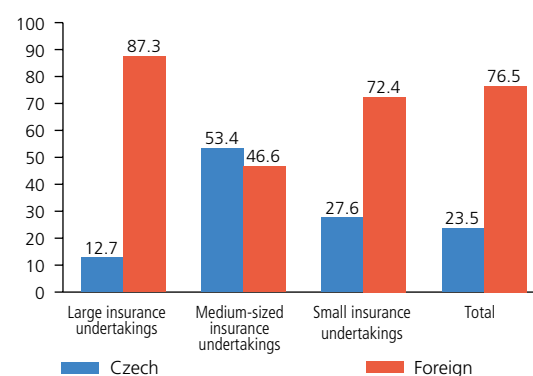


CHART IV.4

Gross premiums written

(in CZK billions)

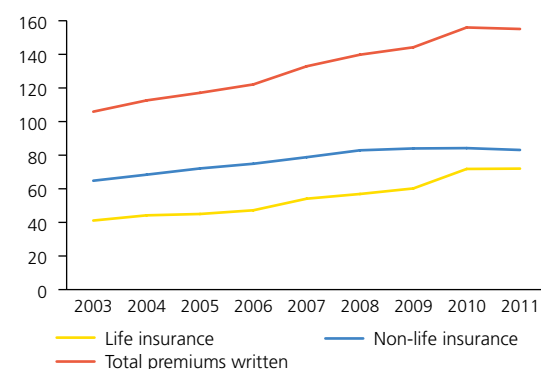
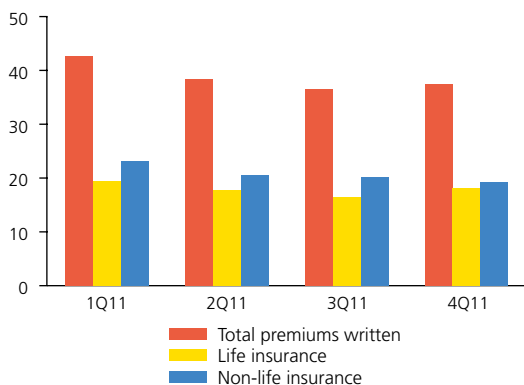


CHART IV.5

Gross premiums written

(in CZK billions)



4.2 OWNERSHIP STRUCTURE OF DOMESTIC INSURANCE UNDERTAKINGS

The ownership structure of domestic insurance undertakings is stable. Foreign capital is predominant, accounting for a 76.5% share at the end of 2011. This represents a modest decline of 1.1 percentage points compared to 31 December 2010. Foreign shareholders have a particularly dominant position in large insurers, where they accounted for 87.3% of registered capital as of 31 December 2011. At 46.6%, the share of foreign shareholders in medium-sized insurers was unchanged from 2010. As in the case of large insurers, foreign capital is predominant in small insurers. Its share dropped from 75.4% to 72.4% in 2011. As of the end of 2011, 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 2011. Registered capital rose by 5.0% in the period under review. The share of domestic owners rose by 1.1 percentage points to 23.5%. Shareholders from the Netherlands and Austria have the largest shares in the registered capital of domestic insurance undertakings (25.8% and 24.6% 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 2010, shareholders from France and Belgium had shares of more than 5% in registered capital.

4.3 PREMIUMS WRITTEN

Owing to modest economic growth in the Czech Republic, the insurance market recorded a slight decline in gross premiums written in 2011, unlike in previous years. The decline in premiums written, which amounted to CZK 155.1 billion for the entire insurance market in 2011, was 0.6%, compared to a rise of 8.2% in 2010. A substantial slowdown – almost a stagnation – in 2011 was recorded in life insurance, which showed slight growth of 0.3%, in contrast to 19.3% a year earlier. This slowdown was due to an absence of growth in one-off life insurance products. Premiums written in non-life insurance, which had been virtually flat in 2010 (a slight increase of 0.3%), decreased by 1.3%.

Total premiums written in life insurance reached CZK 72.0 billion, only CZK 0.2 billion more than in 2010. Gross premiums written in non-life insurance fell by CZK 1.1 billion year on year to CZK 83.1 billion.

The share of life insurance in total premiums written recorded a record high in 2011, rising by 0.4 percentage point compared to the previous period to 46.4%. Despite the positive trend, however, this share is still low compared to that in advanced EU insurance markets.

Insurance penetration, as measured as the ratio of gross premiums written to GDP at current prices, is an important macroeconomic indicator relating to the insurance market. Owing to modest economic growth and a slight decrease in premiums written, the insurance penetration ratio in the Czech Republic remained unchanged at 4.1% in 2011. Like the share of life insurance in total premiums written, this indicator for the Czech insurance market 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. The total market share of the three largest insurance undertakings declined by 1.4 percentage points year on year in 2011, while the share of the five largest insurance undertakings edged up by 0.2 percentage point and that of the ten largest insurance undertakings fell by 0.7 percentage point. Of the groups of the three, five and ten largest insurers on the insurance market as a whole, and also separately on the life insurance and non-life insurance markets, only the five largest entities on the insurance market as a whole recorded no decrease in market share. Compared to 2010, the changes in the market shares in these groups were not very large, with the biggest decline of 1.6 percentage point being recorded by the three largest life insurance undertakings.

CHART IV.6

Shares of life insurance and non-life insurance in total premiums written (in %)

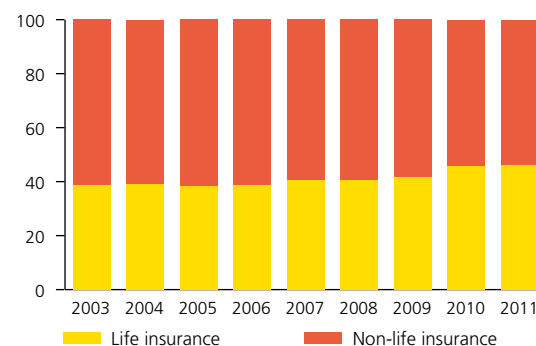


TABLE IV.3

Total insurance penetration in the Czech Republic

	Amount (in CZK billions)			Change (in %) 2011/2010
	2009	2010	2011	
Premiums written	144	156	155	-0.6
GDP (at current prices)	3,739	3,775	3,809	0.9
	in %			
Premiums written/GDP	3.9	4.1	4.1	x

CHART IV.7

Shares of premiums written in GDP (in %)

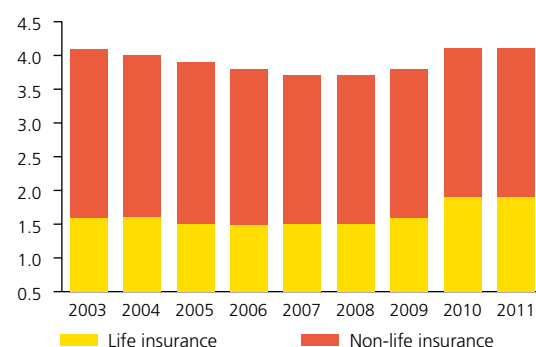
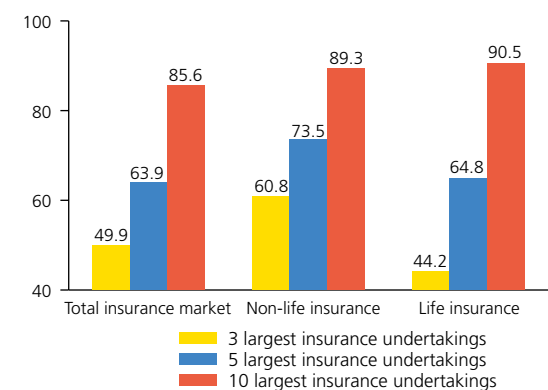


CHART IV.8

Concentration in insurance market by premiums written as of 31 December 2011

(in %)



Reinsurance is a very important tool 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 totalled CZK 25.9 billion in 2011, representing 31.2% of gross premiums written. The share of insurance ceded in life insurance is much lower than in non-life insurance. In life insurance, premiums totalling CZK 2.8 billion were ceded to reinsurers, accounting for 3.9% of total premiums written in life insurance.

Large insurance undertakings dominate the Czech insurance market, but their share is gradually shrinking. The share of premiums written by large insurance undertakings in total premiums written was 73.9% at the end of 2011, down by 1.3 percentage points year on year. Their shares of the life and non-life insurance markets are almost identical (74.0% and 73.8% respectively). The shares of medium-sized insurers rose by 1 percentage point in both non-life and life insurance to 15.9% and 13.6% respectively. Their overall share of the insurance market was 14.8%. The shares of small insurance undertakings and branches of foreign insurers on the overall insurance market were relatively balanced (5.7% and 5.5% respectively). However, small insurers were stronger on the non-life insurance market (7.0% compared to 3.1% for branches) and branches were stronger in life insurance (8.3% compared to 4.3% for small insurers). In absolute terms, premiums written in 2011 increased the most in the group of medium-sized insurers – by CZK 1.4 billion to CZK 23.0 billion.

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 with the exception of supplementary personal accident or sickness insurance, for which premiums written

TABLE IV.4

Premiums written by insurance group

	Amount (in CZK millions)			Share 2011 (%)
	2009	2010	2011	
TOTAL PREMIUMS WRITTEN	144,171	155,997	155,080	100.0
Large insurance undertakings	109,583	117,311	114,604	73.9
Medium-sized insurance undertakings	19,174	21,625	23,013	14.8
Small insurance undertakings	6,861	8,340	8,865	5.7
Branches of insurance undertakings	8,553	8,721	8,598	5.5
PREMIUMS WRITTEN – NON-LIFE INSURANCE	83,962	84,233	83,070	100.0
Large insurance undertakings	65,738	63,343	61,441	74.0
Medium-sized insurance undertakings	11,072	12,552	13,224	15.9
Small insurance undertakings	4,768	5,625	5,802	7.0
Branches of insurance undertakings	2,384	2,713	2,603	3.1
PREMIUMS WRITTEN – LIFE INSURANCE	60,209	71,765	72,010	100.0
Large insurance undertakings	43,846	53,969	53,163	73.8
Medium-sized insurance undertakings	8,102	9,073	9,789	13.6
Small insurance undertakings	2,094	2,715	3,063	4.3
Branches of insurance undertakings	6,168	6,008	5,995	8.3

rose by 9%. Nevertheless, premiums written in investment life insurance were also affected by the economic downturn and a preference for more conservative investment alternatives on the part of households. The rate of growth of investment life insurance therefore fell by 32.7 percentage points year on year to 8.0%. However, its share in the life insurance market rose by another 3.6 percentage points to 50.9%. The main advantage of investment life insurance for clients is that, in contrast to traditional products, they can choose which assets the saving part of premiums will be invested in, according to a preferred investment strategy. 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 34.4%.

Premiums written in non-life insurance are still dominated by motor third party liability insurance (with a share of 25.2%), followed by insurance against damage to or loss of property (24.8%) and insurance against damage to or loss of land vehicles (17.9%). In 2011, premiums written saw moderate growth for accident and sickness insurance (3.0%), insurance against damage to or loss of property (2.0%) and general third party indemnity insurance (1.9%). Motor third party liability insurance recorded the largest decline in 2011 (8.2%).

CHART IV.9

Shares of classes of life insurance in premiums written (in %)

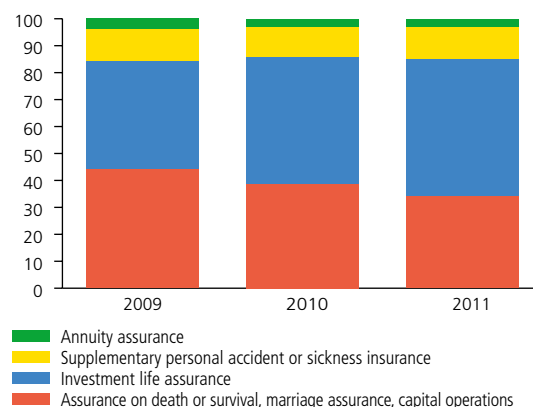


CHART IV.10

Shares of classes of non-life insurance in premiums written (in %)

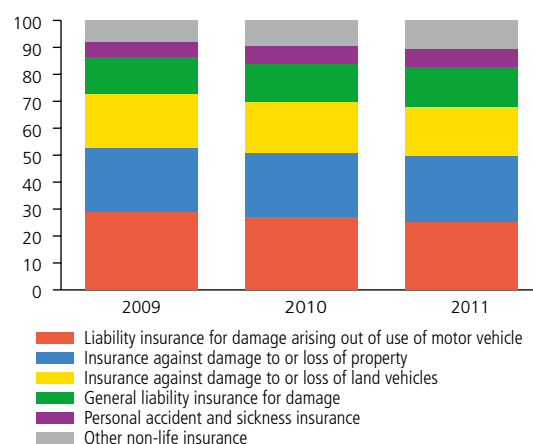
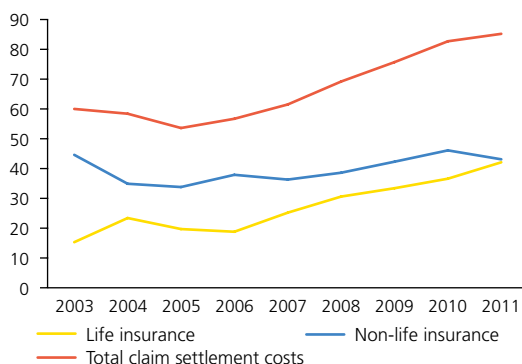


CHART IV.11

Claim settlement costs

(in CZK billions)

4.4 CLAIM SETTLEMENT COSTS⁵⁸

The growth rate of claim settlement costs fell by 6.2 percentage points year on year to 3.0%, with total claim settlement costs rising to CZK 85.2 billion. A relatively sizeable increase in claim settlement costs was recorded in life insurance, reaching 15.1%, i.e. up by 5.7 percentage points on 2010. In non-life insurance, by contrast, this indicator developed favourably and claim settlement costs fell by 6.5%, whereas in 2010 they had risen by 9.0%.

The share of reinsurers in claim settlement costs roughly corresponds to their share in premiums written. In non-life insurance, where it plays a greater role, reinsurers' share in claim settlement costs increased by 0.7 percentage points to 27.9%. In life insurance it also edged up by 0.8 percentage point to 2.0%. Reinsurers' share in non-life insurance claim settlement costs decreased by 4.3% year on year to CZK 12.0 billion. Life insurance saw a sizeable relative increase in reinsurers' claim settlement costs of 103.5% compared to 2010. In absolute terms, however, this figure is much lower than in non-life insurance, where the share of reinsurers in claim settlement costs was less than CZK 0.9 billion in 2011.

The share of large insurance undertakings in total claim settlement costs rose by 0.7 percentage point year on year to 78.2%. Their share increased slightly on both the life and non-life insurance markets. The increases were 0.7 percentage point on the non-life insurance market and 0.6 percentage point on the life insurance market. The share of medium-sized insurance undertakings in total claim settlement costs was almost unchanged from 2010, falling by just

TABLE IV.5

Premiums written by insurance class

	Amount (in CZK millions)			Change (%) 2011/2010
	2009	2010	2011	
TOTAL LIFE INSURANCE	60,209	71,765	72,010	0.3
Assurance on death or survival, marriage assurance, capital operations	26,789	27,793	24,793	-10.8
Annuity assurance	2,314	2,082	1,881	-9.7
Investment life assurance	24,126	33,956	36,687	8.0
Supplementary personal accident and sickness insurance	6,980	7,934	8,649	9.0
TOTAL NON-LIFE INSURANCE	83,962	84,233	83,070	-1.4
Liability insurance for damage arising out of use of motor vehicle	24,376	22,830	20,953	-8.2
Insurance against damage to or loss of property	19,862	20,150	20,563	2.0
Insurance against damage to or loss of land vehicles	16,724	15,637	14,849	-5.0
General liability insurance for damage ^{a)}	11,782	12,128	12,363	1.9
Accident and sickness insurance	4,625	5,490	5,652	3.0
Other non-life insurance	6,594	7,998	8,690	8.7

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

⁵⁸ In this section, claim settlement costs are given on a gross basis inclusive of the reinsurer's share.

TABLE IV.6

Claim settlement costs by insurance group

	Amount (in CZK millions)			Share (%) 2011
	2009	2010	2011	
TOTAL CLAIM SETTLEMENT COSTS	75,732	82,691	85,206	100.0
Large insurance undertakings	59,667	64,093	66,594	78.2
Medium-sized insurance undertakings	8,398	9,850	9,970	11.7
Small insurance undertakings	2,910	3,707	3,527	4.1
Branches of insurance undertakings	4,757	5,041	5,115	6.0
CLAIM SETTLEMENT COSTS – NON-LIFE INSURANCE	42,332	46,146	43,136	100.0
Large insurance undertakings	33,677	35,895	33,845	78.5
Medium-sized insurance undertakings	5,412	6,395	5,895	13.7
Small insurance undertakings	2,350	2,857	2,474	5.7
Branches of insurance undertakings	893	1,000	922	2.1
CLAIM SETTLEMENT COSTS – LIFE INSURANCE	33,400	36,544	42,070	100.0
Large insurance undertakings	25,990	28,198	32,749	77.8
Medium-sized insurance undertakings	2,986	3,456	4,075	9.7
Small insurance undertakings	560	850	1,053	2.5
Branches of insurance undertakings	3,864	4,041	4,193	10.0

0.2 percentage point to 11.7%. 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 insurance undertakings and branches of foreign insurance undertakings in claim settlement costs were slightly higher than those in premiums written. The opposite was true of medium-sized and small insurers. In absolute terms, claim settlement costs declined only in the group of small insurers in 2011.

TABLE IV.7

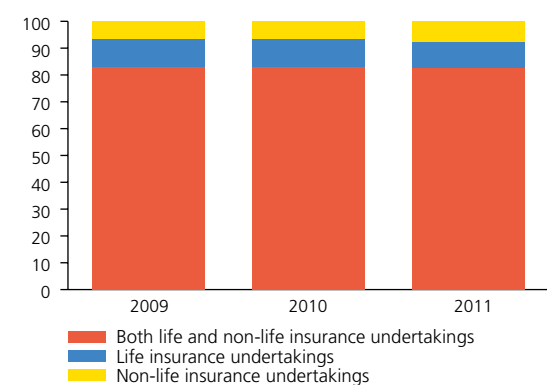
Shares of individual insurance groups in total assets

	Amount (in CZK millions)			Share (%) 2011
	2009	2010	2011	
TOTAL ASSETS	396,434	426,394	436,291	100.0
Large insurance undertakings	287,090	306,028	308,098	70.6
Medium-sized insurance undertakings	56,461	64,294	70,904	16.3
Small insurance undertakings	14,713	16,907	18,460	4.2
Branches of insurance undertakings	38,170	39,165	38,829	8.9

CHART IV.12

Shares of insurance undertakings in total assets by type

(in %)



4.5 ASSETS OF INSURANCE UNDERTAKINGS

The total assets of insurance undertakings increased by 2.3% to CZK 436.3 billion in 2011. This was a lower pace than a year earlier, when the growth had reached 7.6%. Of the individual groups of insurers, slower growth compared to the sector's total assets was recorded only by the assets of large insurance undertakings (0.7%). Branches of foreign insurance undertakings actually declined somewhat (by 0.9%). Medium-sized and small insurance undertakings recorded growth in total assets of more than 9% (10.3% and 9.2% respectively). The shares of the individual groups of insurers in the sector's total assets changed little during 2011. Large insurance undertakings still have the largest share in total assets, accounting for 70.6% of the insurance sector's total assets.

As regards the types of insurance undertakings, the biggest contributors to total assets were again universal insurers, which saw their share slip by 0.6 percentage point compared to 2010 to 82.5%. The share of life insurance undertakings in total assets was virtually unchanged at 10.0% in the same period. The share of non-life insurance undertakings increased to 7.5%. In 2011, the strongest growth in assets was recorded by undertakings carrying on non-life insurance (15.6%). In 2010, the figure had been 9.7%. The growth rates of assets of universal and life insurers were virtually flat.

Financial placement (investment)⁵⁹ is the largest asset item in the balance sheet of domestic insurance undertakings. However, its share is falling gradually. As of 31 December 2011, financial placement accounted for 77.9% of total assets. Its share declined by 0.9 percentage points year on year, offset in particular by an increase in the share of financial placement linked with investment life insurance. Debt securities are the largest financial placement (investment) item. Their total value increased by 4.9% compared to 2010 and their share in total assets rose by 1.3 percentage points to 62.5%. The major financial placement items also include shares and deposits with financial institutions (accounting for 4.9% and 5.8% of total assets respectively). Owing to growing interest in investment life insurance, the volume of financial placement of unit-linked life insurance rose by 16.4% (in 2010 it had increased by almost 45%) and its share in total assets increased to 13.0%.

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. Investments arising from technical provisions for non-life insurance are made up of more liquid financial placement items, such as deposits and treasury bills, than investments arising from

⁵⁹ Financial placement (investment) is defined differently than financial placement of assets arising from technical provisions. Financial placement (investment) excludes reinsurance receivables.

TABLE IV.8

Asset structure of domestic insurance undertakings

	Amount (in CZK millions)			Share (%) 2011
	2009	2010	2011	
TOTAL ASSETS	358,264	387,229	397,462	100.0
Financial placements (investment)	294,649	305,030	309,740	77.9
of which:				
real estate	4,785	4,918	5,040	1.3
participating interests	13,396	13,221	13,539	3.4
shares, variable-yield securities	16,923	20,869	19,405	4.9
bonds and other fixed-income securities	226,771	236,803	248,483	62.5
deposits at financial institutions	25,743	26,830	23,095	5.8
other financial placements	7,031	2,389	178	0.0
Financial placements of unit-linked life insurance	30,708	44,456	51,759	13.0
Debtors (receivables)	17,656	19,941	16,568	4.2
Other assets	15,251	17,802	19,395	4.9

life insurance technical provisions. Reinsurance receivables, including reinsurers' share in technical provisions, also have a significant share.

The investments of domestic insurance undertakings arising from technical provisions are dominated by bonds. This applies to investments arising from technical provisions for both life insurance and non-life insurance. Bonds account for 69.5% of investments arising from technical provisions for non-life insurance. This share is 0.5 percentage point lower than in 2010. Reinsurance receivables are the second-largest investment item arising from technical provisions for non-life insurance, with a share of 14.8%. Deposits are also represented in financial placement (5.4%), and equity securities also have a higher share (6.8%).

Bonds are even more important in the investments of domestic insurance undertakings arising from technical provisions for life insurance than in the case of non-life insurance, accounting for 75.3%. Equity securities have a significant 19.8% share. Reinsurance receivables have a negligible share of less than 0.5%. Investments arising from technical provisions for life insurance also include items linked with investment life insurance.

CHART IV.13

Investments of domestic insurance undertakings arising from technical provisions

(in %)

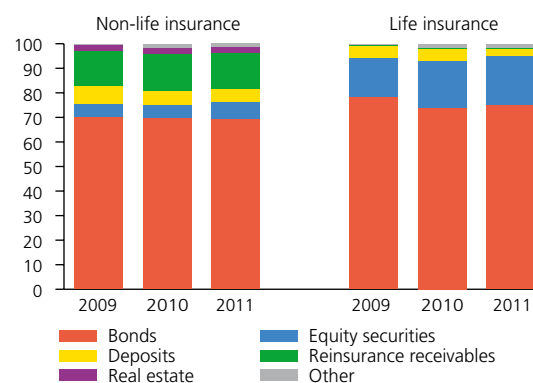


TABLE IV.9

Liability structure of domestic insurance undertakings

	Amount (in CZK millions)			Share (%) 2011
	2009	2010	2011	
TOTAL LIABILITIES	358,264	387,229	397,462	100.0
Shareholder's equity	69,186	78,132	70,099	17.6
Technical provisions ^{a)}	227,528	235,593	242,404	61.0
Provision for unit-linked life insurance ^{a)}	30,696	44,415	51,718	13.0
Creditors (liabilities)	20,466	18,308	21,119	5.3
Other liabilities	10,388	10,781	12,122	3.0

a) net amount

TABLE IV.10

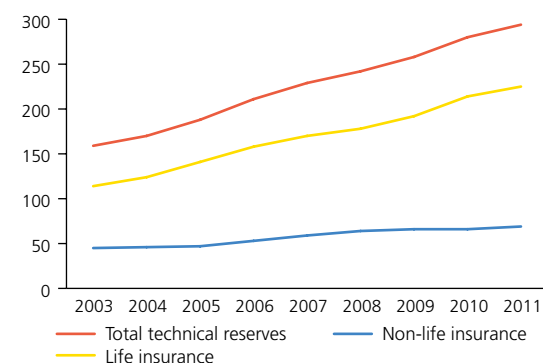
Technical provisions of domestic insurance undertakings

	Amount (in CZK millions)			Change (%) 2011/2010
	2009	2010	2011	
TOTAL GROSS TECHNICAL PROVISIONS	282,449	307,718	321,536	4.5
of which:				
non-life insurance	89,422	92,619	94,718	2.3
life insurance	193,026	215,099	226,818	5.4
TOTAL NET TECHNICAL PROVISIONS	258,224	280,007	294,122	5.0
of which:				
non-life insurance	66,210	65,914	68,706	4.2
life insurance	192,015	214,093	225,416	5.3

CHART IV.14

Net technical provisions of domestic insurance undertakings

(in CZK billions)



4.6 LIABILITIES OF INSURANCE UNDERTAKINGS

Technical provisions⁶⁰ are a specific – and also the largest – liability item for insurances undertakings. In 2011, the share of net technical provisions (excluding provisions for unit-linked life insurance) in the total liabilities of domestic insurance undertakings edged up by 0.2 percentage point year on year to 61.0%. 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: it rose by 16.4% in 2011 and its share in liabilities reached 13.0%.

Besides technical provisions, equity capital accounts for a relatively large proportion of the liabilities of domestic insurers. Equity capital decreased by 10.3% in 2011 and its share in total liabilities was 17.6%. The absolute decrease in equity capital was due to a year-on-year decline in profit of 57.3%. Share capital is the largest component of equity (33.9%). In addition to profit for the current year (with a share of 12.4%), other important equity items include retained earnings, the reserve fund and other capital funds (each of which exceeds 15% of equity capital).

At the end of 2011, the total gross technical provisions of domestic insurance undertakings, including the provision for unit-linked life insurance, were up by 4.5% year on year to CZK 321.5 billion. The rate of growth of gross technical provisions decreased by 4.4 percentage points compared to the previous period. Gross technical provisions for life insurance and non-life insurance increased by 5.4% and 2.3% respectively. The total net technical provisions of domestic insurance undertakings rose by about 5.0% during 2011.

The shares in net technical provisions of domestic insurance undertakings according to their size are relatively stable. The share of large insurers in total net technical provisions is falling gradually. At the end of 2011, large insurers accounted for 80.5%, down by 1.5 percentage points from a year earlier. The share of large insurers in net technical provisions fell by just 0.6 percentage point on the life insurance market and by 4.5 percentage points on the non-

⁶⁰ Technical provisions 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 and as to the date on which they will arise. Technical provisions are reported gross and net of reinsurers' share in technical provisions.

TABLE IV.11

Net technical provisions by insurance group

	Amount (in CZK millions)			Share (%) 2011
	2009	2010	2011	
NET TECHNICAL PROVISIONS - TOTAL	258,224	280,008	294,122	100.0
Large insurance undertakings	213,495	229,673	236,802	80.5
Medium-sized insurance undertakings	36,786	40,745	46,904	15.9
Small insurance undertakings	7,944	9,590	10,416	3.5
NET TECHNICAL PROVISIONS – NON-LIFE INSURANCE	66,210	65,915	68,706	100.0
Large insurance undertakings	48,492	47,040	45,976	66.9
Medium-sized insurance undertakings	14,685	15,254	18,891	27.5
Small insurance undertakings	3,033	3,621	3,839	5.6
NET TECHNICAL PROVISIONS – LIFE INSURANCE	192,015	214,093	225,416	100.0
Large insurance undertakings	165,003	182,633	190,826	84.7
Medium-sized insurance undertakings	22,100	25,491	28,013	12.4
Small insurance undertakings	4,911	5,969	6,577	2.9

life insurance market. Almost all groups of insurance undertakings recorded growth in net technical provisions for both life and non-life insurance. Large insurers in the non-life insurance market were the exception, with their net provisions declining in absolute terms.

TABLE IV.12

Profit by insurance group

	Amount (in CZK millions)			Share (%) 2011
	2009	2010	2011	
TOTAL NET PROFIT	15,480	21,316	9,557	100.0
Large insurance undertakings	15,900	19,407	8,840	92.5
Medium-sized insurance undertakings	-741	1,493	-4	0.0
Small insurance undertakings	-741	-568	-151	-1.6
Branches of insurance undertakings	1,064	984	872	9.1

4.7 FINANCIAL RESULTS OF INSURANCE UNDERTAKINGS

2011 was not as successful for the Czech insurance market as the previous year. Insurance undertakings (including branches of foreign insurers) achieved relatively good profits despite the downturn in economic activity and slight decline in premiums written. The net profit of the entire insurance sector was CZK 9.5 billion, down by 55.2% from 2010, when the insurance market recorded its best ever results. The profit of the technical account⁶¹ for non-life insurance declined by 32.7% year on year to CZK 4.9 billion. The technical account for life insurance ended in a profit of CZK 5.5 billion (down by 66.5% year on year).

As regards the individual groups of insurance undertakings, large insurers generated most of the total profit. In 2011 their net profit was CZK 8.8 billion, down by 54.4% from a year earlier. The profits of medium-sized insurers and branches of foreign insurers also recorded year-on-year declines (from CZK 1.5 billion to virtually zero and from CZK 1.0 billion to CZK 0.9 billion respectively). By contrast, the loss recorded by small insurers decreased by CZK 0.4 billion to CZK 0.2 billion in 2011.

The worse profits of domestic insurance undertakings than in previous years were also reflected in their profitability and efficiency indicators. Return on assets (RoA), as measured by the ratio of net profit to assets,

TABLE IV.13

Selected profitability and efficiency indicators for domestic insurance undertakings

(in %)

	2009	2010	2011
Net profit/assets (RoA)	4.0	5.3	2.2
Net profit/shareholder's equity (RoE)	20.8	26.0	12.4
Net profit/earned premiums	12.8	17.0	7.4
NON-LIFE INSURANCE			
Profit on technical account for non-life insurance/earned premiums	11.4	12.9	8.9
Claims incurred, including change in TPs/earned premiums	59.9	61.0	59.7
Net operating costs/earned premiums	29.0	30.1	30.7
Acquisition costs for insurance contracts/earned premiums	21.5	23.2	25.4
Administrative expenses/earned premiums	15.6	16.1	16.1
LIFE INSURANCE			
Profit on technical account for life insurance/earned premiums	19.3	24.0	7.4
Claims incurred, including change in TPs/earned premiums	56.2	50.8	59.1
Net operating costs/earned premiums	23.8	19.8	21.7
Acquisition costs for insurance contracts/earned premiums	16.7	14.2	16.3
Administrative expenses/earned premiums	7.8	6.3	6.5

61 The profit and loss account of insurance undertakings is subdivided by type of business into a technical account for non-life insurance, a technical account for life assurance and a non-technical account, which comprises income and expenses that cannot be assigned to life or non-life insurance.

decreased from the 5.0% reported in 2010 to 2.2%. The ratio of net profit to shareholder's equity (RoE) decreased by 13.6 percentage points year on year to 12.4% in 2011, while the ratio of net profit to earned premiums⁶² fell by 9.6 percentage points year on year to 7.4%.

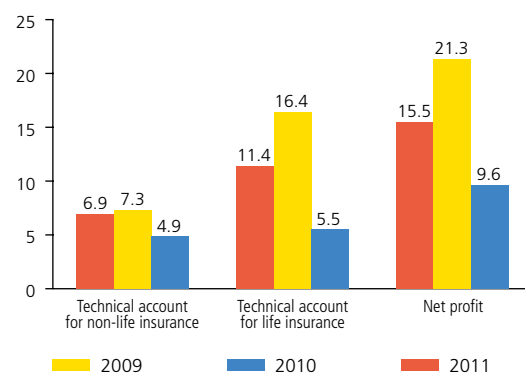
As regards non-life insurance, the ratio of profit on the technical account to earned premiums fell by 4.0 percentage points to 8.9%. The ratio of claims incurred, including change in technical provisions, to earned premiums improved slightly, falling by 1.3 percentage points to 59.7%. The ratio of net operating costs to earned premiums was virtually unchanged.

Compared to 2010, the ratio of the technical account for life insurance to earned premiums deteriorated by 16.6 percentage points to 7.4%. The ratio of claims incurred, including change in technical provisions, to earned premiums also worsened, increasing by 8.3 percentage points year on year to 59.1%. Other monitored indicators of the technical account for life insurance saw no significant changes compared to 2010.

CHART IV.15

Profits of insurance undertakings

(in CZK billions)



⁶² Earned premiums and claim settlement costs, including change in technical provisions, are net of reinsurance.

ABBREVIATIONS

AIFMD	Alternative Investment Fund Managers Directive
AMA	Advanced Measurement Approaches
AMCs	asset management companies
AML/CFT	anti-money laundering/combating the financing of terrorism
AMLC	Anti-Money Laundering Sub-Committee
APRC	annual percentage rate of charge
ASA	Alternative Standardised Approach
ASC	Advisory Scientific Committee
ATC	Advisory Technical Committee
AWG	Analysis Working Group
BCBS	Basel Committee on Banking Supervision
BCG	Basel Consultative Group
BIA	Basic Indicator Approach
BIC	Bank Identifier Code
BIS	Bank for International Settlements
bn	billion (10 ⁹)
CCR	Central Credit Register
CCRWS	CCR Web Services
CDS	credit default swap
CESR	Committee of European Securities Regulators
CIF	collective investment fund
CIB	Czech Insurers' Bureau
CMF	Committee on Financial Markets (OECD)
CNB	Czech National Bank
Coll.	Collection of Laws of the Czech Republic
COP	Clearstream Operations Prague
CRD	Capital Requirements Directive
CRD IV/CRR	Capital Requirements Directive/Capital Requirements Regulation
CSDP	Central Securities Depository Prague
CU	credit union
CZK	Czech koruna
CZSO	Czech Statistical Office
EAD	exposure at default
EBA	European Banking Authority
EC	European Commission
EC	European Communities
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EEA	European Economic Area
EFC	Economic and Financial Committee
EFSS	European Financial Stability Facility
EIOPA	European Insurance and Occupational Pensions Authority
EP	European Parliament
EMIR	European Market Infrastructure Regulation
ESAs	European Supervisory Authorities
ESFS	European System of Financial Supervision
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETFs	exchange traded funds

EU	European Union
EUR	euro
FiCoD	Financial Conglomerates Directive
FMSR	Financial Market Supervision Report
FSC	Financial Services Committee
FSC	Financial Stability Committee
FV	fair value
FX	foreign exchange
GBP	pound sterling
GDP	gross domestic product
HFT	high-frequency trading
HI	Herfindahl index
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRS/IAS	International Financial Reporting Standards/International Accounting Standards
IMD2	Insurance Mediation Directive
IMF	International Monetary Fund
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commissions
IRB	Internal Ratings Based
IS/IT	information systems/information technology
IWG	Instruments Working Group
JC	Joint Committee
JCFC	Joint Committee on Financial Conglomerates (formerly IWCFC)
JEGR	Joint Expert Group on Reconciliation of credit institutions' statistical and supervisory reporting requirements
LGD	loss given default
m	million (10 ⁶)
MAR	Market Abuse Regulation (Regulation 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)
MiFIR	Markets in Financial Instruments Regulation
MTPL	motor third party liability insurance
OECD	Organisation for Economic Cooperation and Development
OTC	over the counter
PD	probability of default
P/L	profit/loss
P&L	profit and loss
p.p.	percentage point
PSE	Prague Stock Exchange (Burza cenných papírů Praha, a.s.)
PSSC	Payment and Settlement Systems Committee
PRIPS	Packaged Retail Investment Products Regulation
PX	PSE stock exchange index
QA	quick assets
RBNS	reported but not settled
RC	registered capital
RM	RM-S index
RM-S	RM-System, a. s.
RoA	return on assets
RoE	return on equity
SC	Securities Centre

SEPA	Single Euro Payments Area
SPAD	Share and Bond Market Support System
STA	Standardised Approach
SVaR	stressed value at risk
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TARGET	Trans-European Automated Real-time Gross Settlement Express Transfer System
UC	unit certificate
UCITS	Undertakings for Collective Investment in Transferable Securities (Directive 2009/65/EC of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities – UCITS)
USD	US dollar
VaR	value at risk
XBRL	data standard enabling exchange of unified financial information between computer systems

GLOSSARY

- Basel II** Basel II is a regulatory framework based on the following three pillars:
- a) capital coverage of the risks undertaken by financial institutions; capital requirements are set for credit risk, market risks and operational risk;
 - b) review of an institution's capital adequacy by the competent supervisory authority, as well as review of the quality of the institution's management and control mechanisms;
 - c) market discipline, i.e. requirements regarding the information that the institution discloses about itself and its business.
- A bank's capital comprises core capital (Tier 1), supplementary capital (Tier 2) and capital held to cover market risk (Tier 3). Tier 1 is the most important component of capital and consists primarily of paid-up equity capital, share premium and retained earnings.
- Basel III** A new regulatory framework issued by the Basel Committee on Banking Supervision in 2010 which sets standards for capital adequacy of banks and now also for their liquidity. Overall, Basel III introduces stricter rules than the previous framework and came into existence mainly as a reaction to the financial crisis.
- Capital adequacy ratio** Capital adequacy is one of the measures regulated by the prudential rules and is expressed as the ratio of capital (adjusted for the calculation of capital adequacy) to risk-weighted assets. This ratio must be at least 8%.
- Client assets** Client assets are the funds, derivatives and investment instruments that an investment firm has under its control in order to provide investment services, and the funds and investment instruments acquired for the client using those assets; client assets do not include deposits pursuant to the Act on Banks, which an investment firm that is a bank or a branch of a foreign bank keeps accounting records of.
- Compensation schemes** Systems for compensating investors, e.g. the Guarantee Fund of Investment Firms.
- Corporate governance** The system for directing, administering and controlling a company, including the distribution of rights and responsibilities among stakeholders in the company, in particular its shareholders (owners), statutory bodies and other stakeholders.
- CRD III** The abbreviation of the European directive amending the Capital Requirements Directive (CRD), which stipulates, among other things, prudential rules for banks, credit unions and investment firms. CRD III will strengthen the capital requirements for the trading book and includes requirements for exposures arising from securitisation and resecuritisation (i.e. securitisation where the underlying assets are securitised exposures). Institutions are also obliged to introduce and maintain rules for the remuneration of selected groups of persons.
- Credit default swap (CDS)** A CDS is a financial derivative designed to transfer credit risk from one party to another. The two parties enter into a contractual relationship. The buyer undertakes to pay the counterparty a periodic fixed amount for the duration of the swap. The seller makes no payment to the buyer on condition that no default occurs. If default does occur, the seller of the swap pays the buyer a pre-defined amount and the swap terminates.

- Credit risk** Credit risk arises from all claims in respect of which a counterparty might default by failing to meet its contractual obligations. Such claims arise not only from credit activities, but also from trading and investment activities, payments and securities settlement. Credit risk comprises country risk (territorial risk), transfer risk, counterparty risk and trading book credit risk.
- Default** Default of a debtor, i.e. a situation when at least one of the conditions is fulfilled:
- it can be assumed that the debtor will probably not repay his obligations in a proper and timely manner without recourse by the creditor to settlement of the claim from the security;
 - at least one repayment of the principal or interest of any obligation of the debtor to the creditor is more than 90 days past due; the institution need not take this condition into account if the past-due amount is not significant; the significance threshold is determined by the institution with respect to how much it will fail to collect when writing off the claim.
- Electronic money institution** A company that is authorised to issue electronic money on the basis of, and within the scope of, authorisation issued by the CNB. Electronic money can be defined as monetary value stored on an electronic money instrument.
- Financial collateral** Generally, collateral means a thing, right or other asset serving to secure an obligation (exposure). Financial collateral means cash (money) and financial instruments (e.g. selected debt securities, equity securities or collective investment securities).
- Financial conglomerate** A financial conglomerate is a group headed by a regulated entity which controls an entity in the financial sector, or is an entity which exercises a significant influence in an entity in the financial sector, or is an entity in which a majority of the members of the statutory, management or supervisory bodies are, for a majority of the financial year, the same entities which are statutory, management or supervisory bodies or members thereof of another entity in the financial sector, or is an entity which is not a regulated entity and which controls at least one regulated entity, and the activities of the group are carried on largely in the financial sector. At least one entity in the group is part of the insurance sector and at least one entity in the group is part of the banking sector or the investment services sector, and the sum of the insurance sector activities in the group and the sum of the banking sector and investment services sector activities in the group are significant.
- Guarantee schemes** Systems for compensating depositors or policyholders, e.g. the Deposit Insurance Fund.
- Hedge fund** A fund that focuses on the absolute yield of a portfolio and employs various investment methods to achieve its goals, including risky techniques such as naked short selling, high levels of leverage, and derivatives.
- Internal rating** A technique for assessing a debtor's credit risk, performed in accordance with criteria and rules set by an internally regulated entity within an IRB system that has been approved by a competent supervisory authority. In the narrower sense, it can mean the internal rating score.
- IRB approach** The IRB (Internal Ratings Based) approach is used to measure and manage credit risk. Among other things, it is used to set risk-weighted exposures for the calculation of capital requirements for the credit risk of an institution. Use of the IRB approach is subject to prior consent of the regulator.

Multilateral trading facility (MTF)

A multilateral trading facility is a market in investment instruments operated by an investment firm or a regulated market operator. The rules governing the admission of investment instruments to trading in an MTF are less strict than those governing admission to trading on a regulated market (no requirement to publish a prospectus, lower disclosure duties of issuers of investment instruments, etc.).

Notification

Under the notification framework for the provision of financial services, a European financial institution notifies the CNB via its domestic regulator of its intention to carry on activities in a given territory under the freedom to provide services or under the right of establishment (through a branch).

OTC derivatives OTC (over-the-counter) derivatives are OTC contracts which are not traded on a regulated market or in a multilateral trading system and whose trading conditions and features are not standardised.

Private equity funds

Private equity funds tend to invest in unlisted companies whose participating securities are subsequently admitted to trading on a regulated market, or in listed companies whose participating securities are subsequently delisted from a regulated market. Private equity funds' investments are long-term (5 to 10-year investment horizons).

Probability of default (PD)

PD is the likelihood that a debtor or exposure will fall into default within one year.

Provision for claims

One of the technical provisions (see the Technical Provisions of Insurance Corporations) laid down in the Insurance Act, created for both life and non-life insurance. The provision for claims is used to cover insurance claims and comprises an RBNS provision and an IBNR provision. The RBNS provision is determined as the sum of individual claims reported but not settled in the current financial year, while the IBNR provision is used to cover claims incurred but not reported in the current financial year and is determined using mathematical and statistical methods or by expert estimation. The provision for claims also covers estimated claim settlement costs.

Repo operation Under the Financial Collateral Act, a repo operation means the sale of financial instruments with simultaneously negotiated repurchase, and the purchase of financial instruments with simultaneously negotiated resale.

RoA

Return on assets (the ratio of net profit to assets).

RoE

Return on equity (the ratio of net profit to equity).

Secondary trading

Trading in already issued securities between investors, usually on a regulated market or in a multilateral trading system.

Securitisation

Securitisation is a method for creating a new marketable security from a set of illiquid assets. The cash flows from the security depend on the cash flows from these underlying assets. Securitisation takes place through an SPV (Special Purpose Vehicle). The original owner transfers the underlying assets to this company in return for payment in cash and the SPV issues new securities based on the underlying assets (called asset-backed securities, ABSs) and sells them to investors. Credit risk is thus transferred from the original owner of the debt to the ABS holders.

Short selling The sale of securities that are not owned by the seller, or any other sale whereby securities borrowed by the seller are supplied.

Solvency of insurance undertakings

Solvency in the insurance sector is the ability of an insurer or reinsurer to ensure that it can settle insurance or reinsurance claims any time using its own funds. It is expressed as the ratio of capital (the available solvency margin) to the capital requirement (the required solvency margin).

Solvency II A new regulatory framework (EC directive) for insurers and reinsurers laying down quantitative requirements (in particular methods for calculating technical provisions and capital requirements), qualitative requirements, prudential rules, compliance with market discipline and disclosure duties.

Special CI Fund A collective investment fund that does not meet the requirements of European Union law.

STA approach The Standardised Approach is a technique that can be used to set the capital requirement for credit risk. It is one of the basic approaches for calculating the capital requirement for credit risk.

Stress testing Stress testing is a tool for assessing the resilience of the banking sector as a whole to potential adverse shocks. Alternative macroeconomic scenarios serve as the basis for stress testing. Credit risk testing is the most important area of stress testing.

Technical interest rate of insurance corporations

The technical interest rate is the guaranteed share in the returns on financial investment in life insurance, i.e. the increase in the value of the insurance reserve. This reserve is intended to cover future life insurance obligations.

Technical provisions of insurance corporations

Under the Act on Insurance, an insurer or reinsurer must set aside technical provisions to cover insurance or reinsurance liabilities that 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. The Insurance Act provides a complete list of technical provisions which insurers or reinsurers must create if they carry on life or non-life insurance or reinsurance business.

Underlying asset

An underlying asset is the basis from which the value of a contract (e.g. a futures contract) is derived. Examples include shares, bonds, interest rates, currencies and indices.

Value-at-risk (VaR)

VaR is a risk measurement method whose output is the size of the potential maximum loss which an institution may suffer on a portfolio over a fixed time horizon with a predefined probability in the event of adverse movements in market factors (such as interest rates or exchange rates).

PART C – ANNEXES

Detailed information on the individual financial market sectors falling under the supervision of the CNB is published regularly for each quarter on the CNB website: www.cnb.cz (*Supervision – Aggregate information on the financial sector – Basic indicators of the financial market*).

Annex 1

MAIN INDICATORS OF MONETARY AND ECONOMIC DEVELOPMENTS IN THE CZECH REPUBLIC

		2007	2008	2009	2010	2011
Gross domestic product ^{1) 2)}	Volume (in CZK billions)	3,662.6	3,848.4	3,739.2	3,775.2	3,809.3
	Increase (in per cent)	5.7	3.1	-4.7	2.7	1.7
Output – percentage increase	Industry (sales) ¹⁾	14.1	-0.3	-15.9	9.8	7.2
	Construction ²⁾	7.1	0.0	-0.9	-7.1	-3.5
Prices ³⁾	Inflation rate (in per cent)	2.8	6.3	1.0	1.5	1.9
Unemployment	Unemployment rate (in per cent)	6.6	5.4	8.0	9.0	8.6
Foreign trade ²⁾	Exports of goods and services (in per cent)	11.3	3.9	-10.0	16.6	11.0
	Imports of goods and services (in per cent)	12.9	2.7	-11.7	16.2	7.5
Average wage ²⁾	Nominal (in per cent) ⁵⁾	7.2	7.8	3.3	1.9	2.2
	Real (in per cent) ⁵⁾	4.3	1.4	2.3	0.4	0.3
Balance of payments	Current account (in CZK billions)	-156.9	-81.3	-89.3	-146.6	-109.1
	Financial account (in CZK billions)	125.3	92.2	143.2	174.3	87.9
State budget balance	(in CZK billions)	-66.4	-19.4	-192.4	-156.4	-117.9
State budget balance/GDP	(in per cent)	-1.8	-0.5	-5.1	-4.1	-3.1
Exchange rates ⁴⁾	CZK/USD	20.3	17.0	19.1	19.1	17.7
	CZK/EUR	27.8	24.9	26.4	25.3	24.6
Average interbank	7-day	2.87	3.58	1.69	0.95	0.82
deposit rate (PRIBOR)	3-month	3.10	4.04	2.19	1.31	1.19
	6-month	3.22	4.12	2.39	1.60	1.53
Discount rate ⁶⁾	(in per cent)	2.50	1.25	0.25	0.25	0.25
Lombard rate ⁶⁾	(in per cent)	4.50	3.25	2.00	1.75	1.75
2W repo rate ⁶⁾	(in per cent)	3.50	2.25	1.00	0.75	0.75
PX capital market index		1,815.10	858.20	1,117.30	1,224.80	911.10

Source: CZSO (macroeconomic indicators) data as of 27 April 2012, PSE, CNB

1) Current prices

2) Percentage increase on a year earlier in real terms

3) Inflation rate, average

4) Annual averages from monthly averages

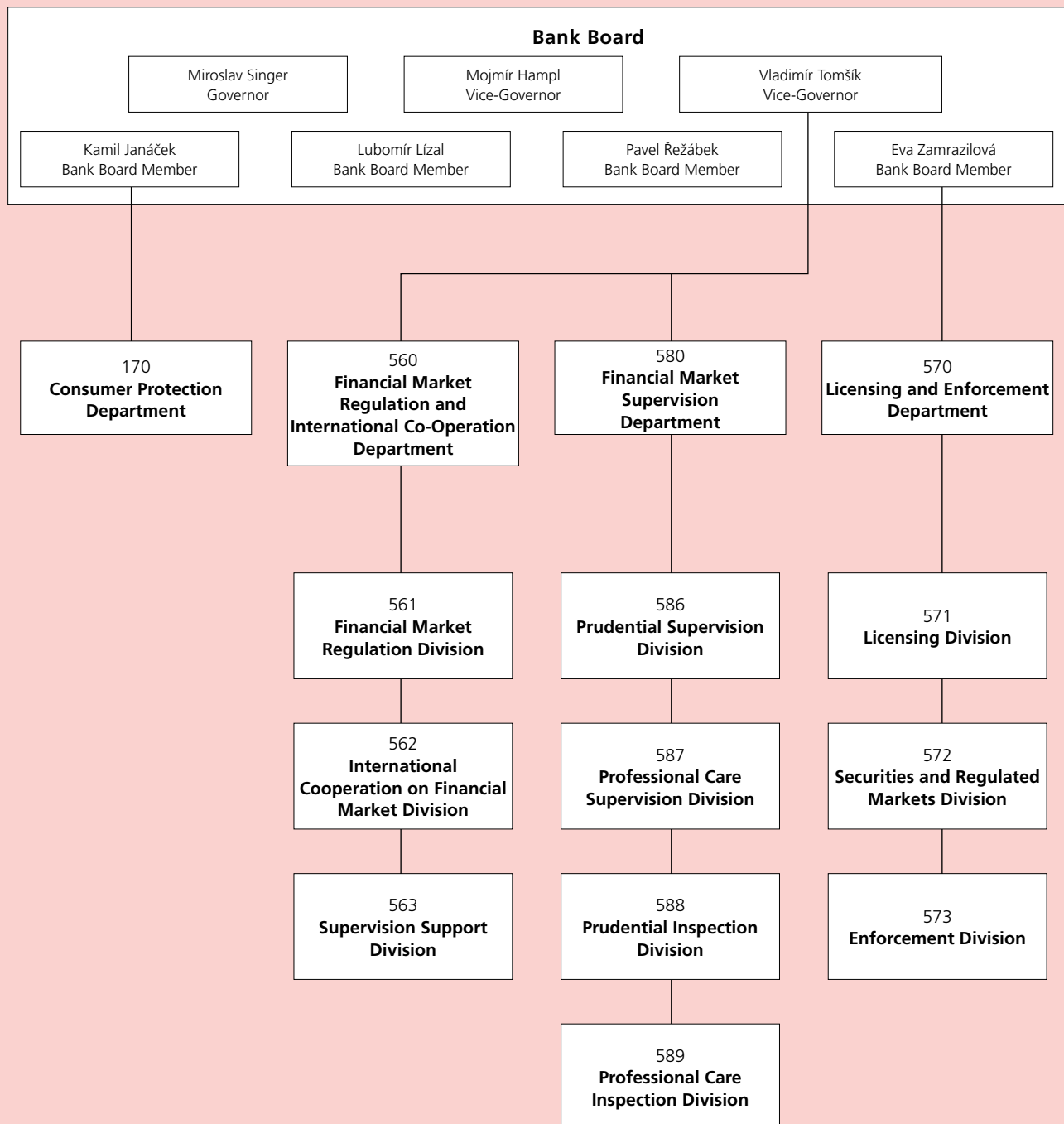
5) Recalculated numbers, whole national economy

7) As of 31 December of given year

Annex 2

ORGANISATIONAL STRUCTURE OF CNB FINANCIAL MARKET SUPERVISION

(as of 31 December 2011)



Annex 3

BREAKDOWN OF BANKS INTO GROUPS

(as of 31 December 2011)

I. Large banks	IV. Foreign bank branches
1. Česká spořitelna, a. s.	1. AXA Bank Europe, organizační složka
2. Československá obchodní banka, a. s.	2. Bank Gutmann Aktiengesellschaft, pobočka Česká republika
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. Citibank Europe plc, organizační složka
II. Medium-sized banks	6. COMMERZBANK Aktiengesellschaft, pobočka Praha
1. Česká exportní banka, a. s.	7. Crédit Agricole Corporate and Investment Bank S.A. Prague, organizační složka
2. Českomoravská záruční a rozvojová banka, a. s.	8. Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka
3. GE Money Bank, a. s.	9. Fortis Bank SA/NV, pobočka Česká republika
4. Hypoteční banka, a. s.	10. HSBC Bank plc – pobočka Praha
5. J&T BANKA, a. s.	11. ING Bank N. V.
6. PPF banka a. s.	12. Oberbank AG pobočka Česká republika
7. Raiffeisenbank a. s.	13. Poštová banka, a. s., pobočka Česká republika
8. Volksbank CZ, a. s.	14. PRIVAT BANK AG der Raiffeisenlandesbank Oberösterreich, pobočka Česká republika
	15. Raiffeisenbank im Stiftland eG pobočka Cheb, odštěpný závod
III. Small banks	16. Saxo Bank A/S, organizační složka
1. Air Bank a. s.	17. The Royal Bank of Scotland N.V.
2. Equa bank a. s.	18. Volksbank Löbau-Zittau eG, pobočka
3. Evropsko-ruská banka, a. s.	19. Všeobecná úverová banka a. s., pobočka Praha (abbr.: VUB, a. s., pobočka Praha)
4. Fio banka, a.s.	20. Waldviertler Sparkasse von 1842 AG
5. LBBW Bank CZ a. s.	21. ZUNO BANK AG, organizační složka
6. 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**CREDIT UNIONS**
(as of 31 December 2011)

1. AKCENTA, spořitelní a úvěrní družstvo
2. ANO spořitelní družstvo
3. Artesa, spořitelní družstvo
4. Citfin, spořitelní družstvo
5. České spořitelní družstvo
6. Družstevní záložna Kredit
7. Družstevní záložna PSD
8. Metropolitní spořitelní družstvo
9. Moravský Peněžní Ústav – spořitelní družstvo
10. Peněžní dům, spořitelní družstvo
11. Podnikatelská družstevní záložna
12. UNIBON - spořitelní a úvěrní družstvo
13. WPB Capital, spořitelní družstvo
14. Záložna CREDITAS, spořitelní družstvo

Annex 5

LICENSED INVESTMENT FIRMS

(as of 31 December 2011)

I. Investment firms – banks		III. Investment firms – branches of foreign banks	
1. Česká spořitelna, a.s.		1. Bank Gutmann Aktiengesellschaft, pobočka Česká republika	
2. Českomoravská záruční a rozvojová banka, a.s.		2. Bank of Tokyo-Mitsubishi UFJ (Holland) N.V. Prague Branch, organizační složka	
3. Československá obchodní banka, a. s.		3. Citibank Europe plc, organizační složka	
4. Fio banka, a.s.		4. COMMERZBANK Aktiengesellschaft, pobočka Praha	
5. GE Money Bank, a.s.		5. Crédit Agricole Corporate and Investment Bank S.A. Prague, organizační složka	
6. J&T BANKA, a.s.		6. Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka	
7. Komerční banka, a.s.		7. Fortis Bank SA/NV, pobočka Česká republika	
8. LBBW Bank CZ a.s.		8. HSBC Bank plc - pobočka Praha	
9. PPF banka a.s.		9. ING Bank N.V.	
10. Raiffeisenbank a.s.		10. Oberbank AG pobočka Česká republika	
11. UniCredit Bank Czech Republic, a.s.		11. The Royal Bank of Scotland N.V.	
12. Volksbank CZ, a.s.		12. Saxo Bank A/S, organizační složka	
		13. Volksbank Löbau-Zittau eG, pobočka	
		14. Všeobecná úverová banka a.s., pobočka Praha (abbr.: VUB, a.s., pobočka Praha)	
II. Investment firms – non-banks		IV. Investment firms	
1. 42 financial services s.r.o.		– organisational units of foreign non-bank IFs	
2. A&CE Global Finance, a.s.		1. Catus AG Vermögensverwaltung	
3. AKCENTA CZ,a.s.		2. Dom Maklerski Banku Ochrony Środowiska Spółka Akcyjna, organizační složka Česká republika	
4. ATLANTA SAFE, a.s.		3. European Investment Centre, o.c.p., a.s. - organizační složka	
5. ATLANTIK finanční trhy, a.s.		4. FIRST INTERNATIONAL TRADERS DOM MAKLETSKI SPÓLKA AKCYJNA	
6. BH Securities a.s.		Organizační složka v České republice	
7. brokerjet České spořitelny, a.s.		5. JER Real Estate Advisors (UK) limited, organizační složka	
8. Citfin - Finanční trhy, a.s.		6. JUNG, DMS & Cie. GmbH organizační složka	
9. Colosseum, a.s.		7. Wallich & Matthes B.V. - organizační složka	
10. Conseq Investment Management, a.s.		8. X-TRADE BROKERS DOM MAKLETSKI SPOLKA AKCYJNA, organizační složka	
11. CYRRUS, a.s.			
12. CYRRUS CORPORATE FINANCE, a.s.		V. Management companies carrying on asset management	
13. EFEKTA CONSULTING, a.s.		1. AXA investiční společnost a.s.	
14. FINANCE Zlín, a.s.		2. ČSOB Asset Management, a. s., investiční společnost*	
15. Generali PPF Asset Management a.s.		3. Investiční kapitálová společnost KB, a.s.	
16. HighSky Brokers, a.s.		4. Investiční společnost České spořitelny, a.s.	
17. ING Investment Management (C.R.), a.s.		5. J&T INVESTIČNÍ SPOLEČNOST, a. s.	
18. Patria Direct, a.s.		6. WOOD & Company investiční společnost, a.s.	
19. Patria Finance, a.s.			
20. Pioneer Asset Management, a.s.			
21. RSJ a.s.			
22. SARF a.s.			
23. WOOD & Company Financial Services, a.s.			

* The management company ČSOB Investiční společnost, a. s. and the non-bank investment firm ČSOB Asset Management, a. s. merged on 31 December 2011. The CNB had given its consent to this merger on 21 November 2011. The successor (merged) company was ČSOB Asset Management, a. s., investiční společnost. The company obtained authorisation to carry on business in the areas of collective investment and discretionary asset management.

Annex 6

PENSION FUNDS
(as of 31 December 2011)

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

Annex 7

MANAGEMENT COMPANIES
(as of 31 December 2011)

- | | |
|---|--|
| 1. AKRO investiční společnost, a.s. | 12. Investiční společnost České spořitelny, a.s. |
| 2. AMISTA investiční společnost, a.s. | 13. J&T INVESTIČNÍ SPOLEČNOST, a. s. |
| 3. AVANT Fund Management investiční společnost, a.s. | 14. Partners investiční společnost, a. s. |
| 4. AXA investiční společnost a.s. | 15. Pioneer investiční společnost, a.s. |
| 5. CLOVIS, investiční společnost, a. s. | 16. PROSPERITA investiční společnost, a.s. |
| 6. Conseq Funds investiční společnost, a. s. | 17. QI investiční společnost, a. s. |
| 7. ČP INVEST investiční společnost, a.s. | 18. REICO investiční společnost České spořitelny, a.s. |
| 8. ČSOB Asset Management, a. s., investiční společnost | 19. Safety invest, investiční společnost, a.s. |
| 9. FINESKO investiční společnost, a.s. | 20. VIG Asset Management investiční společnost, a. s. |
| 10. Hanover Asset Management, investiční společnost, a.s. | 21. WOOD & Company investiční společnost, a.s. |
| 11. Investiční kapitálová společnost KB, a.s. | |

Annex 8

BREAKDOWN OF INSURANCE UNDERTAKINGS INTO GROUPS

(as of 31 December 2011)

I. Large insurance undertakings	IV. Branches of foreign insurance undertakings
1. Allianz pojišťovna, a.s.	1. ACE European Group Ltd, organizační složka
2. Česká pojišťovna, a.s.	2. AEGON Hungary Closed Company Ltd., organizační složka
3. ČSOB Pojišťovna, a.s., člen holdingu ČSOB	3. AGA International SA - organizační složka
4. Generali Pojišťovna a.s.	4. Atradius Credit Insurance N. V., organizační složka
5. Komerční pojišťovna, a.s.	5. AVIVA LIFE & PENSIONS EUROPE SE - organizační složka
6. Kooperativa pojišťovna, a.s., Vienna Insurance Group	6. CG Car-Garantie Versicherungs-Aktiengesellschaft
7. Pojišťovna České spořitelny, a.s., Vienna Insurance Group	organizační složka pro Českou republiku
	7. Coface Austria Kreditversicherung AG, organizační složka Česko
II. Medium-sized insurance undertakings	8. Deutscher Ring Lebensversicherungs-Aktiengesellschaft,
1. AXA životní pojišťovna a.s.	pobočka pro Českou republiku
2. Česká podnikatelská pojišťovna, a.s., Vienna Insurance Group	9. Deutscher Ring Sachversicherungs-AG, pobočka pro Českou republiku
3. Exportní garanční a pojišťovací společnost, a.s.	10. Euler Hermes Credit Insurance Belgium S.A. (N.V.), organizační složka
4. BNP Paribas Cardif Pojišťovna, a.s.	11. HDI Versicherung AG, organizační složka
5. Amcico pojišťovna a.s.	12. CHARTIS EUROPE S.A., pobočka pro Českou republiku
6. UNIQA pojišťovna, a.s.	13. ING Životná poisťovňa, a.s., pobočka pro Českou republiku
	14. ING Životní pojišťovna N.V., pobočka pro Českou republiku
III. Small insurance undertakings	15. INTER PARTNER ASSISTANCE, organizační složka
1. AEGON Pojišťovna, a. s.	16. Österreichische Hagelversicherung - Versicherungsverein auf
2. Aviva životní pojišťovna, a.s.	Gegenseitigkeit, Agra pojišťovna, organizační složka
3. AXA pojišťovna a.s.	17. QBE Insurance (Europe) Limited, organizační složka
4. Cestovní pojišťovna ADRIA Way družstvo	18. Stewart Title Limited, pobočka pro Českou republiku
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. HALALI, všeobecná pojišťovna, a.s.	
11. Hasičská vzájemná pojišťovna, a.s.	
12. ING pojišťovna, a.s.	
13. KUPEG úvěrová pojišťovna, a.s.	
14. MAXIMA pojišťovna, a.s.	
15. Pojišťovna VZP, a.s.	
16. Servisní pojišťovna a.s.	
17. Slavia pojišťovna a.s.	
18. Triglav pojišťovna, a.s.	
19. VICTORIA VOLKSBANKEN pojišťovna, a.s.	
20. Vitalitas pojišťovna, a.s.	
21. Wüstenrot pojišťovna a.s.	
22. Wüstenrot, životní pojišťovna, a.s.	

Annex 9

BANKING SECTOR BALANCE SHEET

(data according to situation of sector as of given date; CZK millions)

	31 December 2009	31 December 2010	31 December 2011		
	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	4,094,626	4,188,929	4,629,640	153,356	4,476,283
Cash and deposits with central banks	424,415	436,068	429,518	0	429,518
Cash	39,636	40,273	40,350	0	40,350
Deposits with central banks	384,779	395,795	389,167	0	389,167
Financial assets held for trading	249,942	224,892	271,475	0	271,475
Derivatives held for trading (positive FV)	108,228	86,548	128,376	0	128,376
Equity instruments held for trading	573	625	144	0	144
Debt instruments held for trading	109,544	109,356	126,554	0	126,554
Loans and advances held for trading	31,596	28,363	16,400	0	16,400
Loans and advances held for trading to credit institutions	26,599	24,920	15,629	0	15,629
Loans and advances held for trading to clients	4,996	3,443	771	0	771
Other loans and advances held for trading (not divided by sector)	0	0	1	0	1
Financial assets designated at FV through P/L	46,735	45,357	29,282	0	29,282
Equity instruments designated at FV through P/L	2,831	3,335	1,878	0	1,878
Debt instruments designated at FV through P/L	36,005	29,933	27,294	0	27,294
Loans and advances designated at FV through P/L	7,899	12,090	110	0	110
Loans and advances designated at FV through P/L to credit institutions	7,777	11,975	0	0	0
Loans and advances designated at FV through P/L to clients	122	115	110	0	110
Other loans and advances designated at FV through P/L (not divided by sector)	0	0	0	0	0
Available-for-sale financial assets	394,529	399,955	443,561	93	443,468
Available-for-sale equity instruments	3,783	4,375	7,971	93	7,878
Available-for-sale debt instruments	390,746	395,580	435,590	0	435,590
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	2,487,199	2,574,866	2,815,987	80,974	2,735,014
Debt instruments	22,473	24,462	31,089	0	31,089
Loans and advances	2,464,726	2,550,404	2,784,898	80,974	2,703,925
Loans and advances to credit institutions	391,176	431,240	442,064	213	441,850
Loans and advances to clients	2,048,660	2,107,835	2,329,616	80,007	2,249,609
Other loans and advances (not divided by sector)	24,889	11,329	13,219	754	12,465
Held to maturity investments	315,345	338,308	379,974	248	379,726
Debt instruments held to maturity	307,945	325,435	361,672	0	361,672
Loans and advances held to maturity	7,400	12,873	18,301	248	18,053
Loans and advances held to maturity to credit institutions	2,779	3,806	7,777	0	7,777
Loans and advances held to maturity to clients	4,621	9,067	10,524	248	10,276
Other loans and advances held to maturity (not divided by sector)	0	0	0	0	0
Derivatives – hedge accounting (positive FV)	21,960	25,272	34,393	0	34,393
Derivatives – hedge accounting of FV (positive FV)	729	123	102	0	102
Derivatives – hedge accounting of cash flows (positive FV)	9,475	10,688	11,027	0	11,027
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)	921	1,213	1,686	0	1,686
Derivatives – hedge accounting of interest rate risk – cash flows (positive FV)	10,834	13,248	21,578	0	21,578
FV changes of the hedged items in portfolio hedge of interest rate risk	0	0	77	0	77
Tangible assets	31,638	31,654	67,312	36,414	30,898
Property, plant and equipment	31,403	31,481	66,576	35,858	30,718
Investment property	235	174	736	556	180
Intangible assets	13,431	13,804	45,795	31,007	14,788
Goodwill	2,693	2,692	3,054	365	2,689
Other intangible assets	10,738	11,112	42,741	30,642	12,099
Investments in associates, subsidiaries and joint ventures	67,524	72,385	82,414	4,603	77,810
Tax assets	2,116	3,506	5,000	0	5,000
Current tax assets	158	806	508	0	508
Deferred tax assets	1,958	2,701	4,492	0	4,492
Other assets	38,936	22,836	24,736	1	24,736
Noncurrent assets and disposal groups classified as held for sale	858	25	115	16	98

Annex 9

BANKING SECTOR BALANCE SHEET – (continued)
(data according to situation of sector as of given date; CZK millions)

	31 December 2009	31 December 2010	31 December 2011	
	Data adjusted for provisions and reserves	Data adjusted for provisions and reserves	Data not adjusted for provisions and reserves	Data adjusted for provisions and reserves
Total balance sheet liabilities and equity	4,094,626	4,188,929		4,476,283
Liabilities, total	3,775,034	3,845,990		4,113,803
Deposits, loans and other financial liabilities vis-à-vis central banks	2,910	1,501		3,502
Financial liabilities held for trading	138,338	121,518		322,959
Derivatives held for trading (negative FV)	105,301	87,890		127,241
Short positions	11,940	12,936		18,147
Deposits, loans and other financial liabilities held for trading	21,097	20,692		171,827
Deposits, loans and other financial liabilities held for trading from credit institutions	7,764	4,108		50,028
Deposits, loans and other financial liabilities held for trading from clients	13,332	16,584		121,797
Other financial liabilities held for trading (not divided by sector)	0	0		2
Debt certificates (incl. bonds intended for repurchase in short term)	0	0		5,744
Financial liabilities designated at FV through P/L	115,949	132,408		19,351
Deposits, loans and other financial liabilities designated at FV through P/L	110,265	127,397		14,759
Deposits, loans and other financial liabilities designated at FV through P/L from credit institutions	23,210	32,117		0
Deposits, loans and other financial liabilities designated at FV through P/L from clients	87,055	95,279		14,759
Other financial liabilities designated at FV through P/L (not divided by sector)	0	0		0
Debt certificates (including bonds) designated at FV through P/L	5,684	5,012		4,591
Subordinated liabilities designated at FV through P/L	0	0		0
Financial liabilities measured at amortised cost	3,450,700	3,523,572		3,684,438
Deposits, loans and other financial liabilities measured at amortised cost	3,056,525	3,138,943		3,286,740
Deposits, loans and other financial liabilities measured at amortised cost from credit institutions	396,151	411,838		450,191
Deposits, loans and other financial liabilities measured at amortised cost from clients	2,627,611	2,707,605		2,813,261
Other financial liabilities measured at amortised cost (not divided by sector)	32,763	19,500		23,288
Debt certificates (including bonds) measured at amortised cost	354,415	348,262		366,531
Subordinated liabilities measured at amortised cost	39,759	36,366		31,168
Financial liabilities associated with transferred assets	0	0		0
Derivatives – hedge accounting (negative FV)	18,053	19,147		22,975
Derivatives – hedge accounting of FV (negative FV)	2,281	2,456		2,364
Derivatives – hedge accounting of cash flows (negative FV)	7,339	7,598		8,715
Derivatives – hedge accounting of net investments in foreign units (negative FV)	0	0		0
Derivatives – hedge accounting of interest rate risk – FV (negative FV)	903	1,170		2,815
Derivatives – hedge accounting of interest rate risk – cash flows (negative FV)	7,531	7,922		9,081
FV changes of the hedged items in portfolio hedge of interest rate risk	0	0		103
Provisions	10,755	9,640		10,171
Provisions for restructuring	214	59		13
Provisions for taxes and litigation	3,527	4,306		4,794
Provisions for pensions and similar liabilities	118	124		121
Provisions for off-balance-sheet items	4,183	4,138		4,159
Provisions for disadvantageous contracts	137	146		121
Other provisions	2,576	867		963
Tax liabilities	2,311	3,164		4,100
Current tax liabilities	1,228	1,309		752
Deferred tax liabilities	1,083	1,855		3,348
Other liabilities	36,018	35,039		46,205
Equity of credit unions payable on demand				
Liabilities included in disposal groups classified as held for sale	0	0		0
Equity, total	319,592	342,939		362,481
Issued capital	75,408	79,381		84,969
Paid-up capital	75,408	79,381		84,969
Non-paid-up capital	0	0		0
Share premium	32,963	33,480		36,821
Other equity	52	52		48
Equity component of financial instruments	0	0		0
Other equity instruments	52	52		47
Revaluation reserves and other valuation differences	6,837	8,659		10,864
Valuation differences from tangible assets	0	0		0
Valuation differences from intangible assets	0	0		0
Hedge accounting of net investments in foreign units	194	440		380
Hedge accounting of cash flows	963	2,679		10,838
Valuation differences from available-for-sale financial assets	5,668	5,445		-499
Valuation differences from noncurrent assets and discontinued operations classified as held for sale	0	0		0
Other valuation differences	13	95		145
Reserves	38,540	39,677		41,235
Retained earnings	106,201	126,185		135,895
Treasury shares (minus)	150	150		726
Net income from current year	59,740	55,656		53,374

Annex 10

BANKING SECTOR PROFIT AND LOSS ACCOUNT
(data according to situation of sector as of given date; CZK millions)

	31 December 2009	31 December 2010	31 December 2011
Financial and operating income and expenses	168,409	157,376	162,075
Interest income	174,434	166,962	172,320
Interest on cash balances with central banks	5,414	3,171	2,514
Interest on financial assets held for trading	7,846	6,084	6,372
Interest on financial assets designated at FV through P/L	2,072	1,266	981
Interest on available-for-sale financial assets	13,569	13,536	13,534
Interest on loans and receivables	122,680	119,316	124,663
Interest on held to maturity investments	12,460	13,234	13,605
Profit on interest rate derivatives – hedge accounting	10,334	10,336	10,632
Interest on other assets	59	19	19
Interest expenses	71,161	61,655	62,391
Interest on deposits, loans and other financial liabilities vis-à-vis central banks	41	13	2
Interest on financial liabilities held for trading	3,813	3,547	4,792
Interest on financial liabilities designated at FV through P/L	1,776	703	83
Interest on financial liabilities measured at amortised cost	53,601	45,344	45,728
Loss on interest rate derivatives – hedge accounting	9,716	10,054	9,938
Interest on other liabilities	2,215	1,995	1,849
Expenses on equity payable on demand	0	0	0
Dividend income	9,623	5,859	7,578
Dividend income on financial assets held for trading	2	35	16
Dividend income on financial assets designated at FV through P/L	310	87	122
Dividend income on available-for-sale financial assets	396	204	254
Dividend income from associates	8,915	5,533	7,186
Fee and commission income	46,756	48,369	50,011
Fees and commissions from financial instrument transactions for clients	1,493	1,740	2,332
Fees and commissions for arranging issues	49	86	111
Fees and commissions for procuring financial instruments	1,297	1,543	2,095
Fees and commissions for consulting activities	147	111	127
Fees and commissions from clearing and settlement	496	485	475
Fees and commissions for asset management	179	227	623
Fees and commissions for custody of values	596	680	737
Fees and commissions from commitments and guarantees	2,903	2,911	3,500
Fees and commissions from payments	28,225	28,312	29,740
Fees and commissions from structured financing	37	53	25
Fees and commissions from securitisation	0	0	0
Fees and commissions from other services	12,826	13,961	12,577
Fee and commission expenses	10,314	9,876	10,958
Fees and commissions for financial instrument transactions	500	543	544
Fees and commissions for asset management	35	35	30
Fees and commissions for custody of values	74	81	111
Fees and commissions for clearing and settlement	453	417	423
Fees and commissions for securitisation	44	51	31
Fees and commissions for other services	9,207	8,749	9,820
Realised gains (losses) on financial assets & liabilities not measured at FV through P/L, net	6,327	-1,451	-1,112
Gains (losses) on available-for-sale financial assets	7,331	46	600
Gains (losses) on loans and receivables	-1,561	-2,102	-2,211
Gains (losses) on held to maturity investments	-141	115	26
Gains (losses) on financial liabilities measured at amortised cost	1	-4	-1
Gains (losses) on other liabilities	697	494	474

Annex 10

BANKING SECTOR PROFIT AND LOSS ACCOUNT – (continued)

(data according to situation of sector as of given date; CZK millions)

	31 December 2009	31 December 2010	31 December 2011
Gains (losses) on financial assets and liabilities held for trading, net	4,399	11,016	1,149
Gains (losses) on equity instruments and equity derivatives	105	108	-504
Gains (losses) on interest rate instruments (including interest rate derivatives)	1,866	100	1,302
Gains (losses) on foreign currency instruments (including foreign currency derivatives)	1,596	10,169	-9
Gains (losses) on credit instruments (including credit derivatives)	744	542	288
Gains (losses) on commodities and commodity derivatives	88	96	72
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	1,683	2,398	-1,868
Gains (losses) from hedge accounting, net	-330	-208	212
Exchange differences, net	7,480	-3,085	8,226
Gains (losses) on derecognition of assets other than held for sale, net	580	18	233
Other operating income	2,880	3,353	3,157
Other operating expenses	3,949	4,324	4,483
Administration costs	60,455	62,381	66,047
Staff expenses	31,103	31,603	33,792
Wages and salaries	22,341	22,573	24,126
Social and health insurance	6,678	7,028	7,479
Pensions and similar expenses	509	474	494
Temporary employee expenses	241	185	181
Remunerations - equity instruments	42	46	75
Other staff expenses	1,292	1,298	1,437
Other administration costs	29,352	30,777	32,255
Advertising costs	3,701	3,991	4,344
Consultancy costs	1,248	1,317	1,600
IT costs	4,552	4,407	4,365
Outsourcing costs	7,308	8,011	8,274
Rent	3,792	3,778	4,004
Other administration costs	8,752	9,274	9,668
Depreciation	7,442	6,926	6,825
Depreciation of property, plant and equipment	3,920	3,524	3,576
Depreciation of real estate investments	7	7	7
Depreciation of intangible assets	3,515	3,394	3,242
Provisions	4	-258	703
Impairment	29,792	22,535	25,510
Impairment on financial assets not measured at FV through P/L	26,573	22,317	25,255
Impairment on financial assets at acquisition price	0	-1	0
Impairment on available-for-sale financial assets	80	167	11,479
Impairment on loans and receivables	26,475	22,143	13,771
Impairment on held to maturity investments	17	8	5
Impairment on non-financial assets	3,219	218	255
Impairment on property, plant and equipment	-228	-245	26
Impairment on real estate investments	0	0	0
Impairment on goodwill	1	1	0
Impairment on intangible assets	7	0	0
Impairment on shares in associates and joint ventures	3,357	462	228
Impairment on other non-financial assets	82	0	0
Negative goodwill immediately recognised in P/L	0	0	0
Share of P/L of associates and joint ventures	0	0	3
Profit or loss from noncurrent assets and disposal groups	61	-157	405
Total profit or loss before tax from continuing operations	70,778	65,636	63,397
Tax expense	11,038	9,980	10,023
Profit or loss from continuing operations after taxation	59,740	55,656	53,374
Profit or loss from discontinued operations after taxation	0	0	0
Total profit or loss after taxation	59,740	55,656	53,374

Annex 11

PENSION FUND SECTOR BALANCE SHEET

(data according to situation of sector as of given date; CZK millions)

	31 December 2009	31 December 2010	31 December 2011		
	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	215,873	232,422	248,281	774	247,507
Cash and deposits with central banks	0	0	0	0	0
of which: cash	0	0	0	0	0
Receivables from banks and credit unions	23,736	17,729	19,371	0	19,371
Receivables from banks and credit unions payable on demand	3,726	4,514	3,344	0	3,344
Other receivables from banks and credit unions	20,010	13,215	16,027	0	16,027
Receivables from non-banking institutions	58	63	100	27	73
Receivables from non-banking institutions payable on demand	0	0	0	0	0
Other receivables from non-banking institutions	58	63	100	27	73
Debt securities	173,741	196,311	214,214	0	214,214
Debt securities issued by government institutions	139,757	162,554	174,919	0	174,919
Debt securities issued by other entities	33,984	33,757	39,294	0	39,294
Shares, units and other interests	10,407	10,565	7,191	0	7,191
Shares	3,491	1,905	1,025	0	1,025
Units	6,917	8,660	6,166	0	6,166
Other interests	0	0	0	0	0
Substantial and controlling interests	0	0	0	0	0
Long-term intangible assets	106	117	648	524	124
Start-up costs	0	0	2	2	0
Goodwill	0	0	0	0	0
Other long-term intangible assets	106	117	646	522	124
Long-term tangible assets	2,118	2,065	2,113	194	1,919
Land and buildings for operations	154	139	0	0	0
Non-operational land and buildings - financial investment	1,912	1,869	1,860	3	1,857
Other long-term tangible assets	52	56	254	191	62
Receivables from state budget – state contribution	974	983	1,051	0	1,051
Other assets	836	1,077	946	29	917
Receivables from subscribed registered capital	0	0	0	0	0
Deferred revenues and accrued expenses	3,895	3,513	2,648	0	2,648
Acquisition expenses for pension plans	3,881	3,474	2,635	0	2,635
Other deferred revenues and accrued expenses	15	39	13	0	13
Deferred revenues	0	0	0	0	0

Annex 11

PENSION FUND SECTOR BALANCE SHEET – (continued)

(data according to situation of sector as of given date; CZK millions)

	31 December	31 December	31 December 2011	
	2009	2010	Data not adjusted for provisions and reserves	Data adjusted for provisions and reserves
	Data adjusted for provisions and reserves	Data adjusted for provisions and reserves	Provisions and reserves	Data adjusted for provisions and reserves
Total liabilities	215,873	232,422		247,507
Liabilities to banks and credit unions	0	0		3
Liabilities to non-banking institutions	6	16		11
Liabilities to non-banking institutions payable on demand	0	0		0
Other receivables from non-banking institutions	6	16		11
Planholders' money	200,735	216,114		232,058
Planholders' contributions	184,722	200,184		214,151
Planholders' own contributions	130,887	137,604		146,395
Contributions paid by employer	26,180	32,505		35,716
Contributions paid by third parties for planholder	367	374		250
State contributions	27,289	29,701		31,790
Financial means for pension payments	372	450		531
Revenues on planholders' contributions	14,597	14,786		16,521
Unallocated planholders' contributions	587	409		452
Payables from eligible unpaid lump sums	455	285		403
Liabilities to state budget – state contribution	257	248		246
Liabilities to state budget – tax liabilities	76	80		98
Other liabilities	1,263	1,459		2,456
Deferred revenues and accrued expenses	13	7		20
Provisions	101	120		142
Provisions for pensions and similar payables	95	111		113
Provisions for taxes	0	0		0
Other provisions	6	9		29
Subordinated liabilities	0	0		0
Registered capital	1,989	1,989		1,669
Paid up capital	1,989	1,989		1,669
Own shares	0	0		0
Share premium account	3,036	2,036		1,737
Reserve funds and other funds created from profit	2,011	2,144		2,363
Statutory reserve funds and risk funds	1,596	1,747		1,976
Other reserve funds	0	0		0
Other funds created from profit	415	398		387
Pension reserve fund	234	230		224
Revaluation reserve fund	0	0		0
Capital funds	3,374	1,734		1,575
Valuation differences	-445	817		-705
Valuation differences from assets and liabilities	-439	820		-695
Valuation differences from hedging derivatives	7	-3		-11
Valuation differences from recalculated shares	0	0		0
Other valuation differences	-14	0		0
Retained earnings (accumulated losses)	881	1,080		1,279
Profit (loss) for the accounting period	2,574	4,577		4,555

Annex 12

PENSION FUND SECTOR PROFIT AND LOSS ACCOUNT

(data according to situation of sector as of given date; CZK millions)

	31 December 2009	31 December 2010	31 December 2011
Profit from financial activities	3,780	5,814	5,862
Interest income and similar income	6,983	7,105	7,529
Interest on debt securities	6,607	6,850	7,281
Income from other assets	375	255	249
Interest expenses and similar expenses	19	49	128
Expenses on debt securities	5	49	128
Expenses on other liabilities	14	0	0
Income from shares and other equity instruments	226	160	170
Substantial interests	0	0	0
Other	226	160	170
Fees and commission income	7	15	20
Fee and commission expenses	2,212	2,083	2,439
Depository's remuneration	19	20	25
Remuneration for portfolio management	369	445	425
Remuneration for pension scheme contract intermediation	1,764	1,573	1,942
Fees paid to investment firms	31	29	12
Investment instrument transfer fees	10	14	0
Payment fees	0	0	21
Other fee and commission expenses	18	3	14
Profit (loss) from financial operations	-1,533	429	517
Other operating income	354	257	342
Other operating expenses	25	18	149
Administrative expenses	1,104	1,112	1,198
Personnel expenses	344	329	347
Social security and health insurance	75	76	80
Wages and remuneration – employees and statutory bodies	254	239	254
Other social expenses	16	13	14
Other administrative expenses	760	784	850
Advertisement expenses	102	93	106
Rental expenses	63	43	42
IT expenses	48	57	83
Audit expenses	0	0	11
Advisory expenses	20	23	21
Outsourcing	0	0	57
Other	435	568	530
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	76	75	80
Depreciation of tangible assets	33	32	31
Creation and use of provisions and allowances for tangible assets	0	0	0
Depreciation of intangible assets	31	31	36
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	60	0	0
Depreciation, creation and use of provisions and allowances for receivables and guarantees	74	2	2
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	3	3	6
Creation and use of other provisions, including pension provisions	35	27	33
Shares of profits (losses) from interests with substantial and controlling influence	0	0	0
Profit (loss) for the accounting period before taxation	2,554	4,600	4,556
Extraordinary income	0	4	0
Extraordinary expenses	0	0	0
Extraordinary profit (loss) for the accounting period before taxation	0	4	0
Income tax	-20	27	1
Profit (loss) for the accounting period after taxation	2,574	4,577	4,555

Annex 13

BALANCE SHEET – DOMESTIC INSURANCE UNDERTAKINGS*)

(data according to situation of sector as of given date; excluding the Czech Insurers' Bureau; CZK millions)

	31 December 2009	31 December 2010	31 December 2011		
	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	358,264	387,229	423,967	26,505	397,463
Receivables for subscribed share capital	300	106	25	0	25
Long-term intangible assets	2,219	2,325	12,993	10,881	2,112
Start-up costs	4	5	24	24	0
Goodwill	154	29	3,708	3,685	23
Financial placement (investments)	294,649	305,030	310,150	411	309,740
Land and buildings (real estate)	4,785	4,918	5,450	411	5,040
Real estate used in operations	4,092	4,233	5,057	411	4,647
Financial placements in third-party companies	13,396	13,221	13,539	0	13,539
Participating interests in affiliates	11,677	11,900	12,061	0	12,061
Bonds and loans – affiliated companies	124	136	155	0	155
Participating interests with substantial influence	1,111	813	929	0	929
Bonds – companies with substantial influence	484	371	394	0	394
Other financial placements	276,468	286,891	291,160	0	291,160
Shares and other variable-yield securities, other interests	16,923	20,869	19,405	0	19,405
Debt securities	226,771	236,803	248,483	0	248,483
Securities valued at FV against expense and income accounts	0	136,116	144,502	0	144,502
OECD bonds held to maturity	0	82,572	87,418	0	87,418
Other securities held to maturity	0	18,115	16,563	0	16,563
Financial placements in investment associations	374	3	3	0	3
Other loans	4,448	1,697	725	0	725
Deposits with financial institutions	25,743	26,830	23,095	0	23,095
Other financial placements	2,208	688	-551	0	-551
Deposits with ceding undertakings	1	1	1	0	1
Financial placement of unit-linked life assurance where policyholders bear the investment risk	30,708	44,456	51,759	0	51,759
Debtors	17,656	19,941	28,638	12,070	16,568
Receivables arising out of direct insurance operations	8,942	8,116	12,815	4,535	8,279
Policyholders	8,555	7,503	11,149	3,534	7,615
Intermediaries	387	613	1,665	1,001	664
Receivables arising out of reinsurance operations	4,396	3,169	3,280	128	3,152
Other receivables	4,318	8,656	12,544	7,407	5,137
Other assets	3,158	3,053	7,098	3,131	3,967
Long-term tangible assets other than land, buildings (real estate) and stocks	1,250	1,132	4,307	3,131	1,177
Cash at financial institutions and cash in hand	1,906	1,921	2,789	0	2,789
Other assets	3	0	2	0	2
Temporary accounts of assets	9,575	12,317	13,303	11	13,292
Interest and annuities	47	27	41	0	41
Deferred acquisition costs for insurance contracts	7,304	9,143	10,276	11	10,265
in life assurance	5,089	6,646	7,543	11	7,531
in non-life insurance	2,215	2,496	2,734	0	2,734
Other temporary accounts of assets	2,224	3,148	2,986	0	2,986
Estimated receivables	873	1,721	1,364	0	1,364

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

Annex 13

BALANCE SHEET – DOMESTIC INSURANCE UNDERTAKINGS*) – (continued)
(data according to situation of sector as of given date; excluding the Czech Insurers' Bureau; CZK millions)

	31 December 2009		31 December 2010		31 December 2011	
	Net	Net	Gross	Reinsurers' share in TPs	Net	
Total liabilities	358,264	387,229				397,463
Shareholders' equity	69,186	78,132				70,099
Share capital	20,084	22,605				23,743
Movements in share capital	480	144				53
Own stocks or own interim certificates, own business shares	0	0				0
Share premium account	1,693	2,701				2,701
Revaluation reserve fund	0	0				0
Other capital funds	10,372	11,570				11,883
Reserve fund and other profit funds	11,449	9,854				10,811
Retained earnings	11,171	11,070				12,277
Profit (loss) for the accounting period	14,417	20,331				8,685
Subordinated liabilities	253	551				557
Technical provisions	227,528	235,593	269,817	27,413		242,404
Provision for unearned premiums	17,565	18,573	25,639	5,395		20,244
related to life assurance	1,519	1,418	1,511	122		1,388
related to non-life insurance	16,046	17,155	24,128	5,272		18,856
Life assurance provision	151,894	160,106	164,451	39		164,412
Outstanding claims provision	44,963	46,206	69,629	21,545		48,084
related to life assurance	4,534	5,086	6,703	1,239		5,464
related to non-life insurance	40,429	41,120	62,926	20,306		42,619
Provision for bonuses and rebates	1,787	1,925	2,113	204		1,909
related to life assurance	1,025	1,168	1,038	1		1,037
related to non-life insurance	761	758	1,075	203		872
Equalisation provision	3,318	1,182	957	0		957
Provision for the fulfilment of the commitments from the technical interest rate applied	2,267	1,802	1,272	0		1,272
Non-life insurance provision	318	354	398	1		398
related to life assurance	79	99	126	0		125
related to non-life insurance	239	255	273	0		272
Provisions for the fulfilment of the commitments from the guarantee of the CIB	5,338	5,345	5,106	113		4,993
Other provisions	79	99	253	117		137
related to life assurance	0	0	0	0		0
related to non-life insurance	79	99	253	117		137
Technical provision for unit-linked life assurance	30,696	44,415	51,718	0		51,718
Provision for other risks and losses	3,162	1,147				1,113
Provision for pensions and similar liabilities	3	1				14
Tax provision	2,718	750				592
Other provisions	441	396				507
Passive reinsurance deposits	684	2,250				3,704
Creditors	20,466	18,308				21,119
Liabilities arising out of direct insurance	8,202	8,140				8,888
Liabilities arising out of reinsurance	7,128	5,793				6,105
Debenture loans	0	0				0
Convertible loans	0	0				0
Liabilities to financial institutions	61	1				70
Other liabilities	5,075	4,375				6,056
Tax liabilities and payables due to social security insurance institutions	555	558				528
Guarantee fund of the Czech Insurers' Bureau	0	0				0
Temporary accounts of liabilities	6,289	6,833				6,747
Accrued expenses and revenues	1,881	1,829				1,763
Other temporary accounts of liabilities	4,408	5,004				4,984
Estimated payables	4,385	4,961				4,965

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

Annex 14

PROFIT AND LOSS ACCOUNT – DOMESTIC INSURANCE UNDERTAKINGS *)

(data according to situation of sector as of given date; excluding the Czech Insurers' Bureau; CZK millions)

	31 December 2009	31 December 2010	31 December 2011
Technical account for non-life insurance			
Result of technical account for non-life insurance	6,907	7,154	4,794
Earned premiums, net of reinsurance	60,380	55,651	53,981
Premiums written, net of reinsurance	59,978	56,769	55,653
Gross premium written	81,577	81,519	80,467
Gross premium written ceded to reinsurers	-21,599	-24,749	-24,814
Change in provision for unearned premiums, net of reinsurance	401	-1,118	-1,671
Change in the gross provision for unearned premiums	464	-2,405	-1,729
Change in the gross provision for unearned premiums, reinsurance share	-62	1,287	58
Allocated investment return transferred from the non-technical account	3,667	3,008	2,003
Other technical income, net of reinsurance	3,614	3,657	2,990
Claims incurred including change in provision, net of reinsurance	-36,169	-33,966	-32,213
Claims incurred, net of reinsurance	-31,672	-33,267	-30,719
Gross claims paid	-41,439	-45,146	-42,214
Claims paid – reinsurers' share	9,767	11,879	11,495
Change in provision for claims, net of reinsurance	-4,497	-699	-1,494
Change in gross provision for claims	-4,758	-2,785	-782
Change in provision for claims – reinsurers' share	260	2,086	-712
Change in other technical provisions, net of reinsurance	-99	-41	230
Bonuses and rebates, net of reinsurance	-3,037	-1,224	-1,062
Operating expenses, net amount	-17,490	-16,775	-16,551
Acquisition expenses for insurance contracts	-12,927	-13,218	-13,941
Change in deferred acquisition expenses	-80	279	212
Administrative expenses	-9,406	-8,969	-8,673
Reinsurance commissions and profit participation	4,923	5,133	5,851
Other technical expenses, net of reinsurance	-5,857	-5,285	-4,809
Change of equalisation provision	1,899	2,129	225

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

Annex 14

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

(data according to situation of sector as of given date; excluding the Czech Insurers' Bureau; CZK millions)

	31 December 2009	31 December 2010	31 December 2011
Technical account for life assurance			
Result of technical account for life assurance	10,135	15,399	4,655
Earned premiums, net of reinsurance	52,635	64,280	63,219
Premiums written, net of reinsurance	52,539	64,179	63,187
Gross premium written	54,041	65,757	66,016
Gross premium written ceded to reinsurers	-1,502	-1,578	-2,829
Change in provision for unearned premiums, net of reinsurance	96	101	32
Change in gross provision for unearned premiums	93	94	14
Change in provision for unearned premiums – reinsurers' share	3	7	18
Income from financial placements	22,247	24,926	19,711
Income from participating interests	769	1,233	711
Income from other financial placements	9,534	9,121	7,968
Income from land and buildings (real estate)	92	74	69
Income from other investments (except real estate)	9,442	9,047	7,899
Change in value of financial placements – income	61	57	837
Gains on the realisation of financial placements	11,883	14,516	10,195
Unrealised gains on financial placements	9,887	8,640	7,162
Other technical income, net of reinsurance	1,150	1,366	1,535
Claims incurred including change in provision, net of reinsurance	-29,561	-32,645	-37,377
Claims paid, net of reinsurance	-29,175	-32,083	-37,017
Gross claims paid	-29,536	-32,504	-37,877
Claims paid – reinsurers' share	361	421	860
Change in provision for claims, net of reinsurance	-386	-562	-360
Change in gross provision for claims	-391	-550	-765
Change in provision for claims – reinsurers' share	5	-11	405
Change in other technical provisions, net of reinsurance	-13,464	-21,710	-11,953
Change in balance of life assurance provision, net of reinsurance	-4,554	-9,170	-4,209
Change in balance of gross life assurance provision	-4,559	-9,168	-4,202
Change in balance of life assurance provision – reinsurers' share	5	-2	-6
Change in balance of other technical provisions (except life assurance provision), net of reinsurance	-8,910	-12,540	-7,745
Bonuses and rebates, net of reinsurance	-685	-238	-2
Operating expenses, net amount	-12,512	-12,711	-13,719
Acquisition expenses for insurance contracts	-9,706	-10,706	-11,209
Change in deferred acquisition expenses	912	1,585	880
Administrative expenses	-4,131	-4,018	-4,113
Reinsurance commissions and profit participation	412	429	723
Expenses related to financial placements	-11,613	-9,609	-12,632
Administration expenses on financial placements, including interest	-834	-1,014	-1,424
Change in value of financial placements – expenses	140	-33	-185
Realisation expenses on financial placements	-10,918	-8,562	-11,023
Unrealised losses on financial placements	-5,562	-4,656	-9,264
Other technical expenses, net of reinsurance	-1,312	-1,409	-1,260
Transfer of income from financial placement to the non-technical account	-1,076	-835	-763

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

Annex 14

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

(data according to situation of sector as of given date; excluding the Czech Insurers' Bureau; CZK millions)

	31 December 2009	31 December 2010	31 December 2011
Profit or loss for the accounting period	14,417	20,331	8,685
Profit or loss before taxation	17,801	23,313	10,712
After-tax profit or loss on ordinary activities	14,395	20,361	8,709
Result of technical account for non-life insurance	6,907	7,154	4,794
Result of technical account for life assurance	10,135	15,399	4,655
Income from financial placements	7,992	9,486	9,465
Income from participating interests	117	194	522
Income from other financial placements	1,664	1,701	1,583
Income from land and buildings (real estate)	136	135	137
Income from other investments (except real estate)	1,528	1,566	1,446
Changes in value of financial placements - expenses	2,259	2,317	2,521
Gains on the realisation of financial placements	3,952	5,274	4,840
Transferred income from financial placements from technical account for life assurance	1,076	835	763
Expenses related to financial placements	-4,711	-6,673	-7,573
Administration expenses on financial placements, including interest	-116	-128	-165
Change in value of financial placements – expenses	-701	-1,290	-2,312
Realisation expenses on financial placements	-3,893	-5,255	-5,096
Transfer of income from financial placements to non-life technical account	-3,667	-3,008	-2,003
Other income	709	1,382	1,545
Other expenses	-661	-1,230	-911
Income tax on ordinary activities	-3,384	-2,982	-2,027
Extraordinary profit or loss	40	-3	-11
Extraordinary income	43	17	31
Extraordinary expenses	-3	-20	-41
Income tax on extraordinary activities	0	0	0
Other taxes	-18	-27	-13

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

Annex 15

ISSUES (PROSPECTUSES) OF LISTED BONDS APPROVED IN 2011

Issue date	ISIN	Issuer	Maximum size
9 May 2011	CZ0003501736	CETELEM ČR, a.s.	1.25 bn CZK
11 May 2011	CZ0001500110	Hlavní město Praha	5 bn CZK
4 August 2011	CZ0002002355	Wüstenrot hypoteční banka a.s.	1.25 bn CZK
11 August 2011	CZ0002002348	Hypoteční banka, a.s.	2.7 bn CZK
26 September 2011	CZ0002002405	Raiffeisenbank	1 bn CZK
30 September 2011	CZ0003501769	ABS Jets, a.s.	675 m CZK

Annex 16

ISSUES (ISSUE CONDITIONS) OF UNLISTED BONDS APPROVED IN 2011

Issue date	ISIN	Issuer	Maximum size
19 January 2011	CZ0002002272	Raiffeisenbank a.s.	250m CZK
31 January 2011	CZ0003702631	UniCredit Bank Czech Republic, a.s.	50m EUR
31 January 2011	CZ0003702649	UniCredit Bank Czech Republic, a.s.	50m EUR
31 January 2011	CZ0003702656	UniCredit Bank Czech Republic, a.s.	50m EUR
31 January 2011	CZ0003702664	UniCredit Bank Czech Republic, a.s.	50m EUR
31 January 2011	CZ0003702672	UniCredit Bank Czech Republic, a.s.	50m EUR
31 January 2011	CZ0003702680	UniCredit Bank Czech Republic, a.s.	50m EUR
31 January 2011	CZ0003702698	UniCredit Bank Czech Republic, a.s.	50m EUR
31 January 2011	CZ0003702706	UniCredit Bank Czech Republic, a.s.	50m EUR
31 January 2011	CZ0003702557	UniCredit Bank Czech Republic, a.s.	2 bn CZK
31 January 2011	CZ0003702565	UniCredit Bank Czech Republic, a.s.	2 bn CZK
31 January 2011	CZ0003702573	UniCredit Bank Czech Republic, a.s.	2 bn CZK
31 January 2011	CZ0003702581	UniCredit Bank Czech Republic, a.s.	2 bn CZK
31 January 2011	CZ0003702599	UniCredit Bank Czech Republic, a.s.	2 bn CZK
31 January 2011	CZ0003702607	UniCredit Bank Czech Republic, a.s.	2 bn CZK
31 January 2011	CZ0003702615	UniCredit Bank Czech Republic, a.s.	2 bn CZK
31 January 2011	CZ0003702623	UniCredit Bank Czech Republic, a.s.	2 bn CZK
31 January 2011	CZ0003702714	UniCredit Bank Czech Republic, a.s.	50m USD
31 January 2011	CZ0003702722	UniCredit Bank Czech Republic, a.s.	50m USD
31 January 2011	CZ0003702730	UniCredit Bank Czech Republic, a.s.	50m USD
31 January 2011	CZ0003702748	UniCredit Bank Czech Republic, a.s.	50m USD
31 January 2011	CZ0003702755	UniCredit Bank Czech Republic, a.s.	50m USD
31 January 2011	CZ0003702763	UniCredit Bank Czech Republic, a.s.	50m USD
31 January 2011	CZ0003702771	UniCredit Bank Czech Republic, a.s.	50m USD
2 February 2011	CZ0003702532	Československá obchodní banka, a.s.	5 bn CZK
9 February 2011	CZ0002002280	Raiffeisenbank a.s.	1 bn CZK
2 March 2011	CZ0003702540	Československá obchodní banka, a.s.	700m CZK
2 March 2011	CZ0003702813	Raiffeisenbank a.s.	400m CZK
17 March 2011	CZ0003702789	Československá obchodní banka, a.s.	3 bn CZK
24 March 2011	CZ0002002298	Volksbank CZ, a.s.	500m CZK
31 March 2011	CZ0003702797	UniCredit Bank Czech Republic, a.s.	2 bn CZK
31 March 2011	CZ0003702805	UniCredit Bank Czech Republic, a.s.	2 bn CZK
13 April 2011	CZ0003702847	Raiffeisenbank a.s.	500m CZK
22 April 2011	CZ0002002306	Česká spořitelna, a.s.	400m CZK
4 May 2011	CZ0002002314	Raiffeisenbank a.s.	500m CZK
5 May 2011	CZ0003702821	Československá obchodní banka, a.s.	1.5 bn CZK
18 May 2011	CZ0003702870	Raiffeisenbank a.s.	75m CZK
26 May 2011	CZ0002002322	Hypoteční banka, a.s.	100m CZK
9 June 2011	CZ0003702839	Československá obchodní banka, a.s.	1 bn CZK
10 June 2011	CZ0002002330	Česká spořitelna, a.s.	5 bn CZK
15 June 2011	CZ0003702912	Československá obchodní banka, a.s.	5 bn CZK
15 June 2011	CZ0003702920	Raiffeisenbank a.s.	125m CZK
15 June 2011	N/A	ORRERO a.s.	26.24m CZK
20 June 2011	CZ0003501751	ČD Cargo, a.s.	1 bn CZK
29 June 2011	CZ0003702888	UniCredit Bank Czech Republic, a.s.	2 bn CZK
29 June 2011	CZ0003702896	UniCredit Bank Czech Republic, a.s.	2 bn CZK
29 June 2011	CZ0003702904	UniCredit Bank Czech Republic, a.s.	20m EUR

Annex 16

ISSUES (ISSUE CONDITIONS) OF UNLISTED BONDS APPROVED IN 2011 – (continued)

Issue date	ISIN	Issuer	Maximum size
1 July 2011	CZ0003501744	EKORENT, spol. s r.o.	10m CZK
1 July 2011	CZ0003702938	Raiffeisenbank a.s.	200m CZK
20 July 2011	CZ0003702946	Raiffeisenbank a.s.	125m CZK
27 July 2011	CZ0002002363	Raiffeisenbank a.s.	500m CZK
27 July 2011	CZ0002002371	Raiffeisenbank a.s.	2 bn CZK
15 September 2011	CZ0002002397	UniCredit Bank Czech Republic, a.s.	2 bn CZK
15 September 2011	CZ0002002389	UniCredit Bank Czech Republic, a.s.	2 bn CZK
21 September 2011	CZ0003702961	Raiffeisenbank a.s.	125m CZK
21 September 2011	CZ0003702953	Raiffeisenbank a.s.	125m CZK
30 September 2011	N/A	Cleverlance Group a.s.	50m CZK
1 October 2011	CZ0003501777	Arca Acquisition Capital, a.s.	200m CZK
26 October 2011	CZ0002002413	Raiffeisenbank a.s.	10m EUR
5 December 2011	CZ0002002421	Wüstenrot hypoteční banka a.s.	1.25 bn CZK
5 December 2011	CZ0003703019	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 December 2011	CZ0003703027	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 December 2011	CZ0003703035	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 December 2011	CZ0003703043	UniCredit Bank Czech Republic, a.s.	5 bn CZK
5 December 2011	CZ0003702979	UniCredit Bank Czech Republic, a.s.	7 bn CZK
5 December 2011	CZ0003702987	UniCredit Bank Czech Republic, a.s.	7 bn CZK
5 December 2011	CZ0003702995	UniCredit Bank Czech Republic, a.s.	7 bn CZK
5 December 2011	CZ0003703001	UniCredit Bank Czech Republic, a.s.	7 bn CZK
19 December 2011	CZ0003703068	UniCredit Bank Czech Republic, a.s.	2 bn CZK
21 December 2011	CZ0003501793	ČD Cargo, a.s.	1 bn CZK
22 December 2011	CZ0003501785	ČD Cargo, a.s.	1 bn CZK
11 January 2012	CZ0002002439	Raiffeisenbank a.s.	285m CZK
19 January 2012	CZ0002002447	Hypoteční banka, a.s.	2 bn CZK
2 February 2012	CZ0003703050	Československá obchodní banka, a.s.	8 bn CZK

Annex 17

ISSUES/TRANCHES OF LISTED SHARES APPROVED IN 2011

Issuer	ISIN	Face value	Size
E4U a.s.	CZ0005123620	100 CZK	239,164,000 CZK
KIT digital Inc.	US4824702009	N/A	27,209,686 pcs

Annex 18

INVESTMENT CERTIFICATES ISSUED IN 2011
IN OFFER PROGRAMMES APPROVED BY THE CNB

Issuer	ISIN	Name of IC
Raiffeisenbank a.s.	CZ0000300074	EUR/CZK TL 23,100
Raiffeisenbank a.s.	CZ0000300066	EUR/CZK TS 25,300

Annex 19

OFFER PROGRAMMES APPROVED IN 2011

Issuer	Type of security	Maximum size	Duration
ČD Cargo, a.s.	bonds	6,000,000,000 CZK	10 years
ČEZ, a.s.	bonds	30,000,000,000 CZK	10 years
Raiffeisenbank a.s.	investment certificates	N/A	N/A

Annex 20**ISSUES/TRANCHES OF UNLISTED SHARES APPROVED IN 2011 (PUBLICLY OFFERED)**

Issuer/Offeror		Face value	Size
ČIS Development, a.s.	3.68 CZK and 0.78 CZK	110,397,657 CZK	2,400,000 pcs
PREMOT Františkovy Lázně a.s.	17 CZK	71,099,984 CZK	14,344,853 pcs
ČIS Realitní, a.s.	3.68 CZK and 0.78 CZK	130,469,959 CZK	US48247
Maxima pojišťovna, a.s.	1,000 CZK	50,000,000 CZK	US48247

Annex 21**MANDATORY TAKEOVER BIDS DUE TO TAKING CONTROL OF TARGET COMPANY IN 2011**

Bidder	Target company	Decision
EnBW Energie Baden-Württemberg AG	Pražská energetika, a.s.	Approved

Annex 22**PUBLIC CONTRACT OFFER FOLLOWING THE DECISION OF THE BIDDER'S
GENERAL MEETING TO DELIST SHARES IN 2011**

Offeror	Decision
Pražská energetika, a.s.	Approved
Česká námořní plavba a.s.	Approved

Annex 23**LICENSING PROCEEDINGS IN THE MARKET INFRASTRUCTURE AREA IN 2011**

Regulated entity	Subject of proceedings	Decision
Centrální depozitář cenných papírů, a.s.	Administrative proceeding on approval of change in Operating Manual opened ex officio	Proceeding discontinued
Centrální depozitář cenných papírů, a.s.	Notification of change in Operating Manual of central depository	Approved (through lapse of time limit)
Centrální depozitář cenných papírů, a.s.	Change in Rules of Settlement System – Rules of Settlement PSE	Approved
Centrální depozitář cenných papírů, a.s.	Change in Settlement System Rules – Settlement Rules PXE	Approved

Annex 24

SUMMARY OF SUBMISSIONS RECEIVED BY CONSUMER PROTECTION DEPARTMENT IN 2011

PART A

TOTAL NUMBERS OF SUBMISSIONS RECEIVED

Time period	Total number of submissions received
1 January–31 December 2011	638

PART B

BREAKDOWN BY SEGMENT

	Credit institutions	Investment firms and intermediaries	Insurance undertakings and intermediaries	Others	Total
Costs of products (including submissions to bureaux-de-change)	104	12	72	10	198
Payments (including payment cards)	29	1	1	6	37
Product information	40	5	82	6	133
Insurance claims	1	0	42	0	43
Discrimination against consumers	10	0	0	0	10
Dealing with complaints	16	1	8	0	25
Aggressive business practices	2	1	26	1	30
Consumer credit	15	1	2	21	39
Consumer protection	36	3	26	58	123
TOTAL	253	24	259	102	638

PART C

BREAKDOWN BY INVESTIGATION RESULT

	Submissions closed					Submissions under investigation	Total
	Penalty proposal	Remedy by financial entity	Unjustified submissions	Failure of evidence	Written explanations		
Credit institutions	0	36	56	14	103	44	253
Investment firms and intermediaries	1	0	2	4	10	7	24
Insurance undertakings and intermediaries	16	29	43	20	77	74	259
Others	0	2	8	9	73	10	102
TOTAL	17	67	109	47	263	135	638

Annex 25

SUMMARY OF SUBMISSIONS RECEIVED BY CNB BRANCHES IN 2011

PART A

TOTAL NUMBERS OF SUBMISSIONS RECEIVED

Time period	Total number of submissions received
1 January–31 December 2011	228

PART B

BREAKDOWN BY SEGMENT

	Credit institutions	Investment firms and intermediaries	Insurance undertakings and intermediaries	Non-bank foreign exchange entities	Others	Total
Costs of products (including submissions to bureaux-de-change)	3	0	3	130	3	139
Payments (including payment cards)	4	0	1	0	0	5
Product information	4	0	20	0	6	30
Insurance claims	0	0	13	0	0	13
Discrimination against consumers	2	0	0	0	0	2
Dealing with complaints	5	0	5	0	2	12
Aggressive business practices	2	1	18	1	0	22
Consumer protection	0	0	0	0	5	5
TOTAL	20	1	60	131	16	228

PART C

BREAKDOWN BY INVESTIGATION RESULT

	Submissions closed				Postoupená podání	Submissions under investigation	Total
	Remedy by financial entity	Unjustified submissions	Failure of evidence	Written explanations			
Credit institutions	0	0	0	0	0	0	0
Investment firms and intermediaries	1	3	3	1	23	2	33
Insurance undertakings and intermediaries	1	4	4	114	3	5	131
Others	0	0	2	12	2	0	16
Consumer Protection Department	0	0	0	0	48	0	48
TOTAL	2	7	9	127	76	7	228

Issued by:

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

Contact:

COMMUNICATIONS DEPARTMENT
Tel.: +420 22441 3494
Fax: +420 22441 2179

<http://www.cnb.cz>

Produced by: Jerome s.r.o.

Design: Jerome s.r.o.

